



Tamar Petroleum Ltd.

Annual Report
2019

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Tamar Petroleum Ltd.

Chapter A

Description of the Company's Business

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

Chapter A – Description of the Company's Business

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

- 1.1 Tamar Petroleum Ltd. (the "Company") was incorporated on November 4, 2015 as a private company limited by shares under the Companies Law, 5759-1999 (the "Companies Law"). The Company's name was changed to its current name on May 21, 2017.
- 1.2 Pursuant to Israeli Government Resolution No. 476 from August 16, 2015 (which was readopted by the Government with certain changes on May 22, 2016) regarding "a framework for the increase of the natural gas quantity produced from the 'Tamar' natural gas field and the rapid development of the natural gas fields 'Leviathan', 'Karish' and 'Tanin' and other natural gas fields" (the "Framework" or the "Gas Framework"), the Company entered into an agreement with Delek Drilling LP ("Delek Drilling") on July 2, 2017 (the "Sale Agreement with Delek Drilling"), whereby the Company acquired from Delek Drilling on July 20, 2017, retroactively effective from July 1, 2017, a 9.25% working interest (out of 100%) in the I/12 "Tamar" and I/13 "Dalit" leases (the "Tamar and Dalit Leases"), subject to the existing obligations of payment of overriding royalties to related parties and to third parties (the "Royalties" and the "Royalty Holders", respectively) as well as the proportionate share (9.25%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar Lease, the agreement for the use of the Yam Tethys Project facilities, the shares of Tamar 10 Inch Ltd, the operating permit for the Tamar Platform, and the permits for export from Tamar (the "Rights Acquired from Delek Drilling"), for the consideration of USD 845 million in cash (of which USD 650 million was funded by the Company's initial public offering of bonds (Series A) and the remaining USD 195 million by the Company's initial public offering of ordinary shares of NIS 0.1 par value each ("Ordinary Shares")) and the allotment of 19,900,000 ordinary shares of the Company to Delek Drilling. Under an irrevocable letter of waiver provided by Delek Drilling to the Company, which took effect upon completion of the issuance of the shares, Delek Drilling unilaterally waived all the

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

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

- 1.3 Until the acquisition date of the Rights Acquired from Delek Drilling, the Company was inactive, and wholly owned and controlled by Delek Drilling.
- 1.4 The Company's Series A Bonds started trading on the Tel Aviv Stock Exchange Ltd. (the "**TASE**") on July 10, 2017, and the Company became a reporting company, within its meaning in the Securities Law, 5728-1968 (the "**Securities Law**"). The Company's Ordinary Shares started trading on the TASE on July 24, 2017, and the Company became a publicly traded company within its meaning in the Companies Law.
- 1.5 Pursuant to the Gas Framework, the Company entered into an agreement with Noble Energy Mediterranean Ltd. ("**Noble**" or the "**Operator**") on January 29, 2018, whereby the Company acquired from Noble on March 14, 2018, retroactively effective from January 1, 2018, a 7.5% working interest (out of 100%) in the Tamar and Dalit Leases and a pro rata share (7.5%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar Lease, the agreement for the use of the Yam Tethys Project facilities, the shares of Tamar 10 Inch Ltd., the operating permit for the Tamar Platform, and permits for export from Tamar (the "**Rights Acquired from Noble**"), for the consideration of USD 475 million in cash (funded by a first issuance of Bonds (Series B)) and a private placement of 38,495,576 ordinary shares of the Company to Noble (accounting for 43.5% of the Company's issued share capital after the share placement) (hereinafter: the "**Sale Agreement with Noble**"). Prior to the said private placement date, Noble provided the Company with an irrevocable letter of waiver, whereby it waives all the voting rights attached to all the shares allotted to it³. It should be noted that the Rights Acquired from Noble are identical to the Rights Acquired from Delek Drilling as stated in Section 1.2 above, except for the commitment to pay overriding royalties to interested parties and third parties that applies to the Rights Acquired from Delek Drilling, as set out in Section 7.19 below, but does not apply to the Rights Acquired from Noble. On October 2, 2018 and October 3, 2018, Noble sold all the shares allotted to it under the Sale Agreement with Noble. Following the sale of said shares, the voting rights attached to them

² For the avoidance of doubt, all of the capital rights attached to the shares held by Delek Drilling shall remain in full force and effect, including the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon the Company's dissolution. In addition, Delek Drilling has undertaken to sell the Excess Shares first (which after being sold, will confer on the purchaser all of the rights attached thereto, including voting and equity rights as aforesaid), and it has also undertaken that as long as it has not sold the Excess Shares it will not purchase additional shares of the Company.

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

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

2. **Operating Segment**

- 2.1 In accordance with the Company's articles of association (the "**Articles**"), the Company shall only carry out operations of exploration, development, production and transport to the target markets with respect to the Tamar and Dalit Leases. It should be noted that the amendment of said provision is subject to approval by a general meeting of the Company's shareholders to be adopted by special resolution.^{4,5} Accordingly, the Company's sole operating segment on the date of the report is operations of exploration, development, production and transport to the target markets with respect to the Tamar and Dalit Leases (the "**operating segment**").
- 2.2 The Company is engaged in the sale of natural gas produced from the Tamar reservoir within the area of the Tamar Lease ("**Tamar Project**") to various customers, and primarily to the Israel Electric Corporation Ltd. ("**IEC**"), private electricity producers, industrial customers, and natural gas marketing firms. The Company is also engaged in selling condensate produced from the Tamar Project to the Paz Ashdod Refinery ("**PAR**"), and in promoting the expansion of the production system of the Tamar Project.
- 2.3 In view of the limited demand for natural gas in the domestic market, and in light of the significant volume of resources found off the shores of the State of Israel, the Company, besides supplying the demand for natural gas in the domestic market, is working to supply some of the reserves for export to neighboring countries of Israel, as specified in Sections 7.4.2 and 7.4.5 below. Regarding restrictions on gas exports, see Section 7.16.1(c)(2) below.

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

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

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

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

Following are details of investments that were made in the Company's capital in the last two years, and of other significant transactions that were made with the Company's shares, outside the framework of the TASE, by interested parties in the Company, which are known to the Company: On October 2, 2018 and October 3, 2018, Noble sold all the shares that were allotted to it in the private placement referred to in Section 1.5 above to institutional bodies, at a price of NIS 15.5 per share and for a total consideration of NIS 597,000 thousand. As a result of said sale, the following interested parties increased their stake in the Company: Menora Mivtachim Holdings Ltd., Harel Insurance Investments and Financial Services Ltd. and Phoenix Insurance Company Ltd.; and the following bodies became interested parties in the Company: Altshuler Shaham Ltd. and Migdal Insurance and Financial Holdings Ltd.

4. Distribution of Profits

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

Resolution date	Distribution date	Distribution amount (USD in millions)	Distribution amount per share (USD)	Immediate report
20.3.2018	11.4.2018	32.02	0.36186	Ref. No.: 2018-01-022005
30.8.2018	10.10.2018	39.32	0.44436	Ref. No.: 2018-01-081307
7.4.2019	2.5.2019	30	0.339	Ref. No.: 2019-01-031734
10.10.2019	7.11.2019	10	0.113	Ref. No.: 2019-01-103351

4.2 The Company's Articles provide that the Company shall distribute profits twice a year, based on semi-annual financial statements for the period ended June 30 and on annual financial statements for the period ended December 31. The sum of profits to be distributed shall be equal to 100% of the distributable profits, as defined in the Companies Law, based on said financial statements, subject to compliance with the distribution tests, as defined in the Companies Law, subject to compliance with the provisions of the TASE Regulations, and net of sums required for the Company at the discretion of its Board of Directors, for all of the following purposes:(1) the Company's compliance with the restrictions applicable thereto under financing agreements to which it is a party at the time of the declaration; (2)

the Company's compliance with its undertakings in respect of Petroleum Assets held thereby at that time; (3) financing of the Company's ongoing business including its investment plans in respect of the Petroleum Assets held by the Company; (4) sums required, in the opinion of the Board of Directors, to meet unforeseen expenses, which shall total no more than USD 5 million.

- 4.3 As of December 31, 2019, the Company has distributable profits amounting to USD 145.1 million. In its meeting from March 29, 2020, the Company's Board of Directors decided not to distribute profits to shareholders on the basis of the financial statements as of December 31, 2019 (Chapter C of this report) (the "**Financial Statements**"), and after reviewing the Company's financial position, cash balances, existing and expected liabilities and estimated future cash flow based on conservative assumptions in relation to the Company's sources and uses. The board's review also related to the ongoing slowing of the domestic and global economic activity (also due to the coronavirus pandemic that continues to spread around the world), which could have an adverse effect – at this point, indeterminable as to scope – on the Company's operations and business results (for further details see Sections 6.9.1 and 7.2.15(a) below).
- 4.4 For details regarding profit distribution restrictions that are prescribed in the Deeds of Trust for the Company's Series A and B Bonds, see Note 9D(4) to the Financial Statements.

5. Financial Information on the Company's Operating Segment

- 5.1 For data on revenues, costs, profit derived from ordinary operations in the operating segment, see the statements of comprehensive income that are included in the Financial Statements.
- 5.2 For details regarding all of the Company's assets and liabilities as of December 31, 2019 and December 31, 2018, see the statements of financial position that are included in the Financial Statements (Chapter C in this report).
- 5.3 For explanations regarding the aforementioned financial data, see the first part of the Board of Directors' Report (Chapter B of this report) (the "**Board of Directors' Report**").

6. General Environment and the Effect of External Factors

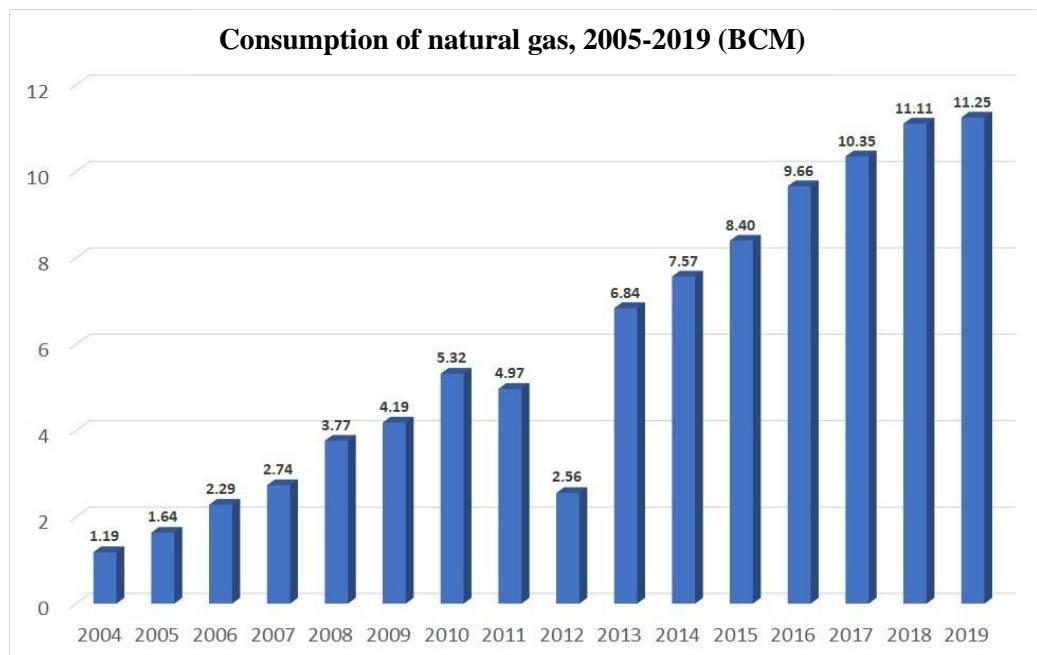
- 6.1 As described above, the Company is engaged in the exploration, development, production and transport of natural gas and condensate in the area of the Tamar Lease. The Petroleum Law, 5712-1952 (the "**Petroleum Law**") regulates oil and natural gas exploration, development and production in Israel and provides, inter alia, that oil and gas exploration activities in Israel can be conducted in geographical areas in which the exploring entity was granted a gas and petroleum right under the Petroleum Law. In addition, the Natural Gas Sector Law, 5762-2002 (the "**Natural Gas Sector Law**") mainly governs the issue of

transmission, distribution, marketing and storage of natural gas and/or liquefied natural gas ("LNG") within the State of Israel. For further details regarding the Petroleum Law and the Natural Gas Sector Law, see Sections 7.16.5(a) and 7.16.5(d) below, respectively.

- 6.2 The economic viability of investments in exploration and development of natural gas reservoirs is greatly affected by global prices of petroleum and gas, demand for natural gas in the global, regional and local markets and the ability to export natural gas (whether by pipeline, in compressed form or in liquid form), which requires, inter alia, considerable gas resources and long-term agreements for the sale of natural gas in substantial amounts, to justify the high investments required for construction and/or use of the appropriate infrastructures⁶. The sale of petroleum, to the extent found, may be made to various consumers in Israel and around the world based on the global oil prices at such time.
- 6.3 Development of the natural gas sector in Israel began in 1999-2000 with the discovery of the Noa reservoir in the I/7 Noa Lease and the Mari B reservoir in the I/10 Ashkelon Lease (above and below, jointly: the "**Yam Tethys Project**"). The overall consumption of natural gas in Israel has increased concurrently with the progress in construction of the transmission infrastructure of Israel Natural Gas Lines Ltd. ("**INGL**") and the connecting of additional consumers (including power plants of the IEC and private power plants) to the transmission system and of smaller consumers to said distribution system.
- 6.4 In recent years, the natural gas sector in Israel has been undergoing significant changes (including, inter alia, regulatory, economic and environmental changes). Within a few years, natural gas has become the major component of Israel's fuel basket for electricity production and a significant energy source for industry in Israel. The natural gas resources that were discovered in Israel can provide all of the gas needs of the local economy as well as most of its energy needs over the upcoming decades, and thus substantially reduce the dependence of the State of Israel on foreign energy sources.
- 6.5 According to figures from the Ministry of Energy,⁷ 2019 saw a continued increase in the consumption of natural gas. Overall consumption (including exports) in 2019 amounted to 11.25 BCM compared to 7.57 BCM in 2014, as shown in the graph below:

⁶ For details of the description of possible target markets for the export of natural gas from the Tamar Project, see Section 7.5.2 below.

⁷ From the Ministry of Energy, Natural Gas Authority, **Review of Developments in the Natural Gas Sector - Summary for 2019**, https://www.gov.il/BlobFolder/reports/ng_2019/he/ng_2019.pdf.



- 6.6 It should be noted that in 2017, exports of natural gas from the Tamar reservoir to Jordan began for the first time, on a scale of 0.07 BCM, increasing to 0.14 BCM in 2018 and 0.22 BCM in 2019. It should also be noted that during the years 2017-2019 at certain times, mainly during peak electricity demand hours in the winter and summer, Israeli market demand for natural gas was higher than the Tamar Project's maximum hourly production capacity, and therefore the partners in the Tamar Project (the "Tamar Partners") were unable to supply the full demand at such times. LNG imports in recent years have ranged between 3% and 7% of the consumption volume.⁸ These data indicate that natural gas consumption is rising in Israel.
- 6.7 On December 31, 2019, January 1, 2020 and January 15, 2020, natural gas started to be transported from the Leviathan reservoir to the domestic market, Jordan and Egypt, respectively.
- 6.8 In the Company's estimation, based on a forecast received by the Company from an outside consultant⁹, the consumption of natural gas in Israel is expected to almost double by the end of the decade, inter alia, given the government policy to increase the use of natural gas for the production of electricity and to gradually stop the generation of electricity by coal-fired plants until total termination of coal-based electricity production at the end of 2025 (for details see Section 7.16.9(f) below); the connecting of more gas suppliers to the national

⁸ For details regarding the offshore buoy that was set up by INGL, see Section 7.1.9(a) below.

⁹ BDO Consulting Group Ltd.

transmission system; the assimilation of the uses of compressed natural gas in some transportation sectors, such as the transition of buses and heavy vehicles to the use of natural gas; the making of natural gas accessible to additional industrial enterprises throughout Israel; the introduction of electric cars and electrification of trains; the construction of additional seawater desalination plants; the development and full exploitation of industries based on natural gas as a raw material; the construction of additional seawater desalination plants; the development of petrochemical industries that consume natural gas; and the policy actions to be taken in the interests of the matter; all this over and above the natural increase in demand for natural gas and electricity in the Israeli economy due to population growth and an increase in the standard of living. Regarding the decision of the Minister of Energy to reduce the use of coal until its total termination and his plan to eliminate the use of polluting energy in Israel (hereafter: "**the Energy Minister's decision to terminate the use of coal**"), see Section 7.16.9(f) below. Regarding orders to raise the excise tax on coal and on compressed natural gas (CNG), see Section 7.16.9(g)below.

6.9 The principal external factors affecting and/or likely to affect the Company's operations:

6.9.1 The spreading of the coronavirus and its potential impact on the Company's business

At the end of 2019 and during the first quarter of 2020, the coronavirus (Covid-19) began to spread in China and subsequently throughout the world, and it was declared a global pandemic by the World Health Organization (WHO) in March 2020 (the "**coronavirus pandemic**"). As of the report approval date, amid the coronavirus pandemic and as a result thereof, there has been a slowdown in global economic activity, which, if it persists, may lead to an ongoing global economic crisis affecting numerous sectors, including the energy sector in which the Company operates.

As a result of the coronavirus pandemic there have lately been sharp price declines in the financial markets across the world, including Israel, as well as sharp changes in currency exchange rates.

In addition, oil and natural gas prices on international markets have recently registered very sharp declines, which, in the Company's estimation, is primarily attributable to the confrontation between Russia and Saudi Arabia over the rate of oil production, to the coronavirus, and to other causes and factors influencing the supply and demand of energy products around the world (see Section 6.9.4 below).

Many countries, among them Israel, have taken drastic measures in an attempt to contain the coronavirus pandemic, such as a lockdown in affected areas, stay-at-home and self-isolation orders, prevention of congregations and gatherings of people, restrictions on the transport of passengers and goods, restrictions and in some cases even a ban on travel between countries, complete or partial shutdown of air and/or maritime traffic, full or partial closure of nonessential businesses and so forth.

In the Company's estimation, the continuation and/or worsening of the coronavirus pandemic, resulting in the prolongation of the economic crisis and the crisis in the financial markets, could adversely impact the Company's operations and business position in several respects, including:

- A potential decline in the consumption of natural gas produced from the Tamar reservoir – The slowing of economic activity could result in a decrease in demand for natural gas, on the one hand, and an increase in supply of natural gas, on the other, due, among other things, to a drop in the volume of consumption in the Israeli economy or the export markets and/or to a decline in the prices of oil and/or natural gas and/or LNG in the world (for further details, see Section 6.9.4 below). It should be further noted that a decline in natural gas demand as aforementioned, could result in decreased prices in new agreements with customers. Regarding take-or-pay (TOP) commitments in the Company's agreements with its customers, see below in this section.
- Potential impact on the operation of the Tamar reservoir – A possible hit to the regular ongoing operations of the Tamar Project facilities and/or delays in the Project's maintenance works, *inter alia*, due to the absence and/or shortage of essential manpower, including manpower from abroad, and/or owing to delays and/or a shortage in the supply of equipment for the Tamar Project facilities. In this context, it should be noted that in order to deal with the coronavirus pandemic outbreak, Noble – the Tamar Project operator, has prepared a plan of action, coordinated with the Ministries of Energy and Health, intended to address the continued safe operation of the production facilities and natural gas transmission. The Operator has made clear that to the extent that the operating conditions or the working conditions are worsened, the production from the Tamar reservoir could be halted in order to ensure the health and safety of the manpower employed at the facilities and to protect the environment and natural gas assets. It should be noted that

as of the report approval date, the reservoir's operation has not been hurt. It should be further noted that the Company and the Operator are included among the types of enterprises that have been excluded from the obligation to limit the number of employees in them, so as to ensure their essential activity, in accordance with the Emergency Regulations (Limiting the Number of Workers in the Workplace to Reduce the Spread of the New Coronavirus), 5780-2020.

- Potential effect on the Company's customers
 - Possible harm to operational aspects of the Company's customers, due, among other things, to a shortage and/or absence of manpower and/or equipment necessary for the activity of the customers' facilities.
 - Possible harm to the financial robustness of the customers, due, inter alia, to a decline in the business activity and/or harm to operational aspects as aforesaid and/or lack of availability of financing sources.

It should be noted that most of the Company's existing agreements with its customers determine TOP quantities and floor prices, and some existing agreements contain commitments by the customers to purchase natural gas from the Tamar reservoir preferentially over other sources (for further details, see Section 7.4.4(c) below) ("**customer purchase commitments**"). In this connection it should be noted that the TOP mechanism in the amended export agreement with Dolfinus includes an option for reducing the annual TOP to 50% of the overall annual quantity, to the extent that the average price of a Brent oil barrel during that same year was lower than USD 50.

- Possible impact on availability of financing sources and/or a reduction of credit sources – It should be noted in this connection that in view of the Company's existing cash balances beyond the safety buffers required under the trust deeds for the Series A and B bonds, and in light of the existence of commitments for TOP quantities and floor prices as aforesaid, the Company estimates that it will not require financing sources in the coming year at least for financing its operations and/or meeting its existing and expected obligations.

Forward-looking information disclaimer –The Company's assessments regarding the absence of a need for financing sources in the short term to fund its operations and/or meet its obligations, constitute forward-

looking information within the meaning of the Securities Law, which is based, inter alia, on the existence of customer purchase commitments and on Company estimations regarding the selling prices of natural gas. This information may not materialize, in whole or in part, or may materialize in a materially different manner, due to various factors that are not within the Company's control, such as, inter alia, harm to the operational aspects of the Tamar reservoir and/or of the Company's customers and harm to the financial robustness of customers.

As the extent of the negative impact of the coronavirus pandemic on the domestic and world economy depends on the magnitude of the coronavirus pandemic and the time required to eradicate the pandemic or halt its spread, regarding which, as of the date of approval of this report, there is great uncertainty, the Company is unable at this point to estimate the duration and magnitude of the pandemic and the full consequences for the Company's operations and business results.

Forward-looking information disclaimer – The Company's assessments regarding the possible consequences of the coronavirus pandemic as detailed above, constitute forward-looking information within the meaning of the Securities Law, which is based, among other things, on information currently in the possession of the Company, on publications issued in Israel and around the world on this subject and on the directives and guidelines of the relevant authorities. This information may not materialize, in whole or in part, or may materialize in a materially different manner, due to various factors that are not within the Company's control, such as, inter alia, to the extent there are changes in the spread of the coronavirus pandemic, in the directives and guidelines of the relevant authorities, and in the economic situation in Israel and around the world.

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

The gas prices set in the agreements for the sale of natural gas from the Tamar Project are based on various pricing formulas including, inter alia, linkage to the U.S. Consumer Price Index ("U.S. CPI"), to the electricity production tariff as determined from time to time by the Public Utilities Authority-Electricity (the "Electricity Production Tariff" and "Electricity Authority", respectively), and to the price of a Brent oil barrel.

Nonetheless, the exposure of the Company to fluctuations in the Electricity Production Tariff and the Brent oil barrel price in agreements for the sale of natural gas from the Tamar Project is restricted by a lower limit, as all the agreements which are linked to such components include a "floor price." Therefore, a drop in the Brent oil barrel price or in the Electricity Production Tariff has only a circumscribed effect, limited to the aforesaid "floor price," on the Company's revenues under the agreements to which it is a party. In this connection, it should be noted that the export agreement entered into by the Tamar Partners as set out in Section 7.4.5(b) below includes a mechanism, whereby the TOP quantity established in the agreement decreases to 50% for the calendar year in which the average price of a Brent oil barrel is lower than USD 50. It should be noted that as of the report approval date, the price of a Brent oil barrel is lower than USD 50.

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

For details regarding the sensitivity analysis performed by the Company on the main linkage components of the gas price according to the gas sale agreements entered into by the Tamar Partners (the U.S. CPI and Electricity Production Tariff), see the report on reserves and discounted cash flows as detailed in Section 7.2.15(a) below. For details regarding the sensitivity analysis performed on the discounted cash flow to determine the impact of changes in the Brent oil barrel price on two assumptions underlying the discounted cash flow, see Section 7.2.15(a) below.

6.9.3 Regulation

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

In recent years, in the wake of the gas discoveries made in the economic waters of the State of Israel, there has been a significant increase in the extent of regulation of the energy sector in Israel, as a consequence of a series of significant regulatory moves taken by the government and the state authorities. Prominent examples of this are: the enactment of the Taxation of Natural Resource Profits Law, 5771-2011¹⁰ (the "**Taxation of Natural Resource Profits Law**"); the Israeli government's decision to adopt the key points of the recommendations by the Committees for Examination of the Government's Policy on the Issue of Israel's Natural Gas Sector and the Future Development Thereof (jointly: the "**Government Resolution on Export**"); the declaration by the Economic Competition Commissioner¹¹ (the "**Competition Commissioner**") that the Tamar Partners are owners of a monopoly in natural gas supply to Israel; the promulgation of various directives by the Petroleum Commissioner at the Ministry of Energy (the "**Petroleum Commissioner**")¹² and the Natural Resources Administration at the Ministry of Energy (for an elaboration see Sections 7.16.7 and 7.16.8 below); the announcement of the Marine Zones Bill, 5778-2017 (the "**Marine Zones Bill**"); the government resolution and the High Court of Justice's ruling in the matter of the Gas Framework, as specified in Section 7.16.1(c)(7) below; the national outline plan for the reception and processing of natural gas and so forth; and the Energy Minister's decision to stop the use of coal, as detailed in Section 7.16.9(f) below. In recent years, there has been a toughening in the implementation of environmental regulation; for details see Section 7.15 below.

For details regarding restrictions on and supervision of oil and natural gas exploration, development and production activities in Israel, see Section 7.16 below.

6.9.4 Changes in the prices of energy sources in the world

¹⁰ On November 7, 2017, the Ministry of Finance announced a Memorandum of the Taxation on Natural Resource Profits Law (Amendment No.), 5778-2017 (the "**Memorandum**"), which included several proposed amendments to the provisions of the Taxation on Natural Resource Profits Law, pursuant to the Gas Framework. The amendments the subject of the Memorandum concern, inter alia, an amendment to the definition of the term "receipt" in the Taxation on Natural Resource Profits Law, so that it will include also payments for elements associated with the sale as determined in the Gas Framework; the establishment of several provisions that augment the Israel Tax Authority's ability to inspect and enforce the Taxation on National Resource Profits Law; and the grant of incentives to certain owners of rights in petroleum enterprises with a size of up to 50 BCM. On July 15, 2018, the Ministerial Committee for Legislation approved the bill based on the Memorandum, for a first reading in the Knesset.

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

¹² Various directives which were issued by the Petroleum Commissioner on this matter: applications for rights in a petroleum asset, the provision of collateral in connection with petroleum rights, the transfer of rights and approval of export. For further details, see Section 7.16.7 below.

Changes in the prices of energy sources in the world, including the prices of natural gas and LNG, could affect the volumes of sales and the price at which natural gas will be sold by the Tamar Partners. For example, a decline in LNG prices could lead to an increase in the import volumes of LNG to Israel and/or to the regional markets (including the Egyptian market), instead of the purchase of natural gas from the Tamar reservoir.

To the best of the Company's knowledge, recently and as of the report approval date, LNG supply in the world has exceeded demand, resulting in a significant decrease in the prices of LNG and natural gas in the Asian and European markets. Said changes in LNG supply and demand stem primarily from the start of production at new liquefaction facilities in the world, leading to an increase in LNG supply, and from climate changes that have hit LNG consumers recently, leading to a decrease in LNG demand.

Likewise, natural gas prices are affected by global macroeconomic changes, the main ones as of the report approval date being as follows:

1. Absence of agreement among the OPEC member countries and other oil-producing countries (such as the U.S. and Russia), regarding reduction of the oil production rate, which is needed to cut down the global oil supply (a move that would lead to a moderation of the decline in the Brent oil barrel price, and perhaps even to rising prices). It should be noted that during the first quarter of 2020, a confrontation developed between Russia and Saudi Arabia over the oil production rate, which recently led to a sharp drop in global oil prices.
2. Outbreak of the coronavirus pandemic. See elaboration in Section 6.9.1 above.
3. Trade war between the U.S. and China, which is impacting the prices of goods across the world.
4. In recent years there has been significant technological development in the production of oil from shale, which has led to a significant decline in the production costs of shale oil and to a decline in global oil prices. In the United States, today, there is massive production of shale oil, which has turned it into a significant oil exporter.

In the Company's estimation, as of the report date, it is not possible to estimate the impact of said macroeconomic changes.

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

7.1 General information about the operating segment

7.1.1 Structure of the operating segment and changes occurring therein

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

Activities of exploration, development and production of oil and natural gas are usually conducted in the framework of joint ventures between several partners who sign a Joint Operating Agreement (JOA), whereby one of the partners is appointed as the operator of the joint venture (for a description of the joint operating agreement in respect of the Tamar and Dalit Leases, see Section 7.2.14 below).

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

For details, see Section 7.16 below.

7.1.3 Developments in markets or changes in customer characteristics

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

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

In view of the significant volume of resources discovered off the shores of the State of Israel, mainly in the Tamar, Leviathan¹³, Karish and Tanin natural gas reservoirs, constituting a volume exceeding the estimated demand for the coming years in the domestic market, the Tamar Partners are working to seek out additional customers, and plan to seek out

¹³ To the best of the Company's knowledge, and as announced by the holder of the rights in the Leviathan reservoir, Delek Drilling, the transmission of gas from the Leviathan reservoir began on December 31, 2019.

additional markets. For further details on this matter, see Sections 7.4.5 and 7.5.2 below.

(b) Demand for natural gas

Demand for natural gas depends on several key factors, including energy prices (regarding the possible effect of changes in the prices of global energy sources, see Section 6.9.4 above), population growth rate, rise in standard of living, weather conditions and energy efficiency level of electricity and gas consumers.

The scope of natural gas sales is affected, *inter alia*, by the rate of development and penetration of alternative energy sources, such as renewable energies; by the means for storing them; by the rate of introduction of electric vehicles; and by the rate of conversion of coal-fired power plants to use natural gas. The Ministry of Energy's policy to encourage and promote the production of electricity by means of renewable energy sources, *inter alia* through the use of solar technologies, may affect the market share of natural gas in the mix of electricity production sources in the economy. Regarding the decision of the Energy Minister to terminate the use of coal and his plan to eliminate the use of polluting energy in Israel, see Section 7.16.9(f) below.

7.1.4 Material technological changes

Recent decades have seen technological changes in the field of oil and natural gas exploration, development and production, both in information collection, processing and analysis and in the drilling and production methods. These changes have improved the quality of the data available to oil and natural gas explorers and have allowed for more advanced identification of potential oil and natural gas reservoirs, and therefore may also reduce the risks of drilling. Furthermore, the technological improvements have made the drilling and production work more efficient, allowing, today, the performance of activities in tougher conditions than before, such as drillings at significant water depths, complex drillings that enable reaching more complex targets, and the production of shale oil and/or gas. Accordingly, corporations exploring for oil and natural gas are able to undertake exploration efforts in areas where drilling was not feasible in the past, or was feasible but at very high costs and at greater risks. The Tamar Project operator is aiming to implement best available technologies in all the operating segments. Likewise, best available technologies have been

implemented in the Tamar Project, to increase safety at the facilities and to reduce their impact on the environment. Moreover, technological changes in the production and marketing of natural gas, such as new and more efficient technologies for converting natural gas into LNG, by means of a land-based or marine facility (floating liquefied natural gas – FLNG), or for converting natural gas into compressed natural gas (CNG) and into liquid (gas to liquids – GTL), may assist in more efficiently conveying and commercializing natural gas.

At the same time, improvements are continuously being made in the field of renewable energy, allowing for greater cost efficiency, better utilization of the systems and improved safety. These can greatly affect supply and demand for oil and natural gas and cause volatility in oil and natural gas prices.

7.1.5 Critical success factors in the operating segment

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

7.1.6 Changes in the raw materials and suppliers setup

For details see Section 7.11 below.

7.1.7 Entry and exit barriers in the operating segment

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

The significant exit barriers in the operating segment are mainly commitments under long-term gas supply agreements entered into by the Company. In addition, there is a duty to plug abandoned wells and to dismantle production facilities before abandoning lease areas, as specified in the lease deeds and in the statutory provisions regarding abandonment of offshore oil and gas drilling sites.

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

7.1.8 Alternatives to the products of the operating segment

Natural gas is used as a raw material in energy production and is sold in Israel chiefly to electricity producers and industrial customers. In general, the alternatives for the use of natural gas are other fuels, mainly diesel oil, fuel oil, coal, LPG, LNG, nuclear energy, shale oil and renewable energy sources, such as solar and wind energy. Each of these alternative fuels and energy production methods has advantages and disadvantages and they are subject to price volatility, availability, technical and statutory constraints, etc. The switch from using one type of energy to another type of energy usually involves large investments. The principal advantages of natural gas, compared to coal or liquid fuels, are that the energy efficiency of power plants operated on natural gas is significantly higher than that of power plants operated on coal and fuel oil, and that the emission of particles and nitrogen and sulfur oxides from the combustion of natural gas is significantly lower than that of coal and fuel oil. For details regarding the Energy Minister's announcement concerning advancing the date for the termination of coal use in Israel to 2025 instead of 2030, see Section 7.16.9(f) below. The main advantage of natural gas over renewable energy in the domestic market, which is principally solar energy, is that natural gas availability is 24 hours a day, while solar energy availability is limited both during the year and during the day, which will remain the case so long as no technological solutions are found to store solar

energy. A further advantage afforded the economy by the use of natural gas stems from the government's taxation policy, which gives the state a considerable percentage of revenues in respect of the use of natural gas.

7.1.9 Structure of the competition in the operating segment

(a) Natural gas discoveries in Israel

As a rule, due to the complexity and high costs of transmitting natural gas other than via a transmission pipeline (e.g., by setting up an LNG facility which requires natural gas reserves of a significant volume and substantial financial investments), the natural market for the supply of natural gas is the domestic market as well as the markets in neighboring countries with which there are peaceful relations and to which the natural gas may be transmitted by pipes. Therefore, the Company competes in Israel primarily against holders of oil and natural gas assets in Israel and in neighboring countries, as well as LNG importers (such as the offshore buoy for LNG import as described later on).

The vast majority of the natural gas currently supplied to the Israeli market originates in the Tamar and Leviathan reservoirs, which, as of the date of approval of this report, are the only producing reservoirs within the territory of the State of Israel. In addition, quantities of natural gas are supplied to the IEC via the regasification vessel and the offshore buoy built off the Hadera shore by INGL (above and below: the "**Offshore Buoy for LNG Import**"). The Offshore Buoy for LNG Import is designated for the berthing of an LNG tanker, which converts LNG to gas, and is planned to receive re-gasified gas in an amount of up to 0.5 BCF per day. The Offshore Buoy for LNG Import was built (before development of the Tamar reservoir was completed), to enable the supply of gas to the domestic market in the short term, in light of the shortage created at the time, due to the cancellation of the agreement with East Mediterranean Gas Ltd. ("EMG") for the supply of gas from Egypt, and to provide the electricity economy with strategic redundancy in the supply of natural gas. To the best of the Company's knowledge, in view of the decline in global natural gas prices in recent months and prior to the start of regular and continuous production from the Leviathan reservoir, the IEC purchased LNG in small quantities for its regular ongoing needs. In the Company's estimation, in the wake of the start of commercial production from the Leviathan reservoir, the use of LNG as a backup fuel for the IEC at peak hours is

likely to be negligible. Nevertheless, if certain conditions exist, the IEC will likely purchase LNG for regular ongoing use that does not constitute acquisition for backup purposes at peak hours only.

As publicized by the holders of rights in the Leviathan reservoir, said reservoir contains 22.9 TCF of natural gas resources (P2 reserves and C2 contingent resources). In addition, to the best of the Company's knowledge, the holder of the Karish and Tanin reservoirs is expected to be a substantial supplier of natural gas. According to assessments published by Energean Oil & Gas plc, which, to the best of the Company's knowledge, is the controlling shareholder in Energean Israel Limited ("**Energean**" and "**Energean Israel**," respectively), which holds rights in the Karish and Tanin reservoirs, these same reservoirs contain reserves (P2) totaling 2.2 TCF of natural gas and 31.8 million barrels of light oil/condensate; contingent resources (C2) totaling 0.2 TCF and 1 million barrels of light oil/condensate; and additional quantities of prospective resources. Likewise, in November 2019¹⁴, Energean issued an announcement regarding evaluation operations performed at the Karish North prospect located in the Karish lease area, including a report on the substantiation of resources of natural gas totaling 0.9 TCF (25 BCM) and light oil/condensate totaling 34 million barrels, these being best estimate figures. According to Energean's announcements, piping of gas from the Karish reservoir is expected to begin in the first half of 2021. It is further noted that according to the provisions of the Gas Framework, the Karish and Tanin reservoirs have been designated for the supply of gas solely for the domestic market.

The start of transmission from the Leviathan reservoir in December 2019, coupled with the expectation that transmission from the Karish reservoir will begin in 2021, as aforementioned, significantly increases the supply of natural gas to the domestic economy and the ability to export to neighboring countries, thus influencing the competition in the sector. In this context, it should be noted that as of the date of approval of this report, there are disagreements between the Tamar Partners that are not also

¹⁴ And this further to Energean's reports in March 2019 regarding the start of a series of drilling operations in the Karish reservoir, in the course of which three production wells are to be drilled and an exploration drill is to be carried out in Karish North, and in April 2019 regarding the discovery of natural gas in the exploration drill carried out in the Karish North prospect in the Karish lease area.

partners in the Leviathan reservoir (the Company, Dor Gas Explorations Limited Partnership ("Dor Explorations"), Isramco Negev 2 Limited Partnership ("Isramco"), and Everest Infrastructures Limited Partnership ("Everest")) and Delek Drilling and Noble that hold the Leviathan reservoir, concerning how decisions are made with regard to the Tamar reservoir, in light of the cross-holdings of Delek Drilling and Noble in the Tamar reservoir and the Leviathan reservoir. For further details, see Section 7.16.4(f) below.

(b) Tenders for oil and natural gas explorations

On November 15, 2016, the Minister of Energy declared the opening of the sea for oil and natural gas exploration by a competitive process (hereinafter in this subsection: the "Tender"), in view of the findings of an independent research study which was carried out for the Ministry of Energy, in which it was determined that additional undiscovered resources of natural gas may be found in the sea basin of Israel, comprising a total volume of 6.6 billion barrels of oil and 2,137 BCM of natural gas. In the framework of the Tender, 24 exploration areas were offered, with a maximum size of 400 square km each, at a distance of at least 7 km from the shoreline, all in accordance with the directives of the Ministry of Energy. According to the terms and conditions of the tender, in order to encourage competition in the Israeli gas market, an entity holding more than 25% of the rights (directly or indirectly) in an offshore license with a reserve volume exceeding 200 BCM (C2) on the tender publication date was barred from submitting a bid in the tender.

In the framework of the Tender, the Ministry of Energy on January 15, 2018 granted five licenses for oil exploration in Israel's economic waters to Energean Israel, and on April 9, 2018, the Ministry of Energy granted an oil exploration license for one block to a consortium of Indian companies, which includes Oil and Natural Gas Corporation Limited, Bharat Petrol Resources Limited, Indian Oil Corporation Ltd. and Oil India Limited.¹⁵

On November 4, 2018, the Minister of Energy announced a second competitive process for natural gas and oil explorations in Israel's

¹⁵ Following is the lnk to the publication regarding the grant of the license on the Ministry of Energy's website:
https://www.gov.il/he/departments/news/spokesperson_india

economic waters (in this section: the "**Second Tender**"), in which 19 exploration licenses (blocks) were offered in five batches, each measuring around 1,600 square kilometers. According to the announcement, the Ministry of Energy has limited the number of licenses that will be offered to any party to 8 licenses only. Additionally, it has been determined that a party holding more than 25% of an oil interest containing reserves in excess of 200 BCM will not be allowed to participate in the Second Tender, and that preference will be given to a consortium that does not include a party that is involved in existing leases. In the framework of the Second Tender, the Minister of Energy on October 28, 2019, granted the consortium comprising two British companies Capricorn Offshore Exploration Limited, Pharos Energy plc, and Ratio Oil Exploration (1992) Limited Partnership ("**Ratio**"), 8 oil licenses in two batches, and to Energean Israel and Israel Opportunity – Energy Resources, Limited Partnership, 4 oil licenses in one batch. The Ministry of Energy has announced that another competitive process is expected to take place during 2021¹⁶.

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

Additionally, as far as is known to the Company, the British Gas Group (today owned by Shell) discovered over 15 years ago off the Gaza coast a natural gas reservoir, called Gaza Marine, in which the volume of reserves is estimated at 1 TCF. To the best of the Company's knowledge, the rights of Shell in said reservoir were transferred to the investment fund of the Palestinian Authority. In the future this reservoir may possibly be developed and natural gas marketed to the domestic market and to the Palestinian Authority.

(c) Other energy sources

Furthermore, the volume of consumption of coal by the IEC is derived, *inter alia*, from environmental, operational regulation as well as from

¹⁶ For the location of the licenses (blocks), see the communication on the Energy Ministry's website: <http://www.energy-sea.gov.il/English-Site/Pages/Offshore%20Bid%20Rounds/2nd-Bid-Round.aspx>

differences in the direct costs of the IEC stemming from the price of natural gas and the price of coal. Therefore, the level of consumption of the IEC may be affected by regulation conditions, operational constraints, global prices of natural gas and coal, as well as the coal taxation policy in Israel.¹⁷

Furthermore, the natural gas supplied by the Company to industrial customers replaces the use of liquid fuels, such as diesel oil and fuel oil. The price of liquid fuels is generally higher than the price of the natural gas supplied by the Tamar Partners, yet despite their being polluting, a downtrend in oil prices around the world could render these fuels competitive relative to the natural gas supplied to these consumers. However, it is noted that the Ministry of Environmental Protection maintains regulation intended to ensure that enterprises with an infrastructure for natural gas connection and use refrain from using polluting liquid fuels. In addition, the wish to increase the production of electricity from renewable and clean energies, such as wind energy or solar energy, could also lead to competition with natural gas. For additional details on alternatives to natural gas, see Section 7.1.8 above.

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

(d) Natural gas discoveries in neighboring countries

(1) Egypt

To the best of the Company's knowledge, recent years have seen an increase in marine and land exploration activity in Egypt. As a result, several natural gas reservoirs were discovered in recent years, the most significant among them being the Zohr natural gas reservoir, which was discovered in 2015. As of the report approval date, to the best of the Company's knowledge, based on reports published by independent consulting companies, the resources producible from the Zohr reservoir, after two years of production, are estimated to be 20 TCF (2P). According to Eni reports, the Zohr

¹⁷ For details regarding the decision of the Minister of Energy to stop coal use, see Section 7.16.9(f) below.

reservoir commenced production of natural gas in December 2017, which was earmarked, to the best of the Company's knowledge, for the supply of natural gas mainly to the Egyptian domestic market. To the best of the Company's knowledge, on March 14, 2019, Eni announced the discovery of the Nur reservoir, but as of the report approval date, it has still not reported the quantity of gas in the reservoir (in which it holds a 40% stake). For further details regarding the Egyptian market, see Section 7.5.2(d) below.

(2) Cyprus

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

In February 2018 it was reported in the foreign media that a consortium of the companies Eni and Total had made a new natural gas discovery in Block 6 in the economic waters of Cyprus, called Calypso. To the best of the Company's knowledge, no official estimates of resources in the above discovery have been published yet, but it is estimated that the discovery holds 6.4 TCF in a formation with characteristics similar to those of the Zohr reservoir.

In September 2018 it was reported in the foreign media that a consortium headed by ExxonMobil had commenced two exploration drills in Block 10 in the economic waters of Cyprus.¹⁸

In February 2019 the consortium reported in the media that it had made a new natural gas discovery, known as "Glaucus," with preliminary estimates of 5-8 TCF (gas in place). According to foreign reports, the consortium plans to carry out a verification drilling in said discovery during 2020.

Said discoveries may have an impact on the Company's operations in the Egyptian market. Furthermore, the companies owning the reservoir may seek to export the gas to the Egyptian domestic market

¹⁸ Based on public reports by ExxonMobil.

and/or to direct it to the Egyptian liquefaction facilities for liquefaction and sale in international markets, with said gas liquefaction to account for a part of the liquefaction capacity of Egypt's liquefaction facilities.

In September 2019, it was reported in the foreign media that Cyprus's government granted an exploration license in Block 7 to the companies Total and Eni in the framework of a tender process that was offered only to companies with licenses adjacent to Block 7. In addition, Cyprus's government announced the entry of Total into Blocks 2,3,8,9, which are owned by Eni (jointly with other partners).

Additionally, to the best of the Company's knowledge, further exploration drillings are expected to be carried out in the economic waters of Cyprus, by a consortium headed by Eni in Blocks 3 and 8¹⁹. Verification and evaluation drillings are planned this year in Glaucus and Calypso. It should be noted that according to media reports, the tension existing between Greek Cyprus and Turkey is likely to affect the timetables for the exploration operations in the economic waters of Cyprus. Among other things, it was reported in the foreign media that drilling rigs of the Turkish National Petroleum Company tried to conduct exploration operations, including drillings in Cyprus's economic waters.

(3) Lebanon

At the end of February 2020, the company Total, that heads a consortium in Block 4 in Lebanon's economic waters, announced the arrival of a drilling rig to the license area for the purpose of carrying out exploration drilling, apparently to reach a target in the Miocene strata. According to Total reports, success in this drilling is likely to lead to another drilling operation, to reach similar targets in Block 9, on the border between the economic waters of Lebanon and Israel.

¹⁹ Based on the public publications by Eni.

7.2 Details regarding the Tamar and Dalit Project

7.2.1 General

The Tamar Lease	
General Details Regarding the Petroleum Asset	
Name of the petroleum asset:	Tamar Lease ²⁰
Location:	An offshore asset approximately 90 km west of the Haifa coast, at a water depth of 1,670 meters.
Area:	Approximately 250 km ² .
Type of petroleum asset and description of the activities permitted for such type:	Lease; Permitted activities under the Petroleum Law – exploration and production.
Original conferral date of the petroleum asset:	December 2, 2009
Original expiration date of the petroleum asset:	December 1, 2038
Dates on which extension of the term of the petroleum asset was decided:	-
Current expiration date of the petroleum asset:	December 1, 2038
Is there another opportunity for extension of the term of the petroleum asset?	Subject to the Petroleum Law, by 20 additional years.
Name of the operator:	Noble
Names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Company's knowledge, the names of the controlling shareholders in said partners:	<ul style="list-style-type: none"> • Isramco Negev 2, Limited Partnership ("Isrameco") (28.75%).²¹ • Noble (25%).²² • Delek Drilling^{23,24,25} (22%). • The Company (16.75%). • Dor Gas Exploration, Limited Partnership²⁶ ("Dor Exploration") (4%). • Everest²⁷ (3.5%).

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

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

²² Noble is a wholly owned subsidiary of Noble Energy Inc. ("Noble Inc."), a public company whose shares are traded on the NYSE. To the best of the Company's knowledge, according to Noble Inc. reports, there is no shareholder that holds over 12% of its issued capital.

²³ To the best of the Company's knowledge, the general partner in Delek Drilling, Delek Drilling Management (1993) Ltd., is a private company owned by Delek Energy Systems Ltd. ("Delek Energy") (in which the controlling party (indirectly) is Mr. Yitzhak Sharon (Tshuva)).

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

²⁵ As of the report approval date, the participation units issued by Delek Drilling Trusts Ltd. (the limited partner in Delek Drilling) are held, among others, by Delek Group Ltd. (59.17%). Delek Group Ltd. is a company controlled by Mr. Yitzhak Sharon (Tshuva).

²⁶ To the best of the Company's knowledge, the general partner in Dor Exploration is Alon Gas Exploration Management Ltd., a private company controlled by Alon Natural Gas Exploration Ltd. ("Alon"), a public company in which the controlling party is Alon Israel Oil Company Ltd., which is a private company.

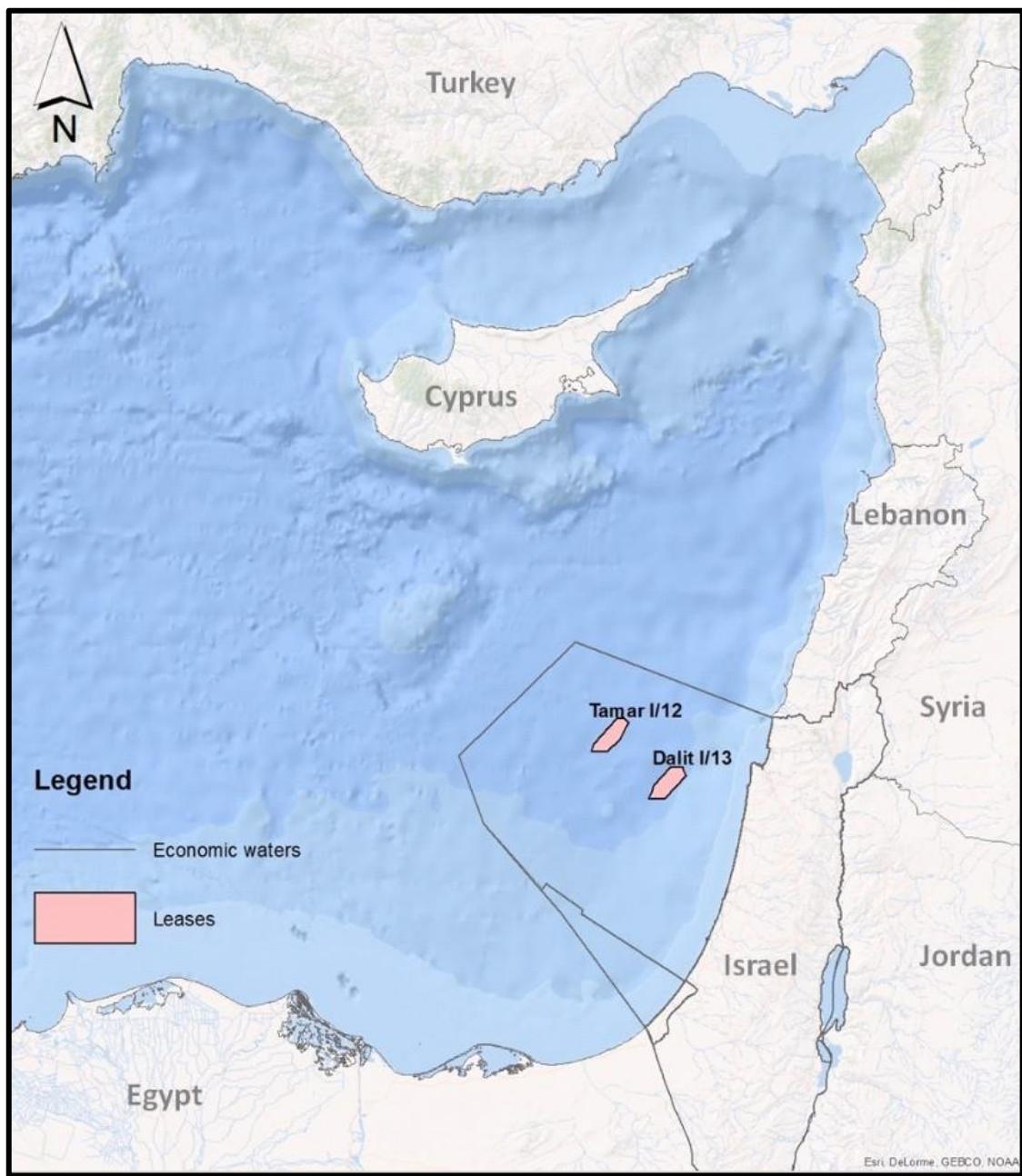
²⁷ To the best of the Company's knowledge, Everest is a limited partnership in which the partners are Harel Insurance Company Ltd. and other institutional bodies owned by it, as well as a partnership from the Israel Infrastructure Fund Group.

The Tamar Lease	
General Details Regarding the Company's Share in the Petroleum Asset	
For a holding in a purchased petroleum asset –the purchase date:	A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling. A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.
Description of the nature and manner of the Company's holding in the petroleum asset:	The Company directly holds 16.75% of the Lease.
The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company:	Before return on investment – 14.21%. After return on investment – 13.74%.
The total share of the holders of the equity interests of the Company in the aggregate investment in the petroleum asset during the three years preceding the last day of the year of the report (whether recognized as an expense or as an asset in the financial statements):	As consideration for the 9.25% interest in the Tamar and Dalit leases acquired from Delek Drilling, the Company paid a cash consideration of USD 845 million, and in addition it allotted 19,900,000 ordinary shares of the Company. As consideration for the 7.5% interest in the Tamar and Dalit leases acquired from Noble, the Company paid a cash consideration of USD 475 million, and in addition it allotted 38,495,576 ordinary shares of the Company. Aside from the foregoing, the Company's total share of the investment in the petroleum asset during said period is USD 75,027,000.

The Dalit Lease	
General Details Regarding the Petroleum Asset	
Name of the petroleum asset:	Dalit Lease ²⁸
Location:	An offshore asset approximately 50 km west of the Haifa coast at a water depth of 1,300-1,400 meters.
Area:	Approximately 250 km ² .
Type of petroleum asset and description of the activities permitted for such type:	Lease; Permitted activities under the Petroleum Law – exploration and production.
Original conferral date of the petroleum asset:	December 2, 2009
Original expiration date of the petroleum asset:	December 1, 2038
Dates on which an extension of the term of the petroleum asset was decided:	-
Current expiration date of the petroleum asset:	December 1, 2038
Is there another opportunity for extension of the term of the petroleum asset? If so, indicate the possible term of extension:	Subject to the Petroleum Law, by 20 additional years.
Name of the operator:	Noble
Names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Company's knowledge, the names of the controlling holders of such partners:	<ul style="list-style-type: none"> ▪ Isramco (28.75%). ▪ Noble (25%). ▪ Delek Drilling (22%). ▪ The Company (16.75%). ▪ Dor (4%). ▪ Everest (3.5%)

²⁸ The Dalit gas reservoir was discovered in the area of the Dalit Lease in 2009.

The Dalit Lease	
General Details Regarding the Company's Share in the Petroleum Asset	
For a holding in a purchased petroleum asset –the purchase date:	A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling. A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.
Description of the nature and manner of the Company's holding in the petroleum asset:	The Company directly holds 16.75% of the Lease.
The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company:	Before return on investment – 14.21%. After return on investment – 13.74%.
The total share of the holders of the equity interests of the Company in the aggregate investment in the petroleum asset during the three years preceding the last day of the year of the report (whether recognized as an expense or as an asset in the financial statements):	As consideration for the 9.25% interest from the Tamar and Dalit leases acquired from Delek Drilling, the Company paid a cash consideration of USD 845 million, and in addition allotted 19,900,000 ordinary shares of the Company. As consideration for the 7.5% interest from the Tamar and Dalit leases acquired from Noble, the Company paid a cash consideration of USD 475 million, and in addition allotted 38,495,576 ordinary shares of the Company.

7.2.2 Map of the petroleum assets

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

(a) General

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

(b) Scope of Lease

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

(c) Term of Lease

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

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

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

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

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

- (d) Sale to consumers in Israel

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

- (e) Construction of facilities

- (1) The Lease holder may construct the production system only after the Petroleum Commissioner grants the Lease holder a construction permit, and subject to the terms and conditions of the permit.
- (2) The Lease holder must construct the production system and the transmission system in a manner enabling a total commercial production capacity from the area of the Tamar Lease and the area of the Dalit Lease of no less than 7 billion standard cubic meters of natural gas per year, as of the commencement of the commercial production period, subject to approval of the northern terminal²⁹.
- (3) If economically justifiable, the Lease holder is entitled, subject to receipt of approval from the Petroleum Commissioner and the Director General of the Natural Gas Authority, appointed under the Natural Gas Sector Law, to increase the capacity of the production system and transmission system and add facilities and wells to them, including the construction of a pipeline to an additional terminal so as to enable the flow of larger quantities of natural gas, reliably and efficiently, to consumers in Israel.

²⁹ Production is conducted by means of a platform setup off the shores of Ashdod and by means of the Terminal.

(f) Supervising company

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

(g) Commercial production

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

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

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

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

(h) Natural gas storage

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

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

(i) Revocation or restriction of the Lease

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

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

(j) Abandonment plan

- (1) Within 30 months of the date of commencement of the production period, the Lease holder must submit for approval by the Petroleum Commissioner a general plan for the abandonment of the production system's facilities and for the sealing of wells at the conclusion of their use, whether during or after the Lease period (the "**General Abandonment Plan**").³⁰
- (2) No later than the date on which the Lease holder produces one hundred and seventy billion cubic meters of gas from the Lease area, the Lease holder must submit for approval by the Petroleum Commissioner a detailed plan to dismantle the facilities, in accordance with the provisions of the General Abandonment Plan (the "**Abandonment Plan**"), which was approved by the Petroleum Commissioner, as well as an estimate of the dismantling costs. If the Lease holder does not timely submit an Abandonment Plan, or if the Petroleum Commissioner finds that the submitted Abandonment Plan is not suitable and is unable to reach agreement on a suitable Abandonment Plan with the Lease holder, the Petroleum Commissioner will determine the Abandonment Plan.
- (3) On the date of approval of the Abandonment Plan by the Petroleum Commissioner, the Petroleum Commissioner will set out a plan for the Lease holder, whereby the Lease holder will provide a collateral or make a deposit into an "abandonment fund" on the dates, in the format and under the accrual method stipulated by the Petroleum Commissioner, with the purpose of ensuring that the Lease holder has the means required to carry out the Abandonment Plan.
- (4) With regard to the abandonment of existing wells, the Lease holder must notify the Petroleum Commissioner of its wish to seal a single well site at least three months in advance. The notice to be submitted must include an explanation of the need to seal the well and the sealing plan. Sealing of the well requires prior approval by the Petroleum Commissioner.

³⁰ On September 30, 2015, the General Abandonment Plan was submitted for the approval of the Petroleum Commissioner.

(k) Guarantees

The Lease deed prescribes provisions for the provision of an irrevocable unconditional autonomous bank guarantee by the Lease holder, in order to secure compliance with the terms and conditions of the Lease deed, the term thereof and grounds for forfeiture of the guarantee. For details regarding guarantees that were provided as aforesaid to secure compliance with the terms and conditions of the Lease deed, as well as the provisions of the Petroleum Law and the directives of the Petroleum Commissioner, see Section 7.16.7 below.

(l) Miscellaneous

In addition, the Lease deed includes additional provisions which address, *inter alia*, conditions for operation of the facilities, safety, handling of malfunctions, tests, reports and supervision, liability, insurance and indemnification.³¹

7.2.4 Compliance with the conditions of the work plan for the Tamar Project and Dalit Lease³²

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

7.2.5 Work executed and work planned in the Tamar Project and Dalit Lease³³

The following is a brief description of the main operations performed in the Tamar project from January 1, 2017 until the report approval date, as well as a summary of planned operations:

³¹ It should be noted that the operating permit for the production system of the Tamar lease established increased obligations for the Lease holder in connection with the operation of the production system due to the importance of gas production for Israel.

³² As of the report approval date, a detailed development plan was submitted only in respect of the Tamar Lease.

³³ The costs specified for the years 2017-2019 in the work plan below do not include ongoing operating and maintenance costs of the Tamar Project, which were included in Section 7.2.13 below. The table also does not include operations involved in the abandonment of the reservoir including expenses in respect thereof.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)³⁴</u>
2017 ³⁵	<ul style="list-style-type: none"> • Continued production from the Tamar Project, ongoing operation and maintenance. • Completion of the Tamar-8 well, connection of well to the production system and commencement of piping of natural gas therefrom. • Upgrading and improving the Tamar platform and Terminal, including the addition of structures and replacement of the main shut-off valves on the platform with new ones of a different type to improve function. • Start of reprocessing of seismic surveys. • Start of the project for installation of emission reduction systems on the Tamar Platform. • Continued updating of the geological model and the flow model, inter alia, based on well drilling and production data, and planning and preparations for additional well drillings. • Mapping and definition of additional prospects, including a deep-water prospect in the Lease area. 	- 101,094 28,012 1,083	- 9,351 2,591 100
2018	<ul style="list-style-type: none"> • Continued production from the Tamar Project, ongoing operation and maintenance. • Continuation of the project for installation of emission reduction systems on the Tamar Platform. • Continued upgrading and improvement of the production system at the Tamar Platform and at the Terminal, including improving the operating systems and upgrading stainless steel pipes to prevent corrosion. • Continued updating of the geological model and the flow model, inter alia, based on well drilling and production data, and planning and preparations for additional well drillings and supplemental works. • Mapping and definition of additional prospects, including a deep-water prospect in the Lease area. • Continuation of seismic surveys reprocessing project. 	28,894 24,845 ³⁶	4,840 4,161
2019 ³⁷	• Continued production from the Tamar Project,		

³⁴ The data for 2017 relate to the 9.25% working interest (and are based inter alia, on data from the books of Delek Drilling), while the data for 2018 and onward relate to the 16.75% working interest.

³⁵ The costs specified for 2017 do not include a budget update of USD 12.4 million (100%) (the Company's share – USD 1.14 million).

³⁶ The specified costs do not include a decrease in investments amounting to USD 33.6 million (100%) (the Company's share – USD 5.6 million), due, inter alia, to the sale of drilling equipment, reduction of pipelines and a decrease in investment in the Tamar SW well.

³⁷ This amount does not include USD 50 million in respect of the Tamar Partners' share of the access and participation fees for the transmission of gas and ensuring of capacity in the EMG pipeline, as detailed in Section 7.4.5(c)(2) below.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)³⁴</u>
	<p>ongoing operation and maintenance.³⁸</p> <ul style="list-style-type: none"> Completion of project for the installation of emission reduction systems on the Tamar Platform. Procurement of equipment and pipes for the development of the Tamar SW reservoir. For further details see Section 7.2.8 below. Completion of the seismic surveys reprocessing project, and analysis of the processed surveys. Continued updating of the geological model and the flow model, inter alia, based on well drilling and production data, and planning and preparations for additional well drillings and supplemental works. Continued upgrading and improvement of the production system at the Tamar Platform and Terminal, including improvement of the operating systems, addition of structures, upgrading of stainless steel pipes to prevent corrosion, painting of equipment and pipes, and continued upgrading of the valves system. 	12,479 53,463 19,501 ³⁹	2,090 8,955 3,266
2020 and onward ⁴⁰	<ul style="list-style-type: none"> Continued production from the Tamar Project, ongoing operation and maintenance⁴¹. Completion of the Tamar SW well and hook-up to the subsea production system in the Tamar field. For further details see Section 7.2.8 below. Continued updating of the geological model and the flow model, inter alia, based on data from the reprocessing of seismic surveys that was completed in 2019, and based on well drilling and production data, and planning and preparations for additional well drillings and supplemental works. Drilling and completion of wells, if needed, based on actual production data and market demand. Mapping and definition of additional prospects, including a deep-water prospect in the Lease area. 	190,000 ⁴² 585,000 ⁴³	31,825 98,000

³⁸ It should be noted that on May 6, 2019, natural gas production was resumed at the Tamar reservoir (at the time the sole significant gas field in the economy), after being halted on May 5, 2019, pursuant to the decision of the Minister of Energy in light of the security situation, and in accordance with the provisions of the Natural Gas Sector Law. For details see immediate report from May 6, 2019 (Ref. No.: 2019-01-039048), the information of which is included herein by reference. It should be noted that on May 7, 2019, gas transmission returned to full production capacity.

³⁹ The specified costs do not include a decrease in investments totaling USD 4.9 million (100%) (the Company's share – USD 0.8 million), due, inter alia, to the sale of drilling equipment and reduction of pipelines.

⁴⁰ The amounts specified below are nominal amounts. Likewise, the above table does not include reservoir abandonment operations, including expenses in respect thereof.

⁴¹ For details of the operation costs of the Tamar Project attributed to the Company, see figures for the discounted cash flow attributed to the Company's share of the reserves in the Tamar Project, published in the Company's immediate report of January 8, 2020 (Ref. No.: 2020-01-003469), the information of which is included herein by reference (the "**Immediate Report Regarding Reserves and Cash Flow**").

⁴² Out of this budget, a total of USD 79 million was approved.

⁴³ This budget has not yet been approved by the Tamar Partners.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)³⁴</u>
	<ul style="list-style-type: none"> • Continued upgrading and improvement of the production system at the Tamar Platform and Terminal, including improvement of the operating systems, improvement of structures, addition of environmental systems for monitoring and reducing emissions, upgrading of stainless steel pipes to prevent corrosion, painting of equipment and pipes, continued upgrading of the valves system, upgrading of the MEG treatment systems, and covering of a segment of the subsea service pipeline from the platform to the Terminal. • Laying of a third pipeline from the Tamar field to the platform, to the extent needed. 	70,000 ⁴⁴ 370,000 ⁴⁵	11,725 61,975

⁴⁴ This sum does not include USD 24 million in respect of the Tamar Partners' share of the transport fee for INGL for the transmission of gas for export to Egypt. Out of this budget, a total of USD 13.5 million was approved.

⁴⁵ This budget has not yet been approved by the Tamar Partners.

<u>The Dalit Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u>
2017-2019	<ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area. 	-	-
2020 and onward	<ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area. • Completion of the Dalit-1 well, drilling additional wells to the extent needed, and connecting the reservoir to the subsea production system of the Tamar project. 	-	-

7.2.6 Development plan for the Tamar Project⁴⁶

At present, the Tamar Project includes six subsea production wells, each of which is able to produce approximately up to 250 MMCF per day. Gas flows from the wells in the Tamar field through a subsea system, and from there, via two 16-inch pipes, each 150 km long (the "**Double Pipeline**") to a treatment and production platform located about 12 km off the Ashkelon shore (the "**Tamar Platform**"), approximately 2 km north of the existing platform of the Yam Tethys Project.⁴⁷ From the Tamar Platform the natural gas and condensate flow, respectively, through a 30-inch pipe (the pipe existing in the Yam Tethys Project) and a 6-inch pipe, with the natural gas piped to the Ashdod Onshore Terminal (AOT), and from there to the Israel Natural Gas Lines (INGL) national transmission system, while the condensate is piped to the nearby Paz Ashdod Refinery.

For further details regarding the production system of the Tamar Project see Section 7.9 below.

On August 29, 2016, the Minister of Energy granted the Tamar Partners⁴⁸ a license to operate a 10-inch pipe (originally designated for the transmission of condensate from the Tamar Platform to the shore) for the transfer of natural gas, to increase the gas supply capacity.

The gas supply capacity from the Tamar Project to the INGL transmission system is approximately 1.1 BCF per day at maximum production. Average natural gas production per day for the last two years (January 1, 2018 to December 31, 2019) totaled about 1,002 MMCF(1.002 BCF).

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

The total cost invested in the Tamar Project, as described above, as of December 31, 2019 is approximately USD 4.5 billion (100%) (including exploration costs, and excluding retirement and abandonment costs, exploration costs in the Dalit Lease, and a Tamar Participation Fee (as this term is defined in Section 7.4.5(c)(2)).

⁴⁶ The development plan for the Tamar Project submitted to the Petroleum Commissioner by the Operator, in the name of the Tamar and Dalit lease partners, included, inter alia, a consideration of the development of the Dalit Lease.

⁴⁷ On November 26, 2012 and on June 3, 2013 the Petroleum Commissioner granted approval to the Tamar Partners to erect and operate the Tamar Platform, respectively.

⁴⁸ The license was granted to Tamar 10-Inch Ltd., in which the Tamar Partners hold a percentage stake equal to their percentage stake in the Tamar Lease.

7.2.7 Examining expanding the Tamar project's production system

Overall supply capacity of the Tamar facilities is currently limited to the flow capacity of the Double Pipeline.

The Tamar Partners are examining continuing the development of the Tamar SW reservoir and/or drilling and completing additional production wells, which are to be hooked up to the existing subsea production system.

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

7.2.8 Tamar SW reservoir

As described below, the Tamar SW reservoir is divided between the Tamar Lease area (78%) and the Eran License area (22%) ("Eran License").

According to the development plan for the Tamar SW reservoir, which was approved by the Petroleum Commissioner in January 2019, taking into consideration the provisions of the Gas Framework set out in Section 7.16.1(c)(3) below, the Tamar SW reservoir is to be developed by connecting it to the subsea facilities of the Tamar Project. The development cost of the Tamar SW reservoir, which was partially approved by the Tamar Partners, is expected to amount to USD 340 million (of which USD 144 million has been invested as of December 31, 2019). Accordingly, equipment was procured in connection with the reservoir's development. The Company estimates that during 2020 a subsea pipeline will be laid for connecting the Tamar SW reservoir, with work on completion and hook-up of the Tamar SW well to the production system expected to start in 2021.

It should be noted that the Tamar SW reservoir partly overflows into the area of the 353/Eran License, which expired on June 14, 2013. In the framework of a mediation process between the Eran Partners and the Petroleum Commissioner in connection with the expiry of the license, the Eran License Partners asked the Tamar Partners for their consent to divide the Tamar SW reservoir according to a ratio of 78% for the Tamar Lease and 22% for the Eran License. In March 2019, the Tamar Partners gave their consent to said division, based on assessments of the Operator, Netherland, Sewell & Associates, Inc. ("NSAI") and the Energy Ministry's reserves appraiser. In April 2019, the force and effect of a judgment

was given to said mediation settlement, whereby the Tamar SW reservoir is to be divided between the Tamar Lease area (78%) and the Eran License area (22%) (after receiving the consent of the Tamar Partners), and the rights in the Eran License area are to be divided according to a ratio of 76% to the State and 24% to the holders of rights in the Eran License. As of the report approval date, the parties have been working to formulate the agreements required to implement the mediation settlement. For details regarding a legal proceeding in connection with the development of the Tamar SW reservoir, see Section 7.21.4 below.

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

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

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

As of May 2019, following the discontinuation of natural gas production from the Mari B reservoir, the Tamar Partners have been supplying natural gas to the customers of the Yam Tethys Project, in accordance with the principles of the commercial arrangement for operation and production between projects that existed between May 2013 and September 2017. For details regarding the essential points of said principles, see Section 7.2.9 of the Company's Periodic Report for 2018, published on March 22, 2019 (Ref. No.: 2019-01-023940), the information of which is included herein by reference.

7.2.10 Actual rate of participation in expenses and revenues of the Tamar Lease and the Dalit Lease

<u>Participation Rate</u>	<u>Percentage Before Return on Investment</u>	<u>Percentage After Return on Investment</u> ⁴⁹	<u>Rate Grossed-Up to 100% Before Return on Investment</u>	<u>Rate Grossed-Up to 100% After Return on Investment</u>	<u>Explanations</u>
Actual rate in the petroleum asset attributable to the holders of equity interests of the Company	16.75%	16.75%	100%	100%	See the description of the chain of holdings in Section 7.2 above.
Actual rate in revenues from the petroleum asset attributable to the holders of equity interests of the Company	14.21%	13.74%	84.84%	82.02%	See the calculation in Section 7.2.11 below.
Actual rate in expenses involved in exploration, development or production activities in the petroleum asset attributable to the holders of equity interests of the Company	16.92%	16.92%	101%	101%	See the calculation in Section 7.2.12 below.

⁴⁹ As of the date of the report, the Company pays royalties to the Continuing Education Fund for School and Preschool Teachers and to the Continuing Education Fund for High School Teachers, Seminary Teachers and Inspectors (hereinafter: the "**School and Preschool Teacher Fund**") (25%) and to Delek Royalties (2012) Ltd. ("**Delek Royalties**") (75%) according to the increased rate after the return on investment date (6.5%) (instead of 1.5%), on its revenues deriving from the Rights Acquired from Delek Drilling. For details on the issue of the determination of the return on investment date, see Section 7.19 below.

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

<u>Item</u>	<u>Before Return on Investment</u>	<u>After Return on Investment⁵⁰</u>	<u>Concise Explanation of How Royalties or Payments Are Calculated</u>
Projected annual revenues of petroleum asset	100%	100%	
<u>Specification of the royalties or payment (deriving from revenues post-finding) at the petroleum asset level:</u>			
The State	(12.50%)	(12.50%)	As prescribed by the Petroleum Law, royalties are calculated according to market value at the wellhead. The actual royalty rate may be lower, as a result of the deduction of expenses in respect of systems for gas treatment and transmission from the wellhead up to the onshore gas delivery point. For details on calculating the value of royalties at the wellhead, and also on guidelines that have been published for public comment, regarding the calculation method, see Section 7.16.8 below.
Adjusted revenues at the petroleum asset level	87.50%	87.50%	
Share in revenues deriving from the petroleum asset attributable to the holders of equity interests of the Company	16.75%	16.75%	
Total share of the holders of equity interests of the Company in the actual amount of revenues, at the petroleum asset level (and before other payments at the Company level)	14.66%	14.66%	
<u>Specification of royalties or payments (deriving from revenues post-finding) in connection with the petroleum asset at the Company level (the following percentages will be calculated according to the rate of the holders of equity interests of the Company in the petroleum asset):</u>			
Rate of the holders of equity interests of the Company in the payment of royalties to related and third parties	0.45%	0.92%	The rate is calculated based on the principles underlying the calculation of the State's royalties; therefore, said rate may change to the extent that the method of calculating the State's royalties changes. For further details, see Section 7.18 below. For further details regarding the royalty rate for related and third parties, see Section 7.19 below.
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Actual rate in revenues from the petroleum asset attributable to the holders of equity interests of the Company	14.21%	13.74%	

⁵⁰ See footnote 55 below.

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

<u>Item</u>	<u>Percentage</u>	<u>Concise Explanation of How Royalties or Payments Are Calculated</u>
Theoretical expenses of the petroleum asset (without the royalties described above)	100%	
<u>Specification of the payments (derived from the expenses) at the petroleum asset level:</u>		
The Operator	1%	The Operator is entitled to reimbursement of its indirect expenses at a rate of 1% of all the direct expenses, subject to certain exclusions.
Total actual expense rate at the petroleum asset level	101%	
Rate of the holders of equity interests of the Company in the expenses of the petroleum asset	16.75%	
Total actual rate of the holders of equity interests of the Company in the expenses, at the petroleum asset level (and before other payments at the Company level)	16.92%	
<u>Specification of payments (derived from the expenses) in connection with the petroleum asset and at the Company level (the following percentage will be calculated according to the rate of the holders of equity interests of the Company in the petroleum asset):</u>		
Actual rate in the expenses entailed in exploration, development or production activities in the petroleum asset, attributable to the holders of equity interests of the Company	16.92%	

7.2.13 Royalties and payments paid during exploration, development and production operations in the petroleum asset⁵¹ (USD in thousands)

Tamar Lease		
Item	Total rate of holders of equity rights of the Company in investments in this period in the petroleum asset (including costs for which no payments are made to the Operator)	Of which, rate of holders of equity rights of the Company in payments to the Operator (beyond reimbursement of Operator's direct expenses)
Actual budget invested in 2017	21,114	218
Actual budget invested in 2018	29,303	290
Actual budget invested in 2019	39,028	383

Dalit Lease		
Item	Total rate of holders of equity rights of the Company in investments in this period in the petroleum asset (including costs for which no payments are made to the Operator)	Of which, rate of holders of equity rights of the Company in payments to the Operator (beyond reimbursement of Operator's direct expenses)
Actual budget invested in 2017	-	-
Actual budget invested in 2018	-	-
Actual budget invested in 2019	-	-

7.2.14 Joint operating agreement in respect of the Tamar and Dalit Leases

(a) **General**

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

⁵¹ The costs in 2017 are according to a 9.25% interest in the asset, and in 2018-2019 according to a 16.75% interest in the asset (for details see Section 1.5 above).

- (2) The purpose of the Agreement is to determine the parties' mutual rights and obligations in connection with operations in the areas of the Tamar Project leases (in this section, the "**Petroleum Assets**").
- (b) Manner of accounting
 - (1) Unless otherwise provided by the JOA, all the rights and interests in the Petroleum Assets, in the joint property and in all the hydrocarbons to be produced therefrom, will be subject to the terms and conditions of and the rules applicable to the Petroleum Assets, and in accordance with the parties' participation rates in the Petroleum Assets. Likewise, unless otherwise provided by the JOA, the parties' obligations under the JOA and the terms and conditions of the Petroleum Assets and any and all liabilities and expenses expended or undertaken by the Operator in connection with the joint operations,⁵² and any and all the credits to the joint account,⁵³ will be borne by the parties, among themselves, in accordance with their participation rates in the Petroleum Assets, and each party will timely pay, in accordance with the provisions of the Accounting Procedure in the JOA (the "**Accounting Rules**") its share, according to its participation rate, of all expenses of the joint account, including advance payments and interest owed under the JOA. Payment dates are of essence of the Agreement. Payment of any charge by a party under the JOA does not negate its right to dispute such charge thereafter.
 - (2) According to the Accounting Rules, Noble is entitled to reimbursement of all direct expenses it expends in connection with the fulfillment of its function as operator. The amendment of June 30, 2016 to the JOA, prescribes the accounting method also in respect of Noble's indirect expenses, and determines that Noble will be entitled to payment at the rate of 1% of the total direct expenses, except with respect to marketing activities and fees.

⁵² According to the definitions of the JOA – the "joint operations" are the activities carried out by the Operator under the provisions of the JOA and the costs chargeable to each of the parties to the JOA.

⁵³ According to the definitions of the JOA – the "joint account" are accounts held by the Operator in favor of the joint project in accordance with rules set forth in the JOA and in the Accounting Rules.

(c) Identity, rights and obligations of the Operator

- (1) Noble serves as the operator of the Tamar Project Leases (in this section: the "**Operator**").
- (2) Subject to the terms and conditions of the JOA, the Operator has been vested with all the powers and duties related to the management of the joint venture's matters, under the supervision and instructions of the joint operating committee.
- (3) The Operator's function may not be assigned without the prior written agreement of the parties to the JOA (other than the Operator) as well as any consent required on the part of the Petroleum Commissioner, except for assignment to a related party of the Operator as defined in the JOA.
- (4) The Operator is exclusively responsible for the management of the joint operations. The Operator may employ subcontractors and/or agents (which may be affiliates of the Operator) to execute such joint operations. The Operator will be responsible, inter alia, for preparing the work plans, budgets and payment authorizations, for executing the work plan by authorization of the joint operating committee, for planning and obtaining all the approvals and materials required for execution of same, and providing advisory services and technical services as required for efficient execution of the joint operation.
- (5) In the management of the joint operations the Operator will be required, inter alia, to carry out the joint operations in accordance with the terms and conditions of and the rules applicable to the Petroleum Assets, the JOA and the provisions of the operating committee. The Operator will fulfill its duties with proper diligence and in accordance with standard procedures in the petroleum industry.
- (6) The JOA lays down various provisions regarding the manner of the Operator's entry into contracts with third parties (according to approved budgets) based on the amount of the proposed contract. Under said provisions, depending on the amount of the proposed contract, the Operator must consult with the other parties regarding the criteria by which the candidates for the tender will be chosen,

report to the parties about the bids received and obtain the operating committee's approval for selection of the candidate in the tender.

- (7) The Operator must acquire and maintain the insurance policies specified in the JOA in accordance with the provisions included therein. It is further required, that each of the parties to the JOA must arrange for itself, at its own expense, additional insurance to cover the risks related to the joint operations.
- (8) The Operator is further required, after receipt of reasonable prior notice, to permit the representatives of any party, at any reasonable time and at their own expense and responsibility, access to the joint operations, including the right to observe joint operations, examine any joint property and conduct a financial audit in accordance with the Accounting Rules prescribed by the JOA.
- (9) Subject to the terms and conditions of the Petroleum Assets and the approved budget, the Operator will determine the number of employees and the number of contractors, choose them and determine their work hours and the consideration to be paid to them in connection with the joint operations.
- (10) The Operator will immediately notify the parties of any material and other claims filed as a result of the joint operations and/or related to the joint operations, as instructed by the operating committee. The Operator will represent the parties and defend against such claims. The Operator may, in its sole discretion, settle any claim or series of claims for an amount no greater than USD 75,000 (including legal expenses), and will seek authorization from the operating committee for any amount(s) exceeding such amount. No party will settle in respect of its relative share in any claim without first proving to the operating committee that it is able do so without compromising the interests of the joint operations.
- (11) Any non-operator party will immediately notify the other parties of any claim made against it by a third party, arising from the joint operations or liable to affect the joint operations, and the non-operator party will defend itself against or settle such claim in accordance with instructions to be given by the operating committee. The costs and damages incurred in connection with the defense or

settlement, which may be attributed to the joint operations, will be debited to the joint account.

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

(d) Operating Committee

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

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

(e) Work plans and budgets

- (1) The JOA sets procedures and processes for the submission and approval of work plans, budgets and authorizations for expenditure (AFE) for the performance of activities in the areas to which the JOA applies. It should be noted that the Operator may deviate from the AFE approved for the work plan by a rate no higher than 10% of the approved sum or by USD 1 million, whichever the lower.
- (2) Exploration plan and budget – The work plan and the budget will be approved by the operating committee. Authorizations for expenditure (AFE) in the framework of the work plan and the budget will be approved in accordance with the provisions prescribed in the JOA, unless at least 20% of the parties to the Joint Operating Agreement deliver a notice to the Operator of their objection to the approval of the AFE. Prior to an expenditure or an undertaking totaling more than USD 250,000 for any item in the approved work plan and budget, the Operator will send all the other parties a request for an AFE. In the event that the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000.
- (3) Development plan and budget – If the Committee decides after full deliberation that there is economic viability in any development proposal submitted thereto, the Operator will submit to the parties, as soon as possible after such decision is reached, a development plan and budget for the discovery, which will include, inter alia, the works required in connection with the development, any information that must be submitted according to the Agreement, the manner of management required for the development including details regarding the number of workers and the manpower needed, an estimate of the production commencement date and the annual production volume, and any other information required by the Committee. Before an expenditure or undertaking is made, in any amount, in respect of the preparation of a development plan and

budget or in respect of any item in the approved development plan and budget, the Operator will send all the other parties a request for an AFE. In the event that the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000.

- (4) Production plan and budget – Every year, the Operator will submit the proposed production plan for the following year to the parties. The proposed production plan must include, inter alia, the projects and the work to be performed, any information that must be submitted in accordance with the JOA, details regarding the number of workers and the required manpower, and an estimate of total production by quarters and the maximum daily production rate in each quarter, as well as any other information required by the Committee. Prior to an expenditure or an undertaking greater than USD 250,000 for any item in the approved work plan and budget, the Operator will send all the other parties a request for an AFE.
- (5) The development or production plan, as well as the proposed budgets, will be subject to reconsideration, revision, amendment and approval by the Committee, to be carried out as soon as possible and in accordance with the dates specified in the JOA.
- (6) If the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000 in respect of the exploration, development and discovery stage, and that the overrun does not exceed USD 1 million in respect of the production stage.

(f) Sole risk operations

- (1) Operations in which not all the parties take part (defined in the Agreement as "Exclusive Operations" and known in the oil exploration industry as "Sole Risk Operations") will not be carried out if they conflict with joint operations in which all of the partners participate. The Agreement provides framework rules for the performance of such operations.

- (2) The Agreement contains various provisions concerning Sole Risk Operations, such as drilling, testing and development, not unanimously agreed upon by the partners in the Leases, which, under certain conditions set out in the Agreement, may be carried out by some of the partners. Parties that do not join the Sole Risk Operations are given the option, subject to conditions and payments specified in the Agreement, to recover their share in such operations and anything deriving therefrom. Likewise, parties who did not join the Sole Risk Operations, but decided to join after the joining date, will bear the fines and interest rates prescribed in the JOA.
- (g) Resignation and removal of the Operator
- (1) The Operator may resign by a 180-day written notice or by shorter notice with the consent of the Operating Committee. In addition, subject to the provisions of the Agreement, the Committee may dismiss the Operator in the following cases: (1) If the Operator ceases to hold a working interest of at least 10% in the Tamar and Dalit Leases; (2) If a motion is filed for a court order or a valid decision for the reorganization of the Operator under bankruptcy laws; (3) If the Operator is being liquidated or otherwise terminates its existence; (4) If the Operator becomes insolvent, enters an arrangement in favor of its creditors or if a receiver is appointed for a significant part of its assets.
- (2) In addition, the Operator will be removed from its position upon receipt of a notice from the Petroleum Commissioner with regard to cancellation of the approval granted to the Operator, to the extent that such approval is required.
- (3) Furthermore, the Operating Committee may remove the Operator from its position by 90 days' prior written notice thereto, if the Operator, in the reasonable opinion of the other (non-operator) parties to the JOA, has fundamentally breached the Agreement and does not remedy the breach within 28 days of the date of receiving a notice specifying such breach. Any decision by the other (non-operator) parties to the JOA to give notice of the breach to the Operator will require a vote in favor of the proposal by non-operator parties which are not related to the Operator, jointly holding at least 68% of the total working interests.

- (4) In the event of the Operator's resignation or dismissal, the Committee will elect, as soon as possible, but in no case later than 30 days from the date of the notice regarding the Operator's resignation or dismissal, as aforesaid, one of the (non-operator) parties to the JOA who will agree to assume the position of Operator, subject to any approval required from the Petroleum Commissioner. In the event of the Operator's dismissal, if the outgoing Operator decides not to vote for one of the (non-operator) parties to the JOA as the new Operator, but to vote for itself or for a related part of the outgoing Operator, such vote will not be taken into account. If the parties do not elect a new Operator, the (non-operator) party to the JOA holding the largest percentage of all the working rights will be appointed as the Operator, provided it agrees to assume the position and subject to any approval required from the Petroleum Commissioner. If two parties hold the largest percentage of all the working rights, the decision between the two will be made by a vote of the Committee.
- (h) Sanctions applicable to the partners and the conditions for imposition thereof
- (1) A party that fails to timely pay its proportionate share in the joint expenses, including advance payments and interest, will be deemed a breaching party ("**Breaching Party**"). The sum in arrears will bear compound interest on a daily basis. Any non-breaching party ("**Non-Breaching Party**") is required to bear its *pro rata* share (according to its share relative to the share of all the other Non-Breaching Parties) of the sum in breach (excluding interest), and must pay such sum to the Operator on the first day after 6 days of the Breaching Party being in breach, and failing to do so, will render it a Breaching Party itself.
- (2) For as long as the breach continues, the Breaching Party will not be entitled to participate in the meetings of the operating committee or vote at such meetings, nor will it be entitled to receive data and information pertaining to the joint operations. If the breach continues for more than 6 business days, within the definition of such term in the JOA, as of the day on which the Breaching Party was given a notice of breach, and for as long as the breach continues,

the Breaching Party will not be entitled to receive the share of the output to which it is entitled, and such share will become the property of the Non-Breaching Parties and they may, while initiating the proceedings specified in the Agreement, collect therefrom what is due to them, until full payment of the sum in breach.

(3) If the Breaching Party does not remedy the breach within 90 days of the date of the notice of breach, then, without derogating from any other right the Non-Breaching Parties may have under the JOA, each Non-Breaching Party will have the option (exercisable at any time until the breach is remedied in full) to demand the full exit of the Breaching Party from the JOA and the Petroleum Asset. If such option is exercised, the Breaching Party will be deemed to have transferred all of its rights under the JOA and in the Petroleum Asset to the Non-Breaching Parties, and it will be obligated, upon first demand, to sign any document and do everything required by law to validate such transfer of rights and remove any lien or pledge imposed on such rights. The rights and remedies of the Non-Breaching Parties resulting from such breach are in addition to all other rights and remedies available to the Non-Breaching Parties.

(i) Manner of dilution of partners' holdings – transfer of rights

- (1) A party may transfer its rights to a third party, subject to approval by the other parties to the JOA, which approval shall not be unreasonably withheld.
- (2) A transfer of the working interests of a party in a Petroleum Asset, in whole or in part, will be valid only if it meets all the conditions of the JOA, including, *inter alia*, the following conditions:
 - a. Notwithstanding the transfer, the transferor will remain liable to the other parties to the JOA for all liabilities, financial and other, vested, matured or accrued under the terms and conditions of the Petroleum Asset or the JOA prior to the date of transfer, including, but not limited to, any and all expenses approved by the operating committee prior to the transferor giving notice of the transfer of rights to the other parties to the Agreement.

- b. The transferee will have no rights under the terms and conditions of the Petroleum Asset, in the area of the Petroleum Asset or under the JOA, until after the required government approval is received, and the transferee expressly undertakes, in a written document to the satisfaction of the other parties, to perform the transferor's undertakings under the terms and conditions of the Petroleum Asset and the JOA with regard to the working interest being transferred thereto, and the transferor provides the guarantees required by the Government or under the Petroleum Asset terms.
 - c. The aforesaid shall not prevent a party to the JOA from pledging or otherwise encumbering, all or any of its interest in the area of the Petroleum Asset and under the JOA as collateral for financing, subject to such party remaining liable for all undertakings related to such interest; the encumbrance will be subject to any government approval required and will be explicitly subordinated to the rights of the other parties under the JOA.
- (j) Withdrawal from the JOA
- (1) The JOA includes provisions that regulate the possibility for a full or partial withdrawal of a party from any Petroleum Asset in which it holds an interest (and from the applicable JOA) and that specify the cases in which withdrawal is possible, and the rights and obligations of the withdrawing party vis-à-vis the other partners in the license.
 - (2) A party seeking to withdraw from the JOA or from the Petroleum Assets is required to notify the other parties of its decision. Such notice ("**Withdrawal Notice**") will be unconditional and irrevocable immediately upon delivery thereof, subject to the conditions stipulated in the JOA. The other parties to the JOA will also be entitled to give a Withdrawal Notice, within 30 days of the day of delivery of the Withdrawal Notice. In the event that all parties deliver a Withdrawal Notice, they will act to terminate the JOA and their other obligations in relation to the Project and the Petroleum Assets. In the event that not all parties decide to withdraw as described above, the withdrawing party will act to transfer its rights,

as quickly as possible, to the partners that chose not to withdraw (the "**Remaining Partners**"). Such transfer of rights will be for no consideration, with the withdrawing party bearing all the expenses arising from the fact of its withdrawal as described above, unless otherwise decided. The transfer of rights to the Remaining Partners will be divided according to their holding rates.

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

- (l) The governing law and settlement of disputes

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

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

- (a) Reserves in the Tamar Lease

For details regarding the reserves in the Tamar Lease (including the Tamar and Tamar SW⁵⁴ reservoirs), and the discounted cash flow deriving from the Tamar Lease, and regarding a report received from NSAI concerning such reserves and cash flow, as of December 31, 2019, see the Immediate Report on Reserves and Cash Flow. Attached as Appendix A to this report is the consent of NSAI to the inclusion of said report herein, including by reference.

As regards the Immediate Report on Reserves and Cash Flow, it should be clarified that in calculating the price forecast in said report, use was made of assumption based on data received from the BDO Consulting Group Ltd. ("BDO") in connection with its projections for changes in the U.S. price index, the electricity production tariff and the shekel to dollar exchange rate. As regards the Brent oil barrel price forecast, use was made

⁵⁴ The reserves in the Tamar SW reservoir do not include the part that overflows into the area of the Eran License.

of data received from BDO, which were based on the average of price forecasts from 4 entities: the World Bank, the U.S. Department of Energy, and 2 leading international consulting firms in the field of energy: Wood Mackenzie and HIS Global Insights (in this regard, see Section C, Footnote 7 of the Immediate Report on Reserves and Cash Flow).

It should be noted that recently there have been sharp declines in the financial markets and very sharp declines in oil and natural gas prices in the international markets (for details see Sections 6.9.1 and 6.9.4 above). It should be further noted that the financial markets and the prices of said commodities have in recent weeks been subject to very high volatility, owing to the great uncertainty prevailing as regards the scope of negative impact of the coronavirus pandemic on the global and domestic economy. Therefore, it is not yet possible to assess the extent of the impact of said events on the discounted cash flow. Nevertheless, in light of the sharp drop in Brent prices in the period following the publication date of the Immediate Report on Reserves and Cash Flow up to shortly before the report approval date, following is the discounted cash flow sensitivity analysis for the effect of Brent barrel price changes on two assumptions underlying the discounted cash flow as explained below:

(1) Brent barrel price: Instead of the Brent price forecast in the Immediate Report on Reserves and Cash Flow, a Brent price forecast was assumed based on the forward price curve as of March 19, 2020⁵⁵: average price (in USD) for a Brent barrel of 31.7⁵⁶, 38.4, 42.2, 45.1, 47.2, 48.9, 50, 50.7 and 51.1 in the years 2020 to 2028, respectively. Starting from 2028, a 2% annual increase in the Brent barrel price was assumed throughout the forecast period.

The effect of this Brent barrel price change was expressed by the change in selling prices of condensate throughout the forecast period and by the change in natural gas prices in the existing agreements of the Tamar reservoir where the linkage mechanism or part thereof is for the Brent price, subject to the price floors existing in each of the agreements. It should be clarified that the Company has no certainty regarding the linkage mechanisms and/or price floors in future agreements, if any, and therefore

⁵⁵ Crude Oil, Brent (ICE). Data source: Bloomberg.

⁵⁶ According to the forward price for 2020 as of May 2020.

the price forecasts for these agreements have not changed in relation to the forecasts in the Immediate Report on Reserves and Cash Flow.

(2) Natural gas quantities: According to the Amended Export Agreement, as detailed in Section 7.4.5(b) below, during the period of the Amended Export Agreement, in the years where the average Brent price is lower than USD 50 per barrel, it was assumed that the sales quantities to Dolfinus would decrease to 50% of the contractual quantity. At the same time, it was assumed that there would be a certain decline in the quantities sold on the local market in some of the years, in line with the Company's assumptions regarding the possible effect of the decrease in the quantities of gas expected to be sold to Dolfinus pursuant to the existing agreements of the Tamar and Leviathan reservoirs, on the growth of natural gas supply and regarding the stiffening of competition in the domestic market in said years, which could hurt the Company's sales in the domestic market.

We would note that in the said analysis below, no adjustments were made for the investments and operating expenses forecasts according to the change in the sales quantities.

Following is the discounted cash flow sensitivity analysis (in USD thousands), which was performed by the Company:

Category	Present Value Discounted at 0%	Present Value Discounted at 5%	Present Value Discounted at 10%	Present Value Discounted at 15%	Present Value Discounted at 20%
Proved Reserves (1P)	2,364,912	1,458,874	1,003,936	750,384	596,164
Probable Reserves	1,092,565	372,527	145,598	67,770	38,835
Proved+Probable Reserves (2P)	3,457,477	1,831,401	1,149,534	818,154	634,999
Possible Reserves	1,002,949	235,705	61,798	18,526	6,732
Proved+Probable+Possible Reserves (3P)	4,460,426	2,067,106	1,211,332	836,680	641,731

(b) Production data

Below are data on production in the Tamar Project attributable to the Company in the years 2017-2019.⁵⁷

Natural Gas^{58, 59}				
		2017	2018	2019
Total output (attributable to the holders of the Company's equity rights) in the period (in MMCF)		31,732	55,881	61,759
Average price per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		5.41	5.49	5.59
Average royalties (any payment derived from the output of the producing asset including from the gross income from the oil asset) paid per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)	State	0.61	0.61	0.64
	Third parities	0.10	0.06	0.06
	Interested parties	0.15	0.21	0.22
Average production costs per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		0.37	0.39	0.46
Average net receipts per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		4.18	4.22	4.21
Oil and gas profits levy		-	-	-
Average net receipts per output unit after oil and gas profits levy (attributable to the holders of the Company's equity rights) (dollar to MCF)		4.18	4.22	4.21
Depletion rate in the reporting period from total gas quantities in the project (percentage) ⁶⁰		3.4	3.3	3.3

⁵⁷ It should be noted that as of the start of piping of natural gas from the Tamar Project (i.e. March 30, 2013) until December 31, 2019, natural gas was supplied to customers in a total quantity of 60.9 BCM.

⁵⁸ The rate attributable to the holders of the Company's equity rights in output, in paid royalties, in production costs and in net receipts was rounded to two digits after the decimal point.

⁵⁹ From January 1, 2017 until March 14, 2018, the data are calculated according to a holding rate of 9.25% (assuming the Company held those rights throughout said period), and starting from March 14, 2018, the data are calculated according to a holding rate of 16.75%.

⁶⁰ The depletion rate is the percentage of natural gas produced in the relevant reporting period, out of the remaining proved and projected reserves as of the beginning of that reporting period or as of the production commencement date, whichever is later. Said depletion rate is calculated at the end – not during – the year.

Condensate ^{61, 62}				
	2017	2018	2019	
Total output (attributable to the holders of the Company's equity rights) in the period (in thousands of barrels)	42.1	73.2	80.8	
Average price per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)	47.5	63.4	56.4	
Average royalties (any payment derived from the output of the producing asset including from the gross income from the oil asset) paid per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)	State	5.3	7.1	6.5
	Third parities	0.8	0.7	0.6
	Interested parties	1.4	2.3	2.2
Average production costs per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)	2.0	2.1	2.5	
Average net receipts per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)	38	51.2	44.6	
Oil and gas profits levy	-	-	-	
Average net receipts per output unit after oil and gas profits levy (attributable to the holders of the Company's equity rights) (dollar to barrel)	38	51.2	44.6	
Depletion rate in the reporting period from total condensate quantities in the project (percentage) ⁶³	3.5	3.3	3.3	

The Company declares that all the above data were prepared in compliance with the SPE-PRMS rules.

(c) Contingent and prospective resources in the Dalit Lease

For details regarding contingent and prospective resources in the Dalit Lease as of June 30, 2017, see Section 6.7.2(n)(2) of the Company's Supplementary Prospectus and Shelf Prospectus of July 4, 2017 (Ref. No.: 2017-01-056551) (the "**Prospectus**"). For details regarding a report the Company received from NSAI concerning such resources as of December

⁶¹ The rate attributable to the holders of the Company's equity rights in output, in paid royalties, in production costs and in net receipts was rounded to two digits after the decimal point.

⁶² See footnote 59 above.

⁶³ The quantity of condensate produced from the Tamar Project is derived directly from the quantity of natural gas produced from the project.

31, 2017, see the Shelf Offering Report of March 12, 2018 (Ref. No.: 2018-01-019125) to which the NSAI reports are attached and the contents of which are included herein by reference. As of December 31, 2019, there has been no change in those details. Attached as Appendix A hereto is the NSAI's consent to the inclusion of said report in this report, including by reference.

7.3 Products

7.3.1 Natural gas

- a. The natural gas discovered in the Tamar reservoir is dry and without corrosive components, and mostly comprised of methane gas. As such, the treatment required to transfer it to customers is minimal.
- b. Natural gas is generally transportable in three main ways: (a) through pipelines; (b) through the liquefaction thereof (i.e., turning natural gas into liquid, LNG) by cooling the gas to a temperature of minus 161°C, which decreases its volume by a factor of 600 and enables its transportation and storage in large quantities; and (c) through the compression thereof (CNG), which decreases its volume by a factor of 100-300, depending on the compression pressure. Both liquefied gas and compressed gas may be transported in large amounts and over large distances using dedicated tankers.

For details regarding the domestic gas market, including developments and changes therein, see Section 6 above, and for details regarding natural gas export and sale on the international market, see Section 7.5.2 below.

7.3.2 Condensate

In the course of production of natural gas, condensate is also produced, which is a natural product of the condensation process of various components of natural gas and is caused as a result of temperature and pressure differences between the reservoir and the surface. Condensate requires minimal treatment, which is mainly stabilization, for transfer to customers of the Company and mainly serves as feedstock in the production of oil distillates. It should be noted that the quantity of condensate produced is small and derives directly from the quantity of natural gas produced, amounting to several individual barrels per million cubic feet of natural gas (MMCF). For details regarding the entry of the Company together with its partners into agreements for the supply of condensate from the Tamar Project, see Section 7.4.6 below.

7.4 Customers

- 7.4.1 Domestic market: As of the report approval date, the Company together with the Tamar Partners supplies natural gas from the Tamar Project to a variety of customers including the IEC, private electricity producers, industrial customers and natural gas marketing companies, and condensate to Paz Ashdod Refinery as detailed in Sections 7.4.4 and 7.4.6 below.
- 7.4.2 Export: As of the report approval date, the Company together with the Tamar Partners exports natural gas to Jordan under the agreements specified in Section 7.4.5(a) below. The Tamar Partners have also signed a firm agreement for the export of natural gas to Egypt, as detailed in Section 7.4.5(b) below.
- 7.4.3 The IEC is the Company's largest customer, and therefore cancellation or non-performance of the agreement it signed with the Tamar Partners would materially affect its operations and future revenues. The Company's revenues from the IEC accounted for 53%, 50% and 46% of its total revenues in 2017, in 2018 and in 2019, respectively. The rest of the revenues in 2019 came from private electricity producers, industrial customers and natural gas marketing companies. However, the more the customer base of the Tamar Partners expands in the domestic and international markets, so will the dependency on the IEC decrease. For details regarding an amendment to the agreement between the Tamar Partners and the IEC, including the proposal submitted by the Tamar Partners to the IEC in connection with the supply of natural gas, and the legal proceeding in respect thereof, see Sections 7.4.4(d)(18) and 7.4.4(d)(19) below. For details regarding the competitive process for the supply of natural gas to the IEC and the related legal proceeding, see Sections 7.4.4(d)(20) and 7.21.5 below, respectively.
- 7.4.4 Engagements for the supply of natural gas
- (a) The following table presents a summary of the agreements for the sale of natural gas by the Tamar Partners, as of the report approval date (the data refer to 100% of the rights in the Tamar Project). It should be noted that aside from the IEC and Dalia Power Energies Ltd. ("Dalia Energies"), the Tamar Partners have no other customer the revenues from which accounted in the years 2017-2019 for more than 10% of the Company's revenues. The rest of the customers with whom the Tamar Partners have entered into gas supply agreements are grouped in the table below according to the price linkage basis determined in said agreements. For further details regarding these agreements, see Subsections (2) and (3) below. For details regarding

the entry of the Company together with its partners into an agreement for the supply of condensate from the Tamar Project with Paz Ashdod Refinery, see Section 7.4.6 below.

	Supply Commencement Year	Basic Gas Supply Period⁶⁴	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM)⁶⁵	Total Amount Supplied by December 31, 2019 (100%) (BCM)	Primary Gas Price Linkage Basis
IEC ⁶⁶	2013	15 years	Option for extension by two additional years.	Approx. 87	Approx. 30	The U.S. CPI.
Dalia Power Energies ⁶⁷	2015	17 years	Option for extension by two additional years.	Approx. 23.3	Approx. 5.2	The linkage formula is mostly based on linkage to the Electricity Production Tariff and includes a "floor price."
Other private electricity producers	2013-2020	15-18 years except for an eight-year agreement and two agreements for short-term periods	Some of the agreements include an option for extension by one to three additional years. ⁶⁸	Approx. 44.6	Approx. 16.1	The linkage formula in most of the agreements is based on linkage to the Electricity Production Tariff and in small part on linkage to the U.S. CPI. In several agreements, the linkage formula is mostly based on linkage to the Electricity Production Tariff and in small part on linkage to the Brent prices.

⁶⁴ In most of the agreements, the gas supply period, which starts from the transmission date as per the relevant agreement, will be according to the table presented above or until the purchaser consumes the maximum contractual quantity set forth in the agreement, whichever is earlier.

⁶⁵ This is the maximum quantity for gas supply specified in the agreements for the entire term of the agreements. The minimum quantity the customers have undertaken to purchase is lower than this quantity (for details see Section 7.4.4(c) below). Said quantity includes quantities that may be reduced according to the reduction option discussed in Section 7.4.4(c)(2) below. It is clarified that the maximum quantity does not include quantities of gas that are sold in the framework of agreements with two customers in which no maximum supply quantity was set.

⁶⁶ In the Company's estimation, as of December 31, 2019, the balance of the financial amount of the agreement with the IEC stands at USD 4,516 million (100%), assuming that IEC consumption in 2020 and 2021 will be according to the Proposed Amendment to the IEC Agreement further to talks conducted between the IEC and the Tamar Partners who do not have holdings in the Leviathan Project, as detailed in Section 7.4.4(d)(1) below, and starting from 2022 based on the minimum quantities of gas for which there is a Take or Pay commitment, and based on the Company's assessments regarding the price of gas during the period of supply.

⁶⁷ In the Company's estimation, as of December 31, 2019, the balance of the financial amount of the agreement with Dalia Energies stands at up to USD 1,242 million (100%), based on the minimum quantities of gas for which there is a Take or Pay commitment, assuming exercise of the quantity reduction option to the maximum extent and based on the Company's assessment regarding the price of gas during the period of supply.

⁶⁸ Excluding the extension period set in an agreement with a customer in which it is permitted to extend the period under terms that allow the customer to adjust the period of the agreement to the date of piping of gas from the Karish and Tanin reservoirs.

	Supply Commencement Year	Basic Gas Supply Period⁶⁴	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM)⁶⁵	Total Amount Supplied by December 31, 2019 (100%) (BCM)	Primary Gas Price Linkage Basis
						In all the agreements the gas price is determined according to a formula that includes a base price and linkage, and it includes a "floor price."
Industrial customers and natural gas marketing companies	2013-2020	3-7 years	One of the agreements includes an option for extension by two additional years. Some of the agreements include an extension option for an additional year. ⁶⁹	Approx. 7.6	Approx. 6.1	The linkage formula in most of the agreements is based on linkage to the Brent prices and includes a "floor price" (in one agreement, in addition to the aforesaid, the linkage formula is also based in small part on the Electricity Production Tariff). In one of the agreements, the linkage formula is based on the prices of liquid fuels, and includes a "floor price," while in another agreement the price formula is based on the base price determined in the Gas Framework.
Export agreements						
NBL export agreements (described in Section 7.4.5(a) below)	2017 and 2018	13-15 years	Option for extension by two additional years.	Approx. 3.1	Approx. 0.4	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."
Dolphinus export agreement (described in	For details see Section 7.4.5(b) below	15 years	Option for extension by two additional years (in	Approx. 25.3	-	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."

⁶⁹ Excluding the extension period set in an agreement with a customer in which it is permitted to extend the period under terms that allow the customer to adjust the period of the agreement to the date of piping of gas from the Karish and Tanin reservoirs.

	Supply Commencement Year	Basic Gas Supply Period⁶⁴	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM)⁶⁵	Total Amount Supplied by December 31, 2019 (100%) (BCM)	Primary Gas Price Linkage Basis
Section 7.4.5(b) below			the event that Dolphinus does not purchase the total contractual quantity by December 31, 2034.			
Total				Approx. 190.9	Approx. 58⁷⁰	

⁷⁰ Said quantity does not include the gas quantities sold to customers of the Yam Tethys Project, as specified in Section 7.2.9 above.

- (b) The following table presents a breakdown of the Company's revenues for the years 2017-2019 according to the price linkage basis specified therein⁷¹:

Customer Type	2016		2017		2018	
	Total Revenues (USD millions)	Percentage of Revenues (USD millions)	Total Revenues (USD millions)	Percentage of Revenues (USD millions)	Total Revenues (USD millions)	Percentage of Revenues (USD millions)
IEC (CPI)	91.7	54	154.3	50	159.3	46
Industrial customers and marketing companies	19.2	11	34	11	42	12
Private electricity producers						
Dalia Power Energies Ltd.	19.5	11	31.5	10	34.2	10
Others	41.9	24	91.5	29	114.4	32

⁷¹ It should be noted that the following data relate to a 9.25% interest, except for 2018, for which the data starting from March 14, 2018 relate to a 16.75% interest.

(c) Further details regarding the agreements for the sale of natural gas to the domestic market that have been signed by the Tamar Partners

- (1) Most of the natural gas sale agreements lay down, inter alia, the obligation, where the gas supply under the agreement is on a firm basis, for the purchasers to take or pay for a minimum annual quantity of natural gas on a scale and according to a mechanism prescribed in the supply agreement (the "**Minimum Quantity**"). If such purchasers do not purchase the Minimum Quantity in a certain year, they will be obligated to pay the sellers for the difference between the Minimum Quantity that was defined and the amount that was actually purchased by the purchasers. Most of the supply agreements further lay down a mechanism of accumulating a balance in respect of surplus quantities consumed by the purchasers in any year beyond the Minimum Quantity, and utilization thereof for reducing the purchasers' obligation to purchase the Minimum Quantity, for a few years thereafter ("**Carry Forward**"). In addition, in agreements that include a Minimum Quantity obligation, provisions and mechanisms have been established allowing said purchasers, after consuming the Minimum Quantity for billing for a certain year, to receive in the same year gas for no additional payment up to the remaining quantity of gas not consumed in previous years, in respect of which they paid the sellers pursuant to their obligation for the Minimum Quantity for billing as aforesaid.
- (2) Following the decisions of the Competition Commissioner noted in Section 7.16.4(c) below regarding the grant of an exemption from a restrictive arrangement in connection with agreements in which the basic supply period is longer than seven years, except for the agreement with the IEC ("**Long-Term Agreements**"), some of the agreements signed with customers give each of the purchasers an option to reduce the Minimum Quantity to approximately 50% of the average annual amount it consumed in the three years preceding the notice regarding exercise of the option, subject to adjustments as specified in the supply agreement (in this section, the "**Option**" or the "**Reduction Option**"). Upon reduction of the Minimum Quantity, the other amounts specified in the supply agreement will

be reduced accordingly. For further details regarding the Competition Commissioner's aforementioned decisions, see Section 7.16.4 below.

In this connection it is noted that during 2019 the Tamar Partners signed amendments to the agreements with several private electricity producers, including Dalia Energies (in this section: the "**Amendments**" and the "**Electricity Producers**," respectively), in which the Electricity Producers undertook to purchase from the Tamar Project, preferentially over other sources (other than exceptions specified in the agreements), the quantities of natural gas they will consume in their facilities during the period from the date when gas begins to flow from the Leviathan reservoir to the date when they will exercise the Option (in this section, the "**Period**"), if and to the extent they will exercise it, or the date of operation of the Karish reservoir. Furthermore, the parties agreed in the framework of said Amendments that for the purpose of calculating the average quantity consumed by the Electricity Producers under said agreements in the three years prior to the notice of exercise of the Option with respect to the Period, the calculation will be made, starting from the date of operation of the Leviathan reservoir, based on the Minimum Quantity for billing (according to the mechanism established in the Amendments), and not based on the quantity actually taken by the Electricity Producers. The Amendments also regulate the use of the balance of the Carry Forward, whether for operational needs or in the framework of the Reduction Option. All the Amendments to the agreements have come into force. Additionally, the Tamar Partners signed an agreement with an additional customer who has committed to purchase the gas that will be consumed in his facilities from the Tamar Project preferentially over other sources.

- (3) In the wake of the Gas Framework, natural gas supply agreements, signed as of August 16, 2015 for a longer than 8-year period, give the consumer a unilateral right to shorten the agreement period. This right will be granted also in agreements signed up to December 13,

2020 for a longer than 8-year period. For details see Section 7.16.1(b)(2) below.

- (4) The supply of all the quantities set out in the supply agreements signed before October 2012, utilizes at peak consumption hours the full capacity of the production, treatment and transmission system of the Tamar Project (jointly called in this section: the "**Production System**"). Therefore, the natural gas sale agreements signed as of October 2012, established an interim period starting in May 2015 and ending when the Production System capacity allows them to supply the quantities specified in the supply agreements (in this section: the "**Interim Period**"). According to said agreements, the gas supply in the Interim Period will be subject, inter alia, to the gas quantities that are available at such time, after the supply of gas to customers who signed supply agreements before October 2012, according to mechanisms prescribed in each respective supply agreement. In all these agreements, the obligation to purchase the aforesaid Minimum Quantity will not apply during the Interim Period.
- (5) In November 2016, the Tamar Partners notified most of the customers with which natural gas sale agreements were signed as of October 2012 (according to the order of precedence of the signing of the agreements), including private electricity producers, such as Dorad Energy Ltd. and OPC Rotem Ltd. ("**OPC**"), natural gas marketing companies and industrial customers, that on September 30, 2020, the Interim Period would end, and accordingly, the Tamar Partners would supply natural gas to these customers under the agreements on a firm basis starting from October 1, 2020. Additionally, on January 22, 2020, the Tamar Partners notified said customers that the end date of the Interim Period (i.e. September 30, 2020) had been advanced to March 1, 2020, and accordingly, starting from that date the Tamar Partners are supplying natural gas to those customers on a firm basis.
- (6) The supply agreements stipulate further provisions, inter alia, regarding the following issues: the right to terminate the agreement in the event of breach of a material undertaking; the right of the

Tamar Partners to supply gas to the aforesaid purchasers from other natural gas sources; compensation mechanisms in the event of a delay in the gas supply from the Tamar Project or in the event of failure to supply the amounts specified in the agreement; limitations on the liability of the parties to the agreement; provisions regarding the parties' right to assign their rights under the agreements; the parties' exemption from liability in the event of force majeure (as defined in the agreements); mechanisms for the settlement of disputes and disagreements between the parties, and with respect to the relations among the sellers themselves, in all matters related to the gas supply to such purchasers.

- (7) In March 2020 the Tamar Partners notified several other customers that the Interim Period prescribed in the agreements with them had ended on September 30, 2020, and accordingly, the Tamar Partners would supply to those customers natural gas under the firm agreements starting from October 1, 2020.
- (8) The agreements are subject to Israeli law and are construed in accordance therewith.

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

- (1) A gas supply agreement between the Tamar Partners and the IEC was signed on March 14, 2012 and was amended on July 22, 2012, May 7, 2015 and September 1, 2016 (in this section: the "**Agreement**"), inter alia, in connection with the exercise of the options for increasing the gas quantities that the IEC will consume.
- (2) The period of the Agreement will continue up to the supply of the total contract quantity specified in the Agreement or until July 1, 2028, whichever is earlier, unless the Agreement is terminated earlier by one of the parties, or extended, in accordance with the terms thereof.
- (3) In the agreement the IEC was afforded an option to increase the total contractual amount from 78 BCM to 87 BCM and to increase the maximum hourly quantity (in this section: the "**Option**"). The Option referred to two periods as follows: (a) until April 15, 2013, the IEC was afforded the option to give notice of the increase of the

gas quantities which it will consume from January 1, 2017 until December 31, 2018 (in this section: the "**First Option**"); (b) until April 15, 2015, the IEC was afforded the option to give notice of the increase of the gas quantities which it will consume from January 1, 2019 until the end of agreement period (in this section: the "**Second Option**"), according to the terms and conditions stipulated in the agreement.

- (4) On April 11, 2013, the IEC notified the Tamar Partners of its decision to exercise the First Option until the end of 2018 and on April 16, 2015, the IEC notified the Tamar Partners about its decision to partially exercise the Second Option.
- (5) The annual Minimum Quantity for billing from the commercial operation date until December 31, 2016 was 3.5 BCM. The Minimum Quantity for billing from January 1, 2017 until December 31, 2018 was 5 BCM per year (subject to adjustments according to the scope of gas sales by the Tamar Partners to private electricity producers and the scope of electricity production of the IEC, but no less than 3.6 BCM per year). From January 1, 2019 until the end of the term of the agreement, the Minimum Quantity for billing is 3 BCM per year. The agreement contains provisions regarding the calculation and adjustment of the Minimum Quantity for billing, including under circumstances of *force majeure*, of non-supply by the sellers or in accordance with the Carry Forward mechanism (as specified in Section 7.4.4(c)(1) above. The quantity accumulated to the credit of the IEC under the Carry Forward mechanism as of December 31, 2019 amounts to 3.1 BCM (for 100% of the reservoir), and the maximum usable quantity in a calendar year is 1.25 BCM).
- (6) The gas price is determined according to a formula which includes a base price and linkage which is based on the U.S. CPI, plus 1% a year until 2019 and less 1% a year from 2020 onwards. The gas price in respect of one unit of MMBTU in 2011 was calculated according to a base price of USD 5.042. As regards the additional natural gas quantities that will be consumed by the IEC in the framework of the options for increasing the quantities specified in the agreement, as

of 2014, the gas price (for gas quantities consumed above 24,000 MMBTU per hour) is linked only to 30% of the rate of change in the U.S. CPI, and the addition or reduction of 1% a year does not apply.

- (7) The agreement stipulated two dates on which each party may request the adjustment of the price (according to a mechanism stipulated in the agreement), if such party believes that the price stipulated in the agreement is not suitable anymore for a long-term contract with an anchor buyer for consumption of natural gas for use in the Israeli market: upon the lapse of 8 years and 11 years from the commercial operation date (as defined in the agreement starting on July 1, 2013) of the Tamar Project (i.e. July 1, 2021 (the "**First Adjustment Date**") and July 1, 2024 (the "**Second Adjustment Date**"). On the First Adjustment Date (July 1, 2021) the price will be adjusted within a range of up to 25% (addition or reduction), and on the Second Adjustment Date (July 1, 2024), the price will be adjusted within a range of up to 10% (addition or reduction) of the price on that date.⁷² If the Tamar Partners and the IEC do not reach agreement on the price adjustment rate, each party may refer the matter to arbitration.
- (8) If one of the parties to the agreement does not pay on time a payment that is required of it under the agreement, the amount in arrears will accumulate interest at an annual rate equal to LIBOR plus 5%, starting from the payment date according to the agreement until the actual date of payment. If the delay in payment lasts seven days or more, the party entitled to the payment may, by 14 days' prior written notice, suspend the delivery or receipt of gas, as the case may be. If the delay in payment lasts 120 days after the relevant payment date, the party entitled to the payment may terminate the agreement by 14 days' prior written notice. Exercise of the right to terminate the agreement shall not constitute waiver of other remedies available to that party.

⁷² In this regard, see the Company's assumptions in respect of the data for the discounted cash flow in the Tamar Lease, which is included in the Immediate Report regarding the reserves and cash flow.

- (9) The IEC or the Tamar Partners will be entitled to terminate the agreement, if the other party has committed an act of insolvency (as defined in the agreement) which is likely to have a material adverse effect on the performance of the said party's undertakings under the agreement, by giving advance written notice of at least 120 days. If owing to force majeure the Tamar Partners or the IEC are unable to perform a material obligation required under the agreement, and their inability to perform such obligation lasts for a period of three consecutive years, the other party will be entitled to terminate the agreement by at least 90 days' prior written notice. The IEC and the Tamar Partners have agreed not to exercise any right which they might have to terminate the agreement according to any law, except with respect to significant or ongoing violations of material provisions of the agreement and only after provision of a 120-day period to the breaching party (unless a shorter period has been stipulated in the agreement) for remedying the breach.
- (10) According to the agreement, if the Tamar Partners fail to supply the gas amounts ordered by the IEC according to the agreement's provisions and the non-supply is in an amount exceeding the deviation rates permitted under the agreement, then the Tamar Partners will compensate the IEC by making up the gas supply shortfall in the subsequent month at a reduced price. Likewise, the agreement establishes special violations in respect of which compensation is to be paid at higher rates. The agreement also sets limits of liability for each of the parties in respect of the breach of certain provisions in the agreement, at the rates specified in the agreement, both on an annual basis and throughout the period of the agreement. The IEC is not liable towards the Tamar Partners and the Tamar Partners are not liable towards the IEC for indirect, consequential or punitive damages or losses. The Tamar Partners will be liable, severally, but not jointly, for such breaches of the agreement.
- (11) The Tamar Partners are acting jointly on issues such as development of the reservoir, the Tamar Partners' facilities, and gas production, transmission and supply according to each of the agreements.

However, it has been determined that no provision in the agreement will be construed as creating mutual liability among the Tamar Partners, and each of the Tamar Partners will be liable towards the IEC for any liability arising from the agreement only in proportion with its share in the petroleum rights. Although the IEC may order gas quantities through one notice to be furnished to the coordinator on behalf of the Tamar Partners, the amount deemed ordered from each of the Tamar Partners will be the pro rata share of each of them out of the overall ordered quantity.

- (12) Gas supply and the Tamar Partners' commitment to make gas available under the agreement is on an hourly basis with a maximum hourly quantity, according to the mechanisms and procedures set out in the agreement.
- (13) The delivery of the gas is done at the connection point to the INGL national transmission system, adjacent to the Terminal or at any other connection point which will be agreed upon by the parties.
- (14) The natural gas supplied at the delivery point according to the agreement must comply with the specifications stipulated in the agreement. The IEC has the right to refuse to accept non-standard gas until the deficiency is corrected. Any dispute between the parties pertaining to the gas quality will be referred (upon the request of any party) for decision by an expert.
- (15) Assignment of IEC's rights and obligations under the Agreement is conditional on the transferee having the technical and financial ability to meet its commitments under the Agreement as well as on the transfer of that same proportionate share of IEC's power plants to the transferee (signifying that the transfer of a proportionate share of the rights and obligations to any transferee is accompanied by the transfer of the proportionate share of IEC's power plants as well).
- (16) The IEC or the Tamar Partners, as the case may be, will be released from liability under the Agreement, if their noncompliance with an obligation under the Agreement (including the obligation to make reasonable efforts) results from a force majeure event, but only insofar as the performance of such obligation was prevented, frustrated or delayed in light of the force majeure event. The term

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

- (17) The Agreement with the IEC is subject to Israeli law and is construed in accordance therewith. Any disagreement or claim relating to the Agreement will be resolved by a decision of an expert on certain matters specified in the Agreement (mainly of a professional-technical nature), or in an arbitration proceeding according to procedures established in the Agreement.
- (18) On February 14, 2019, the Company's board of directors approved an amendment to the Agreement which provided that starting from January 2019 until the First Adjustment Date, the linkage clause stipulated in the Agreement (detailed in Subsection (6) above) will not be applied, and on the First Adjustment Date, the contractual price will be adjusted as stipulated in the Agreement, taking into account the contractual price that would have been paid if not for the Amendment to the Agreement (the "**Proposed Amendment**").

The Proposed Amendment likewise provides that starting from the date on which gas begins to flow from the Leviathan Project to the Israeli market, the maximum daily gas quantity the IEC is entitled to order under the Agreement will be reduced from 655,200 MMBTU to 500,000 MMBTU, without reducing the minimum annual quantity the IEC undertook to take or pay as stipulated in the Agreement. The Proposed Amendment was subject to receipt of various approvals, among them the approval of the Electricity Authority, which was not received.

- (19) In view of the protraction of the process of signing the Proposed Amendment and failure to receive from the Electricity Authority the approval required for this, the Tamar Partners who have no holdings in the Leviathan Project (i.e. the Company, Isramco, Dor Exploration and Everest) (the "**Tamar Partners who have no**

holdings in the Leviathan Project") held talks with the IEC management, in which consideration was given to a new possible amendment to the Agreement (the "Amendment to the Agreement**"), the principles of which are as follows:**

In the period between January 1, 2020 and June 30, 2021 (the "**Period of the Amendment to the Agreement**") the IEC will pay the Tamar Partners a price including a discount from the price set in the Agreement for the quantities of natural gas purchased by it beyond the minimum annual quantity obligated by the Agreement.

Additionally, starting from January 1, 2020, the maximum daily quantity of natural gas the IEC is permitted to order under the Agreement will be reduced from 655,200 MMBTU to 500,000 MMBTU, without reducing the hourly quantity and without reducing the minimum annual quantity for which the IEC gave a Take or Pay commitment, as determined in the Agreement, in exchange for which the IEC will be entitled to a bonus of up to \$70 million, with \$10 million out of this amount to be paid shortly after the signing of the Amendment to the Agreement and the balance to be paid throughout the Period of the Amendment to the Agreement, subject to the IEC's compliance with consumption milestones.

Since said contacts with the IEC were conducted without the involvement of Noble and Delek Drilling, *inter alia* since they have a higher holding percentage in the Leviathan Project than in the Tamar Project, in September 2019 the Tamar Partners who have no holdings in the Leviathan Project presented to Noble and Delek Drilling the framework described above, for the purpose of signing the Amendment to the Agreement. Disagreements arose between the Tamar Partners who have no holdings in the Leviathan Project, on the one hand, and Noble and Delek Drilling, on the other, including as regards the ability of Noble and Delek Drilling to prevent the Amendment to the Agreement, in the wake of which the Tamar Partners who have no holdings in the Leviathan Project requested the Competition Commissioner, *inter alia*, to clarify that Delek Drilling and Noble may not exercise a veto (together or separately), thereby preventing the joint marketing of gas from the

Tamar Lease, including the Amendment to the Agreement). For details see Section 7.16.4(f) below.

It should be clarified that the Amendment to the Agreement must be signed by all the Tamar Partners and by the IEC, and it will be subject to receipt of all the required regulatory approvals. It is further clarified that there is no certainty that the Amendment to the Agreement will be signed in the format set out above and/or any other format.

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

On April 4, 2019, the Tamar Partners were notified by the IEC that their proposal had not been chosen by the IEC. For details regarding an administrative petition submitted to the Tel Aviv District Court by the Tamar Partners who are not also partners in the Leviathan reservoir, against the IEC and the Leviathan Partners in connection with the decision of the IEC's Tender Committee that declares the Leviathan Partners to be the winners in the Competitive Process and the appeal that was filed with the Supreme Court against the District Court's judgment rejecting said petition, see Section 7.21.5 below.

It should be noted that if the outcome of the competitive process does not change and if it is not decided that Delek Drilling and Noble may not prevent the Proposed Amendment to the Agreement with the IEC, as set out in Section 7.4.4(d)(19) above, this will have a material adverse effect on the Company's revenues in 2020-2021.

Caution regarding forward-looking information – The above evaluations regarding the overall financial amounts of the supply agreements specified in Section 7.4.4 above, the natural gas quantities which will be purchased by the purchasers specified above and the supply commencement dates according to the supply agreements constitute forward-looking information as defined in the Securities Law, in respect of which there is no certainty it will materialize, in whole or in part, and which might materialize in a significantly different manner, due to different factors, including the non-fulfillment of the conditions precedent in each of the supply agreements (to the extent such have not been fulfilled yet), non-receipt of regulatory approvals, changes in scope, rate and timing of the natural gas consumption by each of such purchasers, the gas prices which will be determined according to the formulas prescribed in the supply agreements, the Electricity Production Tariff, the dollar-shekel exchange rate (to the extent relevant to the supply agreement), the Brent prices (to the extent relevant to the supply agreement), the U.S. CPI (to the extent relevant to the supply agreement), construction and operation of power stations and/or other facilities of the purchasers (to the extent relevant to the supply agreement), exercise of the options granted in each of the supply agreements and the date of exercise thereof and so forth.

7.4.5 Agreements for natural gas export

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

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

bank of the Dead Sea in Jordan (in this section: the "**First Supply Agreement**").

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

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

On October 14, 2018, an additional gas supply agreement was signed between the Tamar Partners and NBL for the export of natural gas to Jordan and the supply thereof to the aforementioned Purchasers on an interruptible basis for the supply of a quantity of up to 1 BCM (the "**Second NBL-Tamar Agreement**"). Concurrently with the signature of the Second NBL-Tamar Agreement, NBL signed an additional agreement with the Purchasers according to which the Purchasers will purchase from NBL an additional quantity of natural gas to be used by them as stated in their plants which are located on the eastern bank of the Dead Sea in Jordan (the "**Second Supply Agreement**"), on an interruptible basis, for a total of 1 BCM, with NBL having a right, at the times specified in the agreement, to notify the Purchasers that the supply under the Second NBL-Tamar Agreement will be made on a firm basis. Supply under the Second NBL-Tamar Agreement began in the first quarter of 2019 and is expected to continue until the supply end date under the First Supply Agreement.

On September 19, 2019, the Tamar Partners notified NBL that as of January 1, 2020 until December 31, 2020, the supply under the First NBL-Tamar Agreement would be made on a firm basis, instead of supply on an interruptible basis during the months of peak demand, as had been the case until then. On January 29, 2020, the Tamar Partners notified NBL that as of August 1, 2020, the supply under the Second NBL-Tamar Agreement would be made on a firm basis.

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

- (b) On February 19, 2018, Delek Drilling and Noble (jointly in this section: the "**Sellers**") signed an agreement with Dolfinus Holdings Limited⁷³ ("Dolfinus" or the "**Purchaser**") for the sale of natural gas from the Tamar Project to Dolfinus (in this section: the "**Original Export Agreement**").⁷⁴

On September 26, 2018, the Sellers assigned the Original Export Agreement to the other Tamar Partners.

On September 26, 2019, the execution was completed of an agreement to amend the Original Export Agreement between the Tamar Partners and Dolfinus (the "**Amended Export Agreement**"), and an agreement was signed regarding the allocation of the available capacity in the transmission system from Israel to Egypt between Delek Drilling and Noble and the partners in the Leviathan Project (the "**Leviathan Partners**") and the Tamar Partners (the "**Capacity Allocation Agreement**"). For details see section below.

In the framework of a tax ruling regarding the Amended Export Agreement, issued to the Tamar Partners by the Israel Tax Authority on

⁷³ To the best of the Company's knowledge, the Purchaser represents a consortium of large non-governmental industrial and commercial gas consumers, gas distributors and entrepreneurs headed by Dr. Alaa Arafa.

⁷⁴ The Original Export Agreement replaced an agreement between the Tamar Partners and Dolfinus dated March 17, 2015.

December 9, 2019, and in accordance with the terms of the Gas Framework, the Tamar Partners undertook to propose to new customers (as defined in the Gas Framework) and/or customers with whom they entered or will enter into an agreement or with whom they have conducted negotiations for entering into an agreement from February 19, 2018 until the end of three full years from the day of signing of the tax ruling, i.e. December 9, 2022, to enter into agreements for the sale of natural gas at a price to be computed according to the formula of the Amended Export Agreement less the cost of transmission of the gas to the delivery point, which is based on the Brent price set in the Amended Export Agreement that is paid by the Tamar Partners, as set forth in the Gas Framework and in the terms stipulated therein for such agreements in this context, including a period of at least five years, a TOP undertaking, etc., subject to various adjustment principles contained in the tax ruling.

It should be noted the concurrently with the signing of the Amended Export Agreement as well as the singing of the Capacity Allocation Agreement, an agreement was signed amending the export agreement signed between the Leviathan Partners and Dolphinus concurrently with the signing of the Original Export Agreement (the "**Amended Leviathan Agreement**").

The following is a summary of the terms and conditions of the Amended Export Agreement:

- (1) The gas supply to Dolphinus under the Amended Export Agreement is on a firm basis (as opposed to supply under the Original Export Agreement which was on an interruptible basis with an option for the Tamar Partners to change it to a firm basis).
- (2) The overall contractual quantity of gas which the Tamar Partners undertook to supply to the Purchaser under the Amended Export Agreement is 25.3 BCM (the "**Overall Contractual Quantity**") (compared to 32 BCM under the Original Export Agreement which was, as noted, on an interruptible basis).
- (3) The price of the gas to be supplied to Dolphinus will be determined according to a formula based on the price of a Brent barrel which includes a "floor price." The Amended Export Agreement includes a mechanism for adjusting the price at a rate of up to 10% (addition or reduction) after the fifth year (in this section: the "**First**

Adjustment Date") and after the tenth year (in this section: the "**Second Adjustment Date**") of the agreement, upon the fulfillment of certain conditions stipulated in the agreement. In case of disagreement over the price adjustment rate, the Purchaser will be able to reduce the contractual quantity by up to 50% on the First Adjustment Date and by up to 30% on the Second Adjustment Date. It should be noted that the agreement includes a quantity-dependent incentive mechanism, subject to the price of a barrel of oil.

- (4) Supply under the Amended Export Agreement is to begin on June 30, 2020 and continue up to December 31, 2034 or up to the supply of the entire Overall Contractual Quantity, whichever is earlier (in this section: the "**Agreement Termination Date**"). If the Purchaser does not purchase the Overall Contractual Quantity by December 31, 2034, each party will be entitled to extend the supply period by up to an additional two years.
- (5) Under the Amended Export Agreement the Tamar Partners undertook to supply to Dolfinus annual quantities of gas as follows: (i) in the period beginning on June 30, 2020 and ending on June 30, 2022 – 1 BCM per year; and (ii) in the period beginning on July 1 2022 and ending on the Agreement Termination Date – 2 BCM per year.
- (6) The Purchaser undertook to take or pay for minimum quarterly and annual quantities according to the mechanism established in the Amended Export Agreement, which also includes a reduction in the minimum annual quantity to 50% for a calendar year in which the average price of a Brent barrel (as defined in the Amended Export Agreement) is lower than \$50. It should be noted that if the contractual quantity is reduced in the event of disagreement over the price adjustment rate as stated in Subsection (3) above, the Purchaser's right to reduce the minimum annual quantity as stated in this subsection above will be canceled.
- (7) The Amended Export Agreement includes customary provisions with respect to the termination of the agreement, as well as a provision for the termination of the Amended Export Agreement in the event of the termination of the Amended Leviathan Agreement

due to a breach thereof, and the refusal of the Tamar Partners to supply also the quantities specified in the Amended Leviathan Agreement as set forth in the agreement, and it also includes compensation mechanisms in such an event. To the best of the Company's knowledge, the Amended Leviathan Agreement includes similar provisions with respect to the Amended Export Agreement.

- (c) Simultaneously with the signing of the Amended Export Agreement, the Capacity Allocation Agreement was signed, the principles of which are as follows:
 - (1) The capacity in the transmission system from Israel to Egypt (the EMG pipeline and the transmission pipeline in Israel) will be divided on a daily basis according to the following prioritization:
 - a. First layer – up to 350,000 MMBTU per day will be allocated to the Leviathan Partners.
 - b. Second layer – the capacity beyond the first layer, up to 150,000 MMBTU per day, until June 30, 2022 (the "**Capacity Increase Date**"), and 200,000 MMBTU per day after the Capacity Increase Date – will be allocated to the Tamar Partners.
 - c. Third layer – any additional capacity beyond the second layer will be allocated to the Leviathan Partners.
 - (2) On the closing date of the EMG Transaction (as defined in below), the Tamar Partners paid a sum of \$50 million⁷⁵ (the "**Tamar Participation Fee**") and the Leviathan Partners paid a sum of \$200 million (the "**Leviathan Participation Fee**") (which was used by Delek Drilling and Noble as part of the consideration paid by them in the EMG transaction), against an undertaking to allow the piping of natural gas from the Tamar and Leviathan reservoirs and to guarantee capacity in the EMG pipeline which connects the Israeli transmission system in the Ashkelon area with the Egyptian transmission system (above and below: the "**EMG Pipe**"), all for the purpose of realizing the Amended Export Agreement and the

⁷⁵ Company's share - \$8.4 million.

Amended Leviathan Agreement. It should be noted that the final Tamar Participation Fee and Leviathan Participation Fee will be determined by June 30, 2022, according to the ratio of the gas quantities actually supplied until then by the Tamar Partners and the Leviathan Partners through the EMG Pipe and the transmission pipeline in Israel (including gas quantities not yet supplied for which payment was made by virtue of a Take or Pay undertaking).

- (3) Additionally, the Capacity Allocation Agreement prescribes arrangements for participation in the EMG transaction costs, other costs related to the piping of gas as well as investments that will be required for the maximum usage of the EMG Pipe capacity, the payment of which will be split between the Leviathan Partners and the Tamar Partners.
- (4) The Capacity Allocation Agreement likewise establishes principles for a "backstop" arrangement between the Tamar Partners and the Leviathan Partners, whereby starting from June 30, 2020 until the Capacity Increase Date, if the Tamar Partners are unable to supply the quantities they undertook to supply to Dolphinus, the Leviathan Partners will supply the required quantities to the Tamar Partners.
- (5) The term of the Capacity Allocation Agreement is up to the termination of the Amended Export Agreement, unless it terminates previously in the following cases: breach of a payment undertaking that was not remedied by the breaching party; if the Competition Authority does not approve the extension of the Capacity Lease and Operatorship Agreement signed between EMED Pipeline B.V., a company under the joint ownership of subsidiaries of Noble, Delek Drilling and an Egyptian partner ("EMED") and EMG, under which EMG granted EMED the exclusive right to lease and operate the EMG Pipe for the transmission of natural gas from Israel to Egypt, beyond a period of ten years from the date of signing thereof according to the decision of the Competition Commissioner, as set out below. Additionally, each party will be entitled to terminate its part in the Capacity Allocation Agreement if its export agreement has been cancelled.

(6) As the Tamar partners were informed by Delek Drilling and Noble, EMED entered on September 26, 2018 into agreements for the acquisition of some of the shares of EMG (above and below: the "**EMG Transaction**"), the closing of the EMG Transaction having been contingent, inter alia, on the signing of an agreement between EMED and EMG under which EMG granted EMED the exclusive right to lease and operate the EMG Pipe for the transmission of natural gas from Israel to Egypt. On November 6, 2019, the condition precedent in the Amended Export Agreement regarding the closing of the transaction for the acquisition of shares of EMG and for the acquisition of rights in the EMG Pipe by EMED was completed. On November 16, 2019, the conditions precedent regarding the receipt of the Israel Tax Authority's approval and the Petroleum Commissioner's approval for the export of natural gas, in accordance with the conditions stipulated in the Petroleum Commissioner's approval, were fulfilled, and on December 24, 2019, the Amended Export Agreement became effective. The supply of natural gas from the Tamar reservoir under the Amended Export Agreement is expected to begin in the second half of 2020. To the best of the Company's knowledge, the supply of natural gas from the Leviathan reservoir under the Amended Leviathan Agreement began on January 15, 2020.

Caution regarding forward-looking information – The above assessments regarding the amount of revenues expected from the Amended Export Agreement and the quantities of natural gas that may be sold to the Purchaser under the Amended Export Agreement, as well as regarding expectations as to when the supply of natural gas is to begin according to the Amended Export Agreement, constitute forward-looking information as defined in the Securities Law, which might not materialize, in whole or in part, and which might materialize in a significantly different manner, for various reasons over which the Company has no control, including due to changes in the scope, rate and timing of natural gas consumption by Dolfinus, changes in the gas price pursuant to the provisions of the Amended Export

Agreement or other factors that cannot be foreseen at this time and over which the Company has no control.

7.4.6 Agreement for supply of condensate to Paz Ashdod Refinery

On November 28, 2012, an agreement for the supply of condensate was signed between Paz Ashdod Refinery and the Tamar Partners, under which the Tamar Partners undertook to supply Paz Ashdod Refinery with condensate for a period of five years commencing on March 30, 2013, on a scale (quantity-wise and price-wise) that is not material. In November 2016, the parties agreed to a five-year extension of the Agreement from March 30, 2018. The price of condensate was determined based on Brent prices minus the spread, as prescribed in the supply agreement. All condensate sales by the Tamar Partners were made within the framework of the aforesaid agreement.

7.5 Marketing and distribution

7.5.1 Supply to the domestic market

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

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

7.5.2 Export

- (a) The Company, together with the Tamar Partners, intends to act to find customers in foreign markets for selling natural gas. In the Company's estimation, potential markets include countries located close to Israel, chief among them Egypt and Jordan, to which natural gas may be exported through a pipeline, and the more distant global markets to which natural gas may be exported as LNG or as CNG (compressed natural gas). In the

- framework of export marketing efforts by the Tamar Partners, agreements have been signed with customers in Jordan and Egypt.⁷⁶
- (b) For details regarding the Capacity Allocation Agreement (in connection with the EMG pipe and the transmission pipeline in Israel), see Section 7.4.5(c) above.
 - (c) Additionally, to the best of the Company's knowledge, contacts are underway and a technical feasibility study is being carried out by various government entities and external business entities, and with their financing, for the construction of a pipeline for exporting natural gas to Italy through, inter alia, Cyprus and Greece. To the best of the Company's knowledge, in January 2020 an agreement was signed between Israel, Cyprus and Greece, in which the countries undertook to cooperate in all areas and at all levels in order to enable construction of the project for the export of natural gas from Israel and Cyprus to Europe, with Israel and Cyprus to be the countries of origin for the natural gas.
 - (d) The following is a description of the key potential target markets for the export of natural gas through pipelines from the Tamar Project⁷⁷:
 - (1) Jordan – To the best of the Company's knowledge, Jordan is poor in domestic energy resources and every year it imports most of the energy resources needed to produce electricity. In Jordan, LNG has been in recent years the country's main source for natural gas, which has been imported through a floating regasification facility located in Aqaba. Currently, natural gas is the main source of energy for the production of electricity in Jordan. As of the beginning of 2017, Jordan imports natural gas from the Tamar Project for industrial plants located on the eastern bank of the Dead Sea, as described in Section 7.4.5(a) above, via a connection of the Israeli transmission system to the plants. Furthermore, to the best of the Company's knowledge, Jordan imports natural gas from the Leviathan Project, which accounts for most of the gas currently consumed in Jordan, via a pipe that connects the INGL transmission system (from the Dovrat area) on the Israeli-Jordanian border to their continuation on

⁷⁶ For details regarding the export agreements that were signed, see Section 7.4.5 above.

⁷⁷ Said information is based, inter alia, on various publications and data from various consulting companies.

the Jordanian side, and from there to the existing transmission pipeline in Jordan. Domestic consumption of gas in Jordan stood at 4 BCM in 2019, similar to the volume of consumption in 2018. Consumption of natural gas in the Jordanian market is expected to stand at 4 BCM in 2020 as well, and to remain in the coming decade within a range of 3.6-4.0 BCM. The relative stagnation in the forecast of natural gas consumption in Jordan is attributable to accelerated penetration of renewable energy resources into the electricity production sector in Jordan, in the wake of active steps taken by the government in this area. The target set by the Jordanian government is for renewable energy resources to account for 20% of the volume of electricity produced in 2020.

- (2) Egypt – To the best of the Company's knowledge, natural gas plays a major role in the Egyptian energy market. Natural gas in Egypt is used mainly to produce energy, but also for industry and households. Natural gas is the main source of energy for the production of electricity in Egypt. To the best of the Company's knowledge, in 2019, 85% of electricity in Egypt was produced using natural gas. It should be noted that the seasonality of natural gas use in Egypt causes seasonal fluctuations in gas consumption. Likewise, Egypt has two natural gas liquefaction facilities for the production of LNG for export, with a total liquefaction capacity of 12.2 tons of liquid gas per year, which require feed gas in an amount of 18-20 BCM per year, apart from local demand. The entry of new natural gas fields and increased production capacity from the Zohr field have brought about a significant increase in Egypt's domestic production capacity, which stood in 2019 at 75 BCM and is expected to increase to more than 80 BCM in 2021. In contrast, demand for natural gas in 2019 totaled 65 BCM, an increase of 5% over 2018. As of the report approval date, natural gas exploration activity, which is being promoted by the Egyptian government, may lead to additional natural gas discoveries in Egypt, which could boost the domestic natural gas supply capacity.

For details regarding the agreement for the export of natural gas from the Tamar Project to Egypt, the agreement for allocation of the

capacity that is available in the transmission pipe from Israel, the agreement for the export of natural gas from the Leviathan Project and the EMG transaction, see Section 4.5 above.

According to an assessment provided to the Company by Noble, in light of expected demand in the Israeli domestic market and based on the existing transmission infrastructure in the Israeli domestic market, it will be possible to transmit via the EMG Pipeline, using the existing infrastructure of the INGL system, natural gas in a quantity of 400,000-450,000 MMBTU per day (4 to 4.5 BCM per year), following the installation of compressors at the EAPC site in Ashkelon.

In this context it is noted that on May 28, 2019, an agreement was signed between INGL and Noble for the supply of interruptible transmission services (the "**INGL Agreement**"), in connection with the transmission of natural gas from the Tamar reservoir and from the Leviathan reservoir to the reception point of the EMG pipe in Ashkelon. From the reception point the gas is transmitted to Egypt via the EMG pipe. The payment under the agreement will be made based on the quantity of gas actually transmitted in the INGL transmission system, subject to Noble's commitment to pay for minimum quantities, as specified in the INGL Agreement (in accordance with the Capacity Allocation Agreement, such costs will be paid by the Tamar Partners and the Leviathan Partners, as detailed in Section 7.4.5(c)(3) above). INGL's gas transmission commitment will not apply in certain cases specified in the INGL Agreement, mainly lack of available capacity in the transmission system. The INGL Agreement will be in force from the date of its signature until January 1, 2023. The INGL Agreement includes a condition that enables its early termination in the event that the parties reach a firm capacity agreement, and in such event Noble's commitment to pay for the minimum quantities will be transferred to the payments required under the new agreement.

Regarding the decision of the Natural Gas Sector Council in connection with financing projects involving export via the Israeli transmission system and the distribution of the costs of construction

of the Ashdod-Ashkelon combined segment, see Section 7.16.9(d) below.

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

7.6 Order backlog

7.6.1 Following is the Company's order backlog, calculated on the basis of: (a) forecast prices used in the discounted cash flow; (b) the minimum gas quantities determined in firm agreements for the supply of natural gas and condensate (in force as of the report approval date), which the customers have undertaken to consume or pay for,⁷⁸ subject to the following main assumptions: (1) full utilization of the balance of the IEC's Carry Forward as specified in Section 7.4.4(d)(5) above; (2) the options granted to the Tamar Partners' customers to reduce the total contractual quantity, as specified in Section 7.4.4(c)(2) above, will be exercised, and the reductions (after the period of prior notice under the agreements) will begin in June 2022; (3) agreements signed for a short period that include extension options will end on June 30, 2021; (4) there will be no changes in the minimum annual quantities in the Amended Export Agreement, as specified in Section 7.4.5(b) above; and (c) actual revenues during January and February 2020 from agreements on an interruptible basis:

Year	Total Revenues (USD millions) as of December 31, 2019*
2020 Q1	57
2020 Q2**	51
2020 Q3**	57
2020 Q4**	57
2021	198

⁷⁸ The order backlog includes quantities of 0.4 BCM for 2020 and 0.2 BCM for 2021 by virtue of an agreement under which the customer undertook to consume the quantities required by it from the Tamar reservoir only, despite the absence of a commitment to consume a minimum quantity.

Year	Total Revenues (USD millions) as of December 31, 2019*
2022	183
2023	211
2024	212
2025	213
2026	211
2027	215
2028	164
2029	114
2030	104

* As of the report approval date there were no changes in the order backlog.

** There may be fluctuations between the quarters, inter alia, given that in most of the agreements the minimum quantities are determined on an annual basis.

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

7.6.2 The Company's order backlog for 2019, as of December 31, 2018, was estimated at USD 164 million. The Company's actual revenues for 2019 totaled USD 350 million. The discrepancy between the expected revenues from the order backlog and actual revenues for 2019 stems from the fact that the actual volume of sales was higher than the minimum gas quantities stipulated in the agreements for the supply of natural gas from the aforementioned projects.

7.7 Competition

For details see Section 7.1.9 above.

7.8 Seasonality

In Israel, the consumption of natural gas for electricity production for the IEC and for private electricity producers is affected, inter alia, by seasonal fluctuations in electricity demand and by the maintenance plans of electricity producers. Generally, in the first and

third quarters of the year (the winter and summer months) electricity consumption is at its highest.

Following are data regarding the quarterly breakdown of natural gas sales (in terms of 100% of the Tamar Project) over the last two years⁷⁹:

Period	Q1 (in BCM)	Q2 (in BCM)	Q3 (in BCM)	Q4 (in BCM)
2018	2.39	2.57	2.78	2.56
2019	2.64	2.43	2.76	2.61

7.9 Facilities and production capacity

The Tamar Project facilities include, inter alia: six wells, each with a production capacity of around 250 MMCF per day; a subsea production system that concentrates the gas production from these wells; the gas is piped via two underwater pipes, each with a diameter of 16 inches and a length of 150 kilometers, from the Tamar field to the production platform; a production platform located about 25 kilometers offshore and 2 kilometers north of the Mari B platform; two additional parallel pipes, each with a four inch diameter and a length of 150 kilometers, for the transmission of MEG (an antifreeze substance) from the production platform to the drilling system; a pipe with a diameter of 10 inches⁸⁰ and two pipes with a diameter of 6 inches for the transmission of gas and/or condensate and/or MEG from the production platform to the Terminal, as well as a pipeline with a diameter of 20 inches that connects the production platform to a pipe with a 30-inch diameter, existing in the Yam Tethys Project, for the transmission of gas from the platform to the Terminal; double command and control cables (umbilicals), each 150 kilometers long, that connect the production platform to the drilling system and enable control and command of the production of natural gas from the wells. Means were installed in the umbilicals that will enable in the future the connection of the Dalit reservoir to the Tamar Project's production system. The maximum gas supply that can be piped through the umbilicals under the existing conditions is 1.1 BCF, thus this constitutes the bottleneck of the Project's production system. The production platform is fixed to the seabed at a water depth of 236 meters by means of a jacket. The platform topsides are mounted on the upper part of the jacket, which projects above the sea surface, and contain, inter alia, the natural gas production and processing facilities, facilities for the separation of fluids from natural gas,

⁷⁹ The data refers to total sales of natural gas by all of the Tamar Partners rounded to two tenths of a BCM.

⁸⁰ On August 29, 2016, the Minister of Energy granted the Tamar Partners a license for the operation of a 10-inch pipeline to be used for the transport of natural gas from the Tamar rig to the entry point at the natural gas processing facility in Ashdod. Prior to the granting of such license, the pipeline was designated for the transport of condensate.

storage, treatment and recycling of MEG, gas dehydration facilities (TEG), an emissions reduction facility, generators, tanks, pumps, air compressors, a helipad, workers' living quarters, firefighting facilities, lifeboats, security facilities and additional facilities associated with the production and processing system on the platform. It should be noted that the Tamar Platform is designed to treat 1,200 MMCF of gas per day and 5,400 barrels of condensate per day, and it has a maximum production capacity when operating the four treatment lines of 1,600 MMCF of gas per day and 7,200 barrels of condensate per day, subject to implementation of necessary adjustments to the platform.

For details regarding the development plan of the Tamar Project, see Section 7.2.6 above.

7.10 Human resources

- 7.10.1 The Company's personnel, including senior officers, are employed under personal employment agreements. Immediately prior to the Prospectus, the Company approved an officers' compensation policy, as revised from time to time. For details regarding the compensation policy and terms of employment of senior officers see Reg. 21 in Chapter D of this report.
- 7.10.2 The Company employed, as of December 31, 2018 and as of December 31, 2019, the following personnel:

Number of personnel as of December 31, 2018	Number of personnel as of December 31, 2019
6 (of which 3 senior officers)	7 (of which 5 senior officers)

- 7.10.3 The Company also receives consulting services from external professional entities, including legal, accounting, financial, geological, and other consulting services, all according to the Company's needs from time to time.
- 7.10.4 On June 24, 2019, the Board of Directors appointed a board committee (consisting of two outside directors and an independent director), for the purpose of adopting a policy for the mix and composition of the Company's board of directors, as well as locating candidates to serve on the board, with emphasis on including among the candidates an expert in the field of oil and gas. On August 14, 2019, the board of directors adopted such a policy in accordance with the recommendations of the board committee. On September 2, 2019, Mr. Eitan Meir was appointed as a Company director with expertise in the field of energy and/or oil and gas, and on January 1, 2020, Mr. Meir began serving as active Chairman of the Board of Directors. For further details, see Section 8 in Part Two of the

Board of Directors Report, as well as Regulation 26 in Chapter D – Additional Information on the Company, attached to this report.

7.10.5 Likewise, it should be noted that, in the framework of the operating agreements, the Operator of the Tamar Project employs personnel for the management and operation of the project. There are no employer-employee relations between the personnel employed by the Operator of the Tamar Project and the Company, and the Company has no direct liability to them in respect of the termination of employer-employee relations.

7.11 Raw materials and suppliers

In general, the Tamar Partners or any one of them do not engage directly with suppliers or professional contractors, but the engagement is made between the suppliers or the contractors and the Project's Operator. There are presently no contractors in Israel that perform offshore drilling, seismic surveys and marine development and infrastructure works of the type carried out by the Tamar Partners, and therefore, in order to carry out such work, the operator of the Tamar Project engages with foreign contractors, which are instructed to hire, insofar as possible, local services and consultants. The offshore drilling facilities and the other dedicated equipment are leased and brought in from all over the world in accordance with their availability, the type of work and the needs of the Tamar Project. Another important parameter that affects this matter is the crude oil price, an increase in which, generally affects the scope of the activity in the industry and consequently the availability of the contractors and required equipment, and vice versa. For further details, see the relevant risk factors in Section 7.24.11 below.

7.12 Working capital

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

	Amount included in the financial statements as of December 31, 2019
Current assets	140,239
Current liabilities	120,937
Current assets in excess of current liabilities	19,302

7.13 Financing

7.13.1 As of the report approval date, the Company finances its operations from revenues from the sale of natural gas and condensate to the customers of the Tamar Project.

7.13.2 In view of the expected activities for preservation and expansion of the supply capacity of the Tamar Project, as specified in this chapter, the Company expects to require substantial financial resources to finance its operations and its share in the expenses of the Tamar Project, in accordance with the work plans and budgets to be approved from time to time according to the Joint Operating Agreement among the partners in the Tamar Lease. To this end, the Company intends to use the surplus revenues received from the customers of the Tamar Project, and, as necessary and to the extent possible, the Company will examine options of raising equity or debt capital by issuing securities to the public of such type, in such scope and under such conditions as it deems necessary. For details regarding a planned offering that was not carried out, see immediate reports dated January 8, 2020 (Ref. No. 2020-01-003640) and January 12, 2020 (Ref. No. 2020-01-004153), the contents of which are included herein by reference.

7.13.3 It should be noted that in view of the Company's high rate of financial leverage, the Company is considering various possibilities for reducing said financial leverage, including by repurchasing bonds of the Company and/or acquiring additional rights in the Tamar Project and/or raising capital. On March 29, 2020, the Board of Directors approved a bond repurchase plan for Series A and B bonds, as detailed in Part Three of the Board of Directors' Report.

7.13.4 Financial covenants

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

7.13.5 Bond rating

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

7.14 Taxation

As regards the taxation aspects, including the implications arising from the Petroleum Profits Taxation Law, see Notes 12 and 19 to the Financial Statements.

7.15 Environmental risks and management thereof

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

event to event, and therefore the manner of management and treatment thereof also varies.

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

- (a) In Israel the Petroleum Law and its associated regulations provide, inter alia, that when performing drilling operations, precautionary measures must be taken to prevent the unchecked flow of liquids or gases into or out of the earth and to prevent their penetration from one geological layer into another. It is also prohibited to abandon a well without plugging it according to the directives of the Petroleum Commissioner.
- (b) The Company's operations may also be subject to the provisions of various environmental laws, among them the Prevention of Sea Pollution (Disposal of Waste) Law, 5743-1983 and its regulations; the Prevention of Sea Water Pollution from Land Sources Law, 5748-1988 and its regulations; the Prevention of Sea Water Pollution by Oil Ordinance [New Version], 5740-1980; the Hazardous Substances Law, 5753-1993 and its regulations; the Maintaining of Cleanliness Law, 5744-1984 and its regulations; the Oil Pollution Damages Compensation Liability Law, 5764-2004 and its regulations; the Environmental Protection (Supervision and Enforcement Powers) Law, 5771-2011 and its regulations; the Prevention of Environmental Hazards (Civil Claims) Law, 5752-1992; the Clear Air Law, 5768-2008 and its regulations; the Environmental Protection (Emissions and Transfers to the Environment – Reporting and Registration Duty) Law, 5772-2012 and its regulations; Prevention of Hazards Law, 5721-1961 and its regulations; the Protection of the Coastal Environment Law, 5764-2004; the Business Licensing Law, 5728-196 and the regulations and orders pursuant thereto.
- (c) Apart from the regulations prescribed by Israeli law, there are environmental provisions in the terms and conditions of the Tamar and Dalit lease deeds and in the approvals for the construction and operation of the Tamar Project production systems. Ahead of drilling operations and/or oil and natural gas production operations, the Operator purchases insurance to cover environmental damage as a result of sudden, unexpected and uncontrolled eruption of oil and/or natural gas. In 2016, the Petroleum Regulations (Principles for Offshore Petroleum Exploration and

Production), 5777-2016 (an amendment to regulations from 2006) were issued, which include various provisions regarding offshore petroleum exploration and production activity, as well as conditions regarding the identity of an operator, including with respect to its experience in maintaining safety and environmental protection in the framework of oil exploration and production.

In September 2016 the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives intended to regulate the environmental aspects of offshore oil and gas exploration, development, and production. For details regarding these environmental directives, see Section 7.16.8(i) below.

- (d) In addition to the instructions of the Ministry of Energy and the Ministry of Environmental Protection, the Company's operations are subject to instructions by other environmental authorities, as may be given from time to time, on behalf of other governmental bodies, including the Israel Land Authority.
- (e) Furthermore, the operating permit for the Tamar Platform obligates the Lease holder to act with respect to environmental protection issues in accordance with the law and the directives and permits issued in accordance with any law, and provisions were stipulated regarding discharges into the sea, emissions into the air, etc. The operating permit for the Tamar Platform further stipulates that in matters for which there are no provisions in Israeli law, U.S. standards on safety and environmental protection and the provisions of some of the annexes to the MARPOL International Convention for the Prevention of Pollution from Ships applicable, presently or in the future, to mobile and fixed rigs, will apply, subject to law.

7.15.3 Events connected with environmental protection

According to information provided to the Company by the Operator, in 2019 there was no event or matter connected with the Company's operations which significantly harmed the environment and which had a material impact on the Company.

7.15.4 Environmental risk management policy

The Operator in the Tamar and Dalit Leases adopts a strategic environmental policy for environmental protection and for compliance with the provisions of the law in general and environmental laws in particular. This policy includes the Operator's strict adherence to internal procedures for environmental risk management of its activities, including the training of suitable personnel, and includes a work plan for the reduction of environmental damage, for the prevention of malfunctions and accidents and for ongoing improvement of the organizational culture on issues of safety, environment and hygiene. In this context, the Operator has a designated team for both the development and operation stages, which is responsible for implementing and overseeing these policies and for compliance with the procedures to ensure fulfillment of and compliance with all requirements and standards, including various systems for the management of environmental risks, such as SEMS (Safety & Environmental Management Systems). In addition, the Operator performs due diligence tests through a third party, besides the audits carried out regularly by the Ministry of Energy and Ministry of Environmental Protection on the operation facilities and drilling rigs. The Operator carries out current activities on issues of environmental protection and safety to increase awareness, knowledge, and preparedness, including training and instruction of the Operator's teams. The Company acts to obtain ongoing updates and specific updates, as necessary, regarding the Operator's aforesaid activities. Although the Operator holds a different position on the legal interpretation of the applicability of Israeli laws, environmental laws in particular, to its offshore activity outside the territorial waters (including its activity in the exclusive economic zone (EEZ)), from that adopted in the opinion mentioned in Section .7.16.9(e)(6) below, in addition to the foregoing, the Operator is acting to obtain all the permits required under the environmental regulation, including a poisons permit under the Hazardous Substances Law, 5753-1993, a sea discharge permit under the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and an air emissions permit under the Clean Air Law, 5768-2008.

The Ashdod onshore terminal (AOT) of the Tamar rig operates under an air emissions permit from December 10, 2014. According to information provided to the Company by the Operator, in 2019 the Operator was instructed by the Ministry of Environmental Protection to submit an application for a new emissions permit, and the Operator is working to complete the application for a

new emissions permit and is in contact with the relevant officials in this regard
the Ministry of Environmental Protection

7.15.5 Environmental costs and investments

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

In March 2019, the installation and running-in of dedicated systems for the reduction of air emissions from the Tamar platform, , at a cost of USD 40 million (100%) ended, as planned. The installation of said systems reduces pollutant emissions in accordance with the Operator's undertakings towards the Ministry of Environmental Protection.

7.15.6 Significant legal or administrative proceedings connected with environmental protection

As of the report approval date, and to the best of the Company's knowledge, no significant legal and/or administrative proceeding is being conducted against the Company and/or any of its officers in connection with environmental protection.

Furthermore, according to information provided to the Company by the Operator, the Company is not aware of any material noncompliance or material deviation by the Operator from the environmental quality requirements in the Tamar Project.

However, according to information provided to the Company by the Operator, the Operator was summoned by the Ministry of Environmental Protection to a hearing in respect of seeming noncompliance with the provisions of the AOT emissions permit, in violation of the emissions permit and the Clean Air Law, 5768-2008, which could result in an indictment or financial sanction in an amount which cannot be estimated at this stage. According to information provided to the Company by the Operator, as of the report approval date, in view of the arguments presented by the Operator to the Ministry of Environmental Protection, said enforcement proceeding has been suspended by the Ministry, but it may be resumed if the Operator's arguments are found to be without merit. In the Operator's estimation, at this stage it is not possible to assess the results of said proceeding, should it be resumed.

To the best of the Company's knowledge, in February 2019 the Zalul Association filed an administrative petition against the Director of the Air Quality and Climate Change Department in the Ministry of Environmental Protection, and against the Operator. In the petition the court is requested to issue an order nisi directing the Environmental Protection Ministry to explain why it should not exercise its authority under the Clean Air Law, 5768-2008, to notify the Operator of its intention to impose on it a financial sanction subject to its right to a hearing, and alternatively, why its said authority should not be delegated to the petitioner. On July 7, 2019, the court decided to strike out the petition in view of the statement of the Environmental Protection Ministry that an emissions permit for the Tamar rig would be completed by no later than the end of 2019, at the petitioner's request.

7.16 Restrictions and supervision of the Company's operations

7.16.1 The Gas Framework

On August 16, 2015, Government Resolution No. 476 (readopted with certain changes in the Government Resolution from May 22, 2016) was adopted with respect to a framework for the increase of the natural gas quantity produced from the "Tamar" natural gas field⁸¹ and the expeditious development of the "Leviathan", "Karish" and "Tanin" natural gas fields and other natural gas fields (in this section: the "**Government Resolution**"). The Government Resolution took effect on December 17, 2015, with the grant of an exemption from certain provisions of the Economic Competition Law, 5748-1988 (the "**Economic Competition Law**")⁸² with respect to several restrictive trade practices, to Delek Drilling, Avner, Ratio and Noble (in this section: the "**Parties**") by the Prime Minister, in his capacity as Minister of Economic Affairs, pursuant to the provisions of Section 52 of the Competition Law (in this section: the "**Exemption**" or the "**Exemption Pursuant to the Competition Law**"), the key points of which Resolution are presented below.

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

⁸¹ "Tamar" was defined in the Exemption appended to the Framework as "a natural gas reservoir found in the area of the I/12 Tamar and I/13 Dalit leases, and the rights of Tamar's stakeholders in the infrastructure for the transmission of gas with all its parts, including Tamar stakeholders' rights to the use of the onshore gas receiving and processing facility, from the Tamar reservoir to the National Transmission System."

⁸² On January 1, 2019, an amendment to the Competition Law was approved, which included a change in the name of the law from the "Restrictive Trade Practices Law" to the "Economic Competition Law."

(a) Structural change of the Tamar reservoir⁸³

- (1) Delek Drilling and Avner⁸⁴ shall transfer, within 72 months of the date of grant of the Exemption under the Competition Law (in this section: the "**Effective Date for Tamar**"), all their rights in the Tamar and Dalit Leases to a third party to be approved by the Petroleum Commissioner under Section 76 of the Petroleum Law and the directives pursuant thereto, not being an Affiliated Person (as defined in the Framework) of the Parties or any of them and not being a holder of means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs and not being an Affiliated Person thereof. The occurrence of the Date of Sale by the Effective Date for Tamar shall be deemed compliance with the provisions of this section. The Date of Sale for this purpose was defined as the date of submission of a binding sale contract for approval by the Petroleum Commissioner.⁸⁵
- (2) By the Effective Date for Tamar, Noble shall submit to the Petroleum Commissioner a binding sale contract, such that following its implementation Noble's rights in the Tamar Lease shall not at any given time be higher than 25% of any right in Tamar, and said rights shall be transferred to a third party to be approved by the Petroleum Commissioner under Section 76 of the Petroleum Law and the directives pursuant thereto, not being an Affiliated Person of the Parties or any of them and not being a holder of means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs and not being an Affiliated Person thereof. The occurrence of the Date

⁸³ The Framework prescribes that periods in which an event of "force majeure" has occurred will not be taken into account. Where such an event has occurred, the countdown towards the relevant Tamar deadlines will be halted, provided that Delek Drilling, Avner and Noble act expeditiously and diligently to repair the damage caused by the force majeure. "Force Majeure in Tamar" was defined in the Framework as "war, military operation, terrorist attack, significant accident or natural disaster, any of which results in a significant failure or significant defect in any of the facilities or systems required to implement the gas production, and due to which the gas supply has been discontinued or significantly reduced for a significant period, and the Delek and Noble Partnerships have been denied the possibility to sell the relevant petroleum asset in the normal course of business, and a reasonable and prudent person standing in the shoes of the Delek and Noble Partnerships would not have been able to prevent or overcome them."

⁸⁴ On May 17, 2017, Avner was merged with and into Delek Drilling, such that all of Avner's assets and liabilities were transferred "as is" to Delek Drilling, and on May 17, 2017, Avner was dissolved without liquidation and struck off the records of the Registrar of Partnerships.

⁸⁵ In accordance with said provision, the Company acquired 9.25% of the rights in the Tamar and Dalit Leases under the sale agreement with Delek Drilling. As of the report approval date, Delek Drilling holds 22.6% of the Company's issued and paid-up share capital. In order to comply with the provisions of the Framework, Delek Drilling must also sell by the Effective Date for Tamar its said holding in the Company.

of Sale (as defined in Section 7.16.1(a)(1) above) by the Effective Date for Tamar shall be deemed compliance with the provisions of this section.⁸⁶

- (3) In the event that not all the transferred rights as provided in Subsections (1) and (2) above are transferred by the Effective Date for Tamar (the "**Transferred Rights in Tamar**"), the right to transfer the Transferred Rights in Tamar will be transferred to a trustee (as defined in the Gas Framework), that will act to find purchasers and receive most of the bids for the sale of the Transferred Rights in Tamar, all in accordance with the provisions of the Gas Framework and the guidelines to be received from the Competition Commissioner. The trustee will sell the Transferred Rights in Tamar based on the market value and the highest price offered, and in any event no later than 12 months after the Transfer of Rights in Tamar (even if the price does not represent the real value of the Transferred Rights in Tamar).
- (4) As of the Effective Date for Tamar or as of the date of sale of Noble's rights in the Tamar Lease as detailed above, whichever is earlier, Noble will have no veto right pertaining to the Tamar reservoir, including with respect to entry into transactions for the sale of gas from Tamar or any component of such transaction, as well as the development, expansion or upgrading of Tamar, subject to all of Noble's obligations is a prudent operator.⁸⁷

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

- (1) Agreements for the supply of natural gas from the Tamar and Leviathan reservoirs signed as of the date of the Government Resolution must comply with all of the following provisions:

⁸⁶ In December 2016 a transaction was concluded for the sale of 3.5% of Noble's rights in the Tamar and Dalit Leases to Everest, and on March 14, 2018, a transaction was concluded for the sale of 7.5% of Noble's rights in the Tamar and Dalit Leases to the Company, and it thus completed its obligation under the Gas Framework in this regard.

⁸⁷ In the Company's opinion, in accordance with the foregoing, the veto prohibition applicable to Noble as aforesaid came into effect on the date on which a binding sale contract (that complies with the terms of the Framework) for the sale of Noble's rights in the Tamar reservoir to the Company was submitted to the Petroleum Commissioner, and in any case, at the latest, on the date on which Noble sold all its holdings in shares of the Company, which took place in October 2018.

- a. The consumer will not be subject to any restriction with respect to the purchase of natural gas from any other natural gas supplier.
 - b. The consumer will be able to resell the natural gas purchased thereby, in accordance with the conditions and provisions prescribed by the Exemption.
 - c. The Parties will not impose any restriction on the selling price at which the consumer resells the natural gas.
- (2) With respect to agreements for the sale of natural gas from the Tamar reservoir signed from the date of the Government Resolution until four years after the date on which the Petroleum Commissioner approved the transfer of the rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases (the "**Rights in Karish and Tanin**" and the "**Date of Opening of the Options**", respectively), the holders of the rights in the Tamar reservoir, including the Company, will be required to offer every consumer the option to purchase gas by an agreement for any period it chooses up to 8 years, or for a longer period to be agreed between the Parties and the consumer. For an agreement whose term exceeds 8 years from the date on which the supply of gas commenced, the consumer will have a unilateral right to shorten the term of the agreement during a 3-year window commencing on the Date of Opening of the Options.
- (3) In relation to agreements for the sale of natural gas from the Leviathan reservoir signed from the date of the Government Resolution until the Date of Opening of the Options, the holders of rights in the Leviathan reservoir will be required to offer every consumer the option to purchase gas by an agreement for any period it chooses up to 8 years, or for a longer period to be agreed between the Parties and the consumer.
- (4) On April 2, 2017, in a notice sent to the Minister of Energy, the Budget Director at the Ministry of Finance and the Competition Commissioner, the Tamar Partners clarified as follows:
- a. In the event of a delay in the supply of gas for the first time by a new gas supplier, the Tamar Partners will allow their customers, in accordance with gas supply agreements signed

between the date of the Government Resolution and the end of 4 years after the date on which the Commissioner approved the transfer of the rights in the "Karish" and "Tanin" gas reservoirs (the Date of Opening of the Options), which were supposed to fully or partially switch to the new supplier for gas purchases, to extend the existing contract until the new supplier is able to supply gas in commercial quantities (but for no longer than eight years from the date of signing the agreement), without changing the terms and conditions of the agreement.

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

(c) Additional provisions from the Government Resolution

(1) Prices

- a. So long as the holders of rights in the Tamar and Leviathan leases meet the conditions of the Government Resolution and the Exemption pursuant to the Competition Law, the provisions of the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, which imposes control on the gas sector in terms of reporting on profitability and gas prices, will remain unchanged for the period from the date of the Government Resolution (i.e., August 16, 2015) until the completion date of the transfer of rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases as specified in Subsection (4) below or in the Tamar Lease as specified in Subsection (a) above, in accordance with the provisions of the Gas Framework, whichever is later (the "**Transition Period**").

- b. During the Transition Period, the holders of rights in the Tamar Lease (including the Company) and in the Leviathan lease (in this section: the "**Holders of Rights in the Leases**") will offer potential consumers the following natural gas price and linkage alternatives:
 1. A base price calculated in accordance with a weighted average of the existing prices in the agreements between the Holders of Rights in the Leases and their consumers, and updated every calendar quarter (in accordance with the calculation specified in the Government Resolution).
 2. The Brent barrel price, calculated in accordance with the optimal formula for the consumer appearing as of the date of the Government Resolution in the Tamar Partners' agreements.
 3. For a private electricity producer (conventional or cogeneration) that meets the conditions specified in the Government Resolution, besides the alternatives specified in Subsections (a) and (b) above, also an alternative which includes linkage to the electricity production tariff.
- c. In addition to that stated in Subsection (b) above, the provisions of Subsection (b) do not derogate from the duty of the holders of rights in the Tamar and Dalit Leases to offer consumers in Israel the gas price specified in an export agreement, in order to meet the conditions of the taxation mechanism as set out in Section 7.16.1(c)(5) below. For details regarding a tax ruling in connection with the Amended Export Agreement, see Section 7.4.5(b) above.

(2) Natural gas export

- a. In the Government Resolution of June 23, 2013, which adopted the main recommendations of the Tzemach

Committee (as hereinafter defined)⁸⁸, clarifications and amendments were made, inter alia, with regard to the manner of calculating the permitted export quotas and the manner of creating redundancy in the gas supply system (hereinafter in this Subsection (4): the "**Government Resolution regarding the Tzemach Committee**"). For further details, see Section 7.16.9(a) below.

- b. It was also determined that the holders of rights in the Tamar Lease will be entitled to use the Mari B rig for the entire term of the Tamar Lease, for the export or supply of natural gas to the domestic market from the Tamar reservoir, subject to the conditions established in the Government Resolution.

(3) The Tamar SW reservoir

The Government Resolution included the Petroleum Commissioner's announcement that he will approve the development plan for the Tamar SW reservoir (for further details, see Section 7.2.8 above), subject to the natural gas production from the Tamar SW reservoir not yielding revenues in excess of USD 575 million. This production restriction will be cancelled by the Petroleum Commissioner after an agreement is reached between the State and the holders of rights in the Tamar Lease on all the issues relating to the development of the Tamar SW reservoir. For further details regarding the Tamar SW reservoir, including the development plan that was approved, and regarding the mediation settlement in connection with the division of the Tamar SW reservoir between the area of the Tamar Lease (78%) and the area of the Eran License (22%), see Section 7.2.8 below.

(4) Sale of Karish and Tanin

In December 2016, in accordance with the provisions of the Framework, the rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases were transferred to Energean, a third party unrelated to the parties or any of them.

⁸⁸ On January 6, 2019, the conclusions of the Tzemach Committee were amended in the wake of the Adiri Committee (as hereinafter defined). For details see Section 7.16.9(a) below.

(5) Taxation

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

(6) Domestic content

The Government took note of the announcement of the Minister of Economy that the holders of rights in the Tamar and Leviathan reservoirs committed to invest in domestic content in the aggregate sum of USD 500 million over eight years from the grant date of the Exemption. Domestic content includes expenses in respect of the purchase of commodities or services from bodies registered in Israel (including foreign entities registered in Israel), the purchase of goods, procurement from Israeli contractors, suppliers or producers,

investments in research and development in Israel (directly or indirectly), expenses for manpower (up to a cap of 20% of the total commitment as aforesaid), expenses for professional training, donations and activity in the field of social responsibility. As of the reporting date, the holders of the rights complied with the commitments in connection with investment in domestic content.

(7) Maintaining a regulatory environment that encourages investments

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

7.16.2 The Company's Articles include a provision whereby as of the Effective Date for Tamar, if the Company holds rights in Tamar, no prohibited representative will serve in the Company. For further details see Section 88 of the Articles, which were published in an Immediate Report from November 7, 2019 (Ref. No. 2019-01-109471), the contents of which are included herein by reference.

7.16.3 Following the Government Resolution and the grant of the Exemption, several petitions were filed with the High Court of Justice. On March 27, 2016, the High Court of Justice issued a judgment on these petitions, ruling, *inter alia*, that the stability clause as worded in the Gas Framework⁸⁹ cannot stand and gave the State a one-year period to act to regulate the stability issue in the Gas Framework.

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

As of the report approval date, the Company is acting to implement the provisions of the Gas Framework that are relevant to it.

7.16.4 Antitrust

(a) On August 28, 2006, the Competition Commissioner granted an exemption, subject to certain conditions, from approval of a restrictive

⁸⁹ The Government's commitment to restrict future changes in regulation of the natural gas industry.

arrangement, under Section 14 of the Economic Competition Law, to an agreement regarding the joint holding by the parties thereto of rights in the 309/"Matan" and 308/"Michal" licenses⁹⁰(in the areas of which the Tamar and Dalit natural gas discoveries were made in 2009) (the "**Matan and Michal Licenses**"), with part of these rights subsequently transferred to Noble. The Competition Commissioner's decision was made contingent on several conditions, the key ones being:

- (1) The "Local Corporations" (as defined below) may not hold jointly, whether alone or with additional holders, any gas rights other than the rights directly and exclusively arising from the Matan and/or Michal licenses, except with the express prior written approval of the Competition Commissioner. By December 31, 2006, the "Local Corporations" must terminate any joint holding in gas rights, except for rights arising directly and exclusively from the Matan and Michal licenses, which they held jointly, whether alone or with other holders, at the time the decision was made, unless such joint holding has been expressly permitted in writing by the Competition Commissioner.
 - (2) In any arrangement, agreement or understanding, in writing or orally, with regard to determination of a mechanism or manner of decision making between the license holders of Matan and Michal with regard to the marketing of natural gas produced under the Matan and Michal Licenses, none of the "Local Corporations" may hold alone, directly or indirectly, any right or power to prevent the other holders from taking decisions or actions with regard to the marketing of natural gas produced under the Matan and Michal Licenses.
 - (3) Definitions: the "Local Corporations" – "Delek Group" and "Isramco"; "Delek Group" – Avner and/or Delek Drilling and/or any person related to either of them; "Isramco" and any person related thereto on the other hand.
- (b) On November 13, 2012, the Tamar Partners received notice from the Competition Commissioner that they were declared to be monopoly

⁹⁰ On December 2, 2009, the Tamar and Dalit Leases were granted in lieu of the aforementioned licenses.

holders, jointly and severally, in the supply of natural gas in Israel as of the commencement date of commercial supply from the Tamar Project.

Due to their being monopoly holders, the Tamar Partners are subject to Chapter D of the Competition Law, including the prohibition on unreasonable refusal to supply natural gas and the prohibition on abuse of their position in the market in a manner that might reduce competition in business or harm the public.

- (c) Furthermore, the Tamar Partners are obligated to submit to the Competition Commissioner all the agreements for the sale of natural gas to local customers. In 2012 an exemption subject to conditions (which were fulfilled) from the approval of a restrictive arrangement was granted in connection with the agreement with the IEC. Furthermore, during the years 2012 and 2015, several decisions were issued by the Competition Commissioner regarding the grant of a conditional exemption from approval of restrictive arrangements in regard to fourteen long-term agreements for the supply of natural gas between the Tamar Partners and private gas consumers (the "**Commissioner's Decisions**"). Following are the essential points of the Commissioner's Decisions:

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

- (1) Shortening the term of the agreement to seven years, from the commencement date of the natural gas supply; or
- (2) Reducing the quantity of gas under the "Take or Pay" clause to half the average annual consumption quantity of the gas consumer in the three years preceding the date of notice. The reduction of the purchase quantity will take effect one year after the date of said notice, and will continue until the end of the term of the agreement, as applicable ("**Reduction of the Purchase Quantity**"). A notice on the Reduction of the Purchase Quantity may be given at any time during the later ending period of the following two periods: (1) the period from January 1, 2018, until December 31, 2020 (with respect to five natural gas sale agreements), or the period from January 1, 2020 to December 31, 2022 (with respect to nine natural gas sale agreements); or (2) the period commencing at the start of the fifth year after the date of supply of natural gas and terminating at the end

of the seventh year. Such period is subject to changes due to changes and adjustments in the timetables for gas production from other fields.

- (3) Upon determination of the minimum quantity for which the gas consumer is required to pay in accordance with the foregoing, the annual gas quantity and the aggregate gas quantity in the agreement will be updated.
- (4) The gas consumer will be permitted to sell natural gas designated for the use of consumers of the gas distribution network, in an amount of up to 15% of the annual gas quantity in each year.
- (5) No restriction will apply to a gas consumer in respect of the purchase of natural gas from any other supplier of natural gas that is not a Tamar partner.
- (6) The Tamar Partners may not enter, directly or indirectly, into any agreement for the supply of gas from the Tamar reservoir, without receiving the prior approval of the Competition Authority.
- (d) Following the Commissioner's Decisions, said agreements were amended and all the natural gas supply agreements signed by the Tamar Partners from such date until the validation date of the Gas Framework were amended and/or drawn up in keeping with the Commissioner's Decisions.
- (e) Agreements signed from the beginning of 2016 up to the report approval date, are in compliance with the conditions of the Framework's provisions. Such agreements have been provided to the Competition Authority for the purpose of receiving a permit according to the requirement stipulated in the Competition Commissioner's new decision as aforesaid. Recently, the Competition Authority stated its position that the parties to an agreement must perform a self-assessment regarding the compliance of the agreements signed by them in accordance with the provisions of the Competition Law. Furthermore, the Tamar Partners submitted all the sale agreements to the Competition Authority for purposes of notification as required by the competition provisions.
- (f) In the wake of disagreements that arose between the Tamar Partners who have no holdings in the Leviathan Project, on the one hand, and Noble and Delek Drilling on the other, inter alia as regards the ability of Noble and

Delek Drilling to prevent the amendment to the agreement with the IEC, as detailed in Section 7.4.4(d)(19) above, on November 20, 2019 the Tamar Partners who have no holdings in the Leviathan Project submitted to the Competition Commissioner, as the function in charge of compliance with the conditions for the exemption granted in the context of the adoption of the Gas Framework, in accordance with Section 52 of the Economic Competition Law, 5748-1988 and the conditions for the exemption from approval of a restrictive arrangement granted by the Commissioner on August 22, 2006 with respect to the agreement under which Delek Drilling acquired its rights in the Tamar project (the "**2006 Decision**"), an urgent application concerning the Tamar reservoir's ability to compete with the Leviathan reservoir being frustrated by Noble and Delek Drilling, who are violating veto bans imposed on them by the Gas Framework and the 2006 Decision, to which they are subject connection with joint marketing of natural gas from the Tamar lease, *inter alia* due to their cross- holdings in the Tamar lease and the Leviathan leases.

In the aforesaid application, the Commissioner was requested *inter alia* to clarify that in accordance with the clear language and purpose of the 2006 Decision and the Gas Framework, Noble and Delek Drilling may not exercise a veto (together or separately), thereby preventing the joint marketing of gas from the Tamar lease to a new customer or the amendment of an agreement for joint marketing of gas from the Tamar lease to a preexisting customer (including the Amendment to the IEC Agreement), where the other partners in the Tamar Project support the joint marketing or such amendment to the agreement. For details, see the Company's immediate report dated November 20, 2019 (Ref. No. 2019-01-112969, the contents of which are included herein by reference. As of the report approval date, to the best of the Company's knowledge, said application is being considered by the Competition Commissioner and other government functions. It should be noted that the amendment to the Agreement must be signed by all the Tamar Partners and by the IEC and will be subject to receipt of all the required regulatory approvals, and there is no certainty that the amendment to the Agreement will be signed in the format that was presented and/or any other format.

- (g) In March 2020 a class action and class certification motion (in this section: the "**Certification Motion**") was submitted in the Tel Aviv District Court by an electricity consumer (in this section: the "**Applicant**"), requesting the court to rule that Delek Drilling and Noble, who hold the Tamar and Leviathan reservoirs under cross-ownership, may not prevent the partners in the Tamar reservoir from entering into an agreement with the IEC that reduces the cost of the natural gas supplied by it to the IEC, in any way, including by exercising the right of veto which, according to the Applicant, is conferred on them in their agreements with the corporations holding ownership in Tamar only.

The Certification Motion was submitted against Delek Drilling and Noble, and all the other corporations holding the Tamar Project and the Leviathan Project, including the Company, were joined to it as respondents, with the Applicant noting that they are parties against whom no relief was being sought but they were a necessary party in light of their close connection to the events forming the subject matter of the Certification Motion. For further details see immediate report dated March 1, 2020 (Ref. No. 2020-01-017605), the contents of which are included herein by reference.

7.16.5 Specific legislation governing the operations

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

- (a) The Petroleum Law (in this section: the "**Law**")
- (1) The Law provides, inter alia, that a person shall not explore for Petroleum except under a "preliminary permit", "license" or "lease deed" (as defined in the Law) and a person will not produce Petroleum except under a license or lease deed.
 - (2) Preliminary testing (that does not include test drilling) in any area, in order to ascertain the prospects for discovering Petroleum in such area, including the conducting of seismic surveys, is subject to the receipt of a preliminary permit. The Law permits the granting of priority to the holder of a preliminary permit to receive a Petroleum right in the area for which the preliminary permit was granted, if said holder undertakes to conduct preliminary tests and invest in

Petroleum explorations as determined by the State's competent representatives in this matter.

- (3) A "License" grants the licensee, subject to the provisions of the Law and the terms and conditions of the License, mainly the right to explore for Petroleum in the area of the license in accordance with the plan submitted to the Petroleum Commissioner under the Law, and the exclusive right to conduct test and development drilling in the license area and to recover Petroleum therefrom. In general, the License will be granted for an initial period of 3 years which may be extended, under conditions prescribed by the Law, for an additional period of no more than 4 years.
- (4) If the licensee makes a Petroleum discovery, it is entitled to an extension of the License period for such period as will give it sufficient time to establish the borders of the Petroleum field, but no longer than two years, and the licensee is entitled to receive in a certain area within the License area, a "lease" which grants exclusivity to explore and to produce petroleum in the leased area, for the term of the lease. The lease is given for a period of up to 30 years from issuance, but if a lease is given pursuant to a License that was extended after a discovery in the License area, the License term will commence on the date on which the License would have originally terminated, if not for the extension. A lease may be extended, under the terms and conditions prescribed in the Law, for an additional period of up to 20 years. A lease may expire after receipt of an appropriate notice from the Minister of Energy, if the lease holder fails to produce or ceases to produce Petroleum in commercial quantities.
- (5) The Law mandates, inter alia, that the leaseholder pay the State royalties of one eighth of the quantity of Petroleum produced from the leased area and utilized (excluding Petroleum used by the lease holder for operating the leased area)⁹¹, but in any event no less than the minimum royalty prescribed by the Law. The royalty will be paid

⁹¹ For further details regarding State royalty calculations, see Section 7.18 below.

in kind or in cash subject to the discretion of the Petroleum Commissioner.

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

Commissioner may prescribe. A lease may expire following the issuance of an appropriate notice by the Minister of Energy, if the leaseholder has failed to produce or ceased to produce petroleum in commercial quantities.

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

- (10) The Commissioner will keep a petroleum register which will be open to the public for inspection (the "**Petroleum Register**"). The Petroleum Register will list any Petroleum right application, grant, extension, revision, and expiration, as well as the transfer and pledge of the Petroleum right or benefits therein, and also the grant of any lease deed. No such transaction will be in force until it is registered in the Petroleum Register.
- (11) The Law prescribes that no one person shall have more than twelve Licenses or Licenses for a total area exceeding four million *dunams*, except with prior approval of the Petroleum Council.
- (12) A preliminary permit, a license and a lease are personal and, save with the permission of the Commissioner, neither they nor any interest therein may be pledged or transferred in any manner whatsoever, except by way of inheritance; and the Commissioner shall not permit the pledge or transfer of a license or lease except after consultation with the Council.
- (13) A leaseholder may construct pipelines for the conveyance of petroleum and petroleum products. No leaseholder shall construct a petroleum pipeline, other than gathering pipelines leading to tankage within or in the vicinity of the lease area, except along a route approved by the Commissioner. The construction of a petroleum pipeline shall be according to detailed diagrams in accordance with

the Law; the diagrams shall require the prior approval of the Commissioner, which shall not be unreasonably withheld.

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

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

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

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

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

- The operator must be the leaseholder with at least 25% of the rights in the petroleum asset.
- The operator or controlling shareholder therein (subject to the conditions in the Offshore Regulations) must have at least five years' experience in the ten-year period preceding the filing of the application, in performing the functions of an operator, including:
 - (a) experience in offshore oil or natural gas exploration;
 - (b) experience in offshore drilling;
 - (c) experience in offshore development and production of oil or natural gas;

- (d) experience in activities for the preservation of health, safety, and environmental protection relating to activities in petroleum rights.
- Furthermore, the Petroleum Commissioner will not certify a corporation as operator unless it directly employs qualified employees that have at least five years' experience in the offshore oil or natural gas exploration sector, and in the offshore oil or natural gas development and production sector, unless he decides to certify a corporation as an operator despite its noncompliance with the requirement of experience in offshore oil or natural gas development and production, as described below.
- The Petroleum Commissioner may, according to the stage and characteristics of the right and according to the scope of demand for receipt of the right in that area or according to the composition of the entire group, certify a corporation as an operator even if it fails to comply with the above requirement of necessary experience in offshore oil or natural gas development and production.
- The Petroleum Commissioner may require that a certain corporation, for certification as an operator, have greater experience than prescribed, if he deems it necessary according to the stage and characteristics of the right, and considering the work plan, its complexity and environmental and safety aspects.
- The Petroleum Commissioner will not certify a corporation as an operator unless it has sufficient financial capacity and financial soundness. The operator or controlling shareholder thereof (subject to the conditions in the Offshore Regulations) is considered financially sound (as defined in the Offshore Regulations) and has financial capacity that is deemed sufficient if total assets in the balance sheet are

at least USD 200 million and total equity in the balance sheet is USD 50 million.

- b. An applicant for a Petroleum right must prove appropriate financial capacity by fulfillment of both of the following:
 - Total assets in the balance sheet of the applicant (or of all holders of the Petroleum right jointly, including a member of the group approved as the operator with respect to the Petroleum right) are at least USD 400 million.
 - Total equity in the balance sheet of the applicant (or of all holders of the Petroleum right jointly, including a member of the group approved as the operator with respect to the Petroleum right) is at least USD 100 million.

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

The aforesaid financial ability, financial soundness⁹², total assets and total equity will be examined according to the data in the audited financial statement as of December 31 of the year preceding the submission of the application, or according to an average of the data in the audited financial statements as of December 31 of the two years preceding the submission of the application, according to the discretion of the Petroleum Commissioner.

- c. The Petroleum Commissioner may, with the approval of the Minister of Energy, deny approval of an application to receive a petroleum right or an application to serve as an operator, even if all the aforesaid conditions are fulfilled, if he is convinced that reasons of national security, foreign relations and international trade relations so justify, or if there are special circumstances due to which approval of the

⁹² Financial soundness is proven if the conditions specified in the Offshore Regulations are fulfilled.

application is not in the best interests of the public or the energy sector in Israel.

- d. Notwithstanding the foregoing, it is possible to approve an operator or grant a petroleum right even if not all of the details which appear above are fulfilled, provided that under the circumstances the non-fulfillment of the conditions is immaterial and the Petroleum Commissioner is convinced that there are special grounds which justify approval.
- e. The Offshore Regulations include additional provisions regarding the details to be included in the application for approval of an operator and reports which an operator and a holder of a petroleum right are required to submit to the Petroleum Commissioner.

(d) **The Natural Gas Sector Law**

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

- (1) The following activities may not be engaged in except with a license issued by the Minister of Energy (in this section: the "**Minister**") and in accordance with its terms:
 - Construction and operation of a transmission system or part thereof;
 - Construction and operation of a distribution network or part thereof;
 - Construction and operation of a liquid natural gas(LNG) facility (hereinafter: "**LNG License**");
 - Construction and operation of a storage facility;
 - Construction and operation of an export pipeline of a non-leaseholder.
- (2) A transmission license will be granted only to a company incorporated in Israel under the Companies Law.

- (3) The holder of a transmission license, an electricity provider, or any controlling shareholder or interest holder thereof may not engage in the sale or marketing of natural gas.
- (4) Engaging in the selling and marketing of natural gas does not require a license. However, the Minister has the discretion under certain conditions set forth in the Natural Gas Sector Law to determine, upon agreement with the Minister of Finance and upon approval of the Knesset's Economic Affairs Committee, that for a certain set period, engagement in natural gas marketing will require a license.
- (5) If a person applies for more than one license, the Minister may, in consultation with the Director General of the Gas Authority, who was appointed under the Natural Gas Law (the "**Director**"), make the licenses contingent on the terms and conditions specified in the Natural Gas Sector Law.
- (6) The Minister, in consultation with the National Gas Authority Council, which was appointed under Section 63 of the Natural Gas Sector Law ("**National Gas Authority Council**"), may, inter alia, in accordance with the Government's policy, provide to a corporation, without holding a tender, a license for an export pipeline of a non-leaseholder, for a period set out in the license and subject to the provisions of the Natural Gas Sector Law.
- (7) A storage license and an LNG license will be granted under a tender or other public proceeding. However, the Minister may, with the consent of the Minister of Finance and in consultation with the Natural Gas Sector Council, decide that the storage license or the LNG facility license be granted without a tender or other public proceeding, to the holder of the transmission license. Notwithstanding the foregoing, a leaseholder may, for as long as a lease is in force, store gas produced by it in a reservoir in the lease area. Nevertheless, the Minister may also grant a leaseholder, without a tender or other public proceeding and for as long as the lease is in force, a license to store gas not produced by it, in a reservoir in the lease area; the term of the license will be set out therein and will not exceed the remainder of the lease term. The Minister may instruct that the leaseholder, for as long as the lease is

in force, provide others with storage services in the reservoir that is in the lease area and determine the conditions for provision of the services, after giving the leaseholder an opportunity to voice its arguments; if such an instruction is given, the leaseholder will be deemed a holder of a storage license and the provisions of the Natural Gas Sector Law will apply to it.

- (8) Restrictions were placed on additional activities of a license holder; however the Minister, in consultation with the Natural Gas Sector Council, may give the license holder a permit to engage in additional activities under conditions prescribed in the Natural Gas Sector Law.
- (9) The term of a license may not exceed 30 years and cannot be extended. However, this provision does not prevent the license holder from participating in a tender for the granting of a new license. Notwithstanding the foregoing, the Minister may decide not to limit the term of a distribution license, and if limited in time, he may extend the license term or cancel the term limitation and lay down in the license conditions regarding any such decision.
- (10) The Minister, in consultation with the Director General of the Natural Gas Authority, may set forth conditions in the license to ensure the aims of the Natural Gas Sector Law and compliance with its provisions, including conditions that must be met prior to commencement of the activities the subject of the license. Furthermore, the Minister, with the consent of the Minister of Finance and in consultation with the Council, may modify, add to or detract from the conditions of a license, where this is essential for realizing the purposes of the Natural Gas Sector Law or for complying with a relevant international treaty to which Israel is a party, and taking into consideration technological, economic and environmental changes that have taken place since the license was issued, and after the license holder has been given an opportunity to present its case.
- (11) The Minister, with the consent of the Minister of Finance, may stipulate in a license given under a tender, an obligation to pay royalties or license fees to the State Treasury, and the manner of their calculation and payment, and if any of these was a subject for

bids in the tender – in accordance with the results of the tender. The Minister, with the consent of the Minister of Finance, and with the approval of the Knesset's Economic Affairs Committee, may provide for mandatory royalty payments by a license holder whose license was not granted under a tender.

- (12) The Director General of the Natural Gas Authority, in consultation with the Natural Gas Sector Council and with the approval of the Minister of Finance, and after giving the license holder an opportunity to voice its arguments, may cancel the license at any time, in the event one of the conditions stipulated in the Natural Gas Sector Law was fulfilled.
- (13) A license or any part thereof may not be transferred, pledged, or attached in any manner whatsoever. Gas facilities of a license holder and assets designated in the license as required for the performance of the activity in accordance with the provisions of the license may not be transferred, pledged or attached, in any manner whatsoever, save with the prior written approval of the Director and subject to the conditions stipulated by him. An action done contrary to the provisions of this section shall be void.
- (14) Guarantees and commitments provided by a license holder or a controlling party thereof, and amounts received from the realization of such guarantees or commitments, may not be attached or pledged.
- (15) A person may not acquire or maintain control of or means of control in a license holder, and a holder of control of or means of control in a license holder may not transfer such control or means of control to another. Mostly, for the purpose of such transfer or acquisition, the Minister's approval is required following consultation with and consent by the Council.
- (16) A license holder may not condition the provision of service on the purchase of another service or gas from itself or from another person or on the non-purchase of a service or gas from another person. However, if it has been proven to the National Gas Authority Council that there is a reasonable business connection between the requested service and the fulfillment of the condition, the Council may approve the condition.

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

- The controlling shareholder of the license applicant, if it is a corporation;
 - Another corporation controlled by the controlling corporation, which entered into such agreement, insofar as it did;
 - c. If the controlling shareholder of the license applicant is not a corporation, it must not be a citizen of an enemy country;
 - d. The holder of the lease, whose facilities for carrying out the activities according to the lease are to be connected to the pipeline, holds the approvals required for export through the pipeline.
- (e) Natural Gas Sector Regulations (Management of the Natural Gas Sector in a State of Emergency), 5777-2017 (the "Emergency Regulations")
- (1) The Emergency Regulations have been instituted by virtue of Section 91 of the Natural Gas Sector Law, which empowers the Minister of Energy, with the Government's approval, to declare a state of emergency in the natural gas sector and promulgate regulations governing the operation of the natural gas sector in a state of emergency.
 - (2) The Emergency Regulations distinguish between a situation in which 90% of the total natural gas supply in the national economy comes from one field and one transmission system ("**Significant Field**"), and a situation in which the natural gas supply in the national economy comes from at least two fields connected to INGL through at least two separate transmission systems (as is presently the case in the Israeli market):
 - a. Provisions when one Significant Field exists
Whenever the aggregate hourly demand for natural gas by the consumers of the gas supplier which is unable to supply all or some of the natural gas in the field (the "**Failing Supplier**") exceeds the maximum quantity that can be supplied to them, the Failing Supplier and INGL will allocate the existing gas quantity according to the following provisions:

- The first allocation of natural gas will be made to the distribution consumers (as defined in the Emergency Regulations). Such allocation will be made according to the maximum hourly quantity of natural gas consumed by the distribution consumers in the 12 months preceding the date of the declaration (as defined in the Emergency Regulations).

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

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

1. First to household consumers;
2. The balance of the allocation will be allocated to the distribution consumers not included in Subparagraph (a).

 - The remaining quantity will be divided between electricity-producing consumers (consumers of a gas supplier that are natural-gas-based electricity producers with a capacity of more than 45 MW) and non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said types of consumers in the same month in the previous calendar year.
 - The quantity to be distributed to non-electricity-producing consumers (from the quantity allocated to non-electricity-producing consumers as aforesaid) will be determined according to the share of the hourly capacity ordered for each of them under the transmission agreements they signed with the holder of the transmission license out of the total hourly capacity ordered for those consumers under the transmission

agreements they signed with the holder of the transmission license.

- The IEC will offer LNG for sale to consumers who are not electricity producers at the price for which it purchased the LNG plus a markup of up to 10%.

b. Provisions when at least two fields exist

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

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

A quantity that does not exceed the result obtained from 3,600 MMBTU per hour, minus the quantity

supplied to the distribution consumers, provided by the non-failing gas suppliers per hour, will be reserved for the distribution consumers;

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

1. First to the household consumers;
 2. The balance of the allocation will be allotted to the distribution consumers not included in Subparagraph (a).
- The remaining quantity will be divided between electricity-producing consumers and non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said types of consumers in the same month in the previous calendar year;
 - If any surplus gas remains for distribution, the failing gas supplier may supply natural gas from the field (the "**Additional Quantity**"), such that the surplus quantity of gas per day remaining for distribution will be allocated to electricity-producing consumers and to non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said types of consumers in the same month in the year before the year in which the allocation is made less the Additional Quantity allocated to each of the types.
 - The quantity to be distributed to non-electricity-producing consumers (from the quantity allocated to non-electricity-producing consumers as aforesaid) will be determined according to the share of the hourly

capacity ordered for each of them under the transmission agreements they signed with the holder of the transmission license out of the total hourly capacity reserved for those consumers under the transmission agreements they signed with the holder of the transmission license, less the Additional Quantity allocated, if allocated, to each of the non-electricity-producing consumers.

c. **General**

If the Minister finds, after consultation with the Director General of the Natural Gas Authority and the Director General of the Electricity Authority, that the natural gas shortage continuously or extensively compromises the regular functioning of the national economy or the regular supply of electricity to the Israeli market, which cannot be overcome by the use of other fuels, or if the Minister of Environmental Protection notifies the Minister of Energy that the continuing shortage of natural gas is causing significant harm to the environment with resulting harm to the public health, the Minister may deviate from the provisions of the Regulations and prescribe a different allocation of the gas and LNG quantities, provided that the deviation does not exceed what is required.

The Regulations do not exempt the failing gas supplier from any legal duty applicable to it, nor do they derogate from any and all of the remedies and reliefs included in the agreement between the failing gas supplier and the gas consumer.

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

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

increase in sectoral competitiveness and decentralization of the economy-wide concentration.

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

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

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

In addition, when allocating a right (as defined above), including a license required for activity in a business sector that is not an Essential Infrastructure Sector, the regulator is required to take into account considerations for the promotion of sectoral competitiveness, apart from any other consideration it must weigh by law, in this regard.

On December 9, 2018, the Committee to Reduce Economic Concentration issued, in accordance with the Concentration Law, a list of the concentrated entities in the economy, a list of the significant real corporations, which was last updated on September 24, 2019, and a list of the significant

financial entities, which was last updated on March 12, 2019. From a perusal by the Company, close to the approval date of the report, of the lists issued by the Committee to Reduce Economic Concentration, it emerges that the Company is included in the list of concentrated entities and in the list of significant real corporations. To the best of the Company's understanding, its inclusion was made, *inter alia*, in light of the holding of shares of the Company by Delek Drilling (which is controlled by the Delek Group).

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

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

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

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

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

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

- (b) The obligation under the Law to appoint a security officer and security guards as aforesaid also applies to a "public body" not located within the offshore zone, that is listed in the Second Schedule as the operator of a land facility for processing natural gas received by pipeline from offshore or

from a foreign country, by virtue of a license or by law. Such an operator is required to carry out physical security activities and data security activities (but not activities to secure computerized systems or offshore security activities).

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

- (c) In addition, the Law specifies that the holders of the Tamar and Dalit leases, including the Company, who are listed in the Fifth Schedule, shall appoint an officer in charge of the organization and performance of activities to secure and supervise vital computerized systems existing in reservoirs, in accordance with the directive of the National Cyber Directorate (the "**Cyber Directorate**"). Since the Operator is responsible for operating the Tamar Project's production system, it is the one that actually implements the Cyber Directorate's directive in this regard. As the Company was informed, and to the best of its knowledge, as of the report approval date, the Operator complies with the provisions of the Law, and inter alia carries out maritime security actions and complies with the security directives issued to it by the professionals in the Israeli Navy in accordance with the law. Additionally, the vital computerized systems comply with all the relevant directives received from the National Cyber Directorate.

7.16.7 Directives of the Petroleum Commissioner

- (a) Provision of collateral in connection with petroleum rights

- (1) On September 17, 2014 the Petroleum Commissioner promulgated, in accordance with Section 57 to the Petroleum Law, the version of the directives for the provision of collateral in connection with petroleum rights revised as of July 18, 2019, the principles of which (with respect to offshore assets) are as presented below. It is noted that in addition to these directives, the Petroleum Commissioner required certificates of insurance with a formulation as determined by him, based on insurance plans submitted to him, covering insurances pertaining to the Tamar field. Following are the main points of the directives for the provision of collateral in respect of the petroleum rights (for offshore assets):

- a. Rules for the provision of basic guarantees in respect of new offshore licenses will be established in proceedings for the issuance of offshore licenses.
- b. Prior to performing drilling, license holders will be required to provide an additional guarantee in an amount to be determined by the Petroleum Commissioner, based on the drilling characteristics and drilling plan. The sum of the additional guarantee for the offshore licenses will not be less than the equivalent of USD 5 million. If the Petroleum Commissioner believes that the drilling characteristics justify it, he may demand a guarantee in a lower amount than aforesaid.
- c. The basic guarantee and the additional guarantee in respect of existing offshore licenses will be valid for a period of one year, up to the Commissioner's notification that there is no need therefor. The Commissioner may increase the amount of the guarantee, after allowing the holder of a right to present its arguments in the matter.
- d. In the petroleum leases, the Petroleum Commissioner will determine the sum of the guarantee, taking into account, inter alia, the development plan, the lease characteristics, the development stage of the lease, and the size of the petroleum field. In any event, the guarantee will not be less than the equivalent of USD 7.5 million for an offshore lease. Guarantees in respect of new leases will be deposited upon the grant of the lease, for a term to be determined by the Petroleum Commissioner. Furthermore, the Petroleum Commissioner reserves the right to update the amount of the guarantee following a change in circumstances.
- e. The aforesaid guarantees will remain in force even after expiration of the right for which they were given, until the Commissioner advises otherwise, but for no more than seven years after expiration of the right for which they were provided.

- f. In the event that, in the opinion of the Petroleum Commissioner, a petroleum right holder did not act with due diligence in respect of the petroleum right or caused damage by his actions due to the petroleum right or did not incur expenses or failed to fulfill obligations that he was required to fulfill under the Petroleum Law, and the Petroleum Commissioner, during the term of the right, ordered the petroleum right holder by written notice to take actions or incur expenses or fulfill obligations pertaining to the petroleum right, and the petroleum right holder failed to follow such order and did not provide a warranted reason for such failure, the Petroleum Commissioner may order the forfeiture of the guarantees or a part thereof, after hearing the arguments of the right holder regarding the forfeiture of the guarantee.
- g. The petroleum right holder will take out and maintain, at its expense, throughout the entire term of the petroleum right, all the insurances which are customary among international companies for exploration or production of oil or gas.
- h. If the petroleum right holder fails to comply with the directives, or if it is found that the guarantee or insurance that were made were revoked or terminated for any reason whatsoever, prior to their renewal, extension or replacement by another guarantee or insurance, the Petroleum Commissioner will be entitled to forfeit the existing guarantee in respect of the right and act to mitigate the possible damage, at the expense of the right holder. In addition, the Petroleum Commissioner may view this as noncompliance with the work plan and with the provisions of the right, and take steps in accordance with the provisions of the Petroleum Law.
- i. In addition, the directives include, inter alia, provisions regarding the furnishing of guarantees with respect to applicants for new onshore licenses, existing onshore licenses, updating the guarantee amount and extending the guarantee, as well as general provisions regarding guarantees.

- (2) The partners in the Tamar and Dalit Leases deposited a bank guarantee of USD 35 million for the Tamar Lease and a bank guarantee of USD 7.5 million for the Dalit Lease, in connection with compliance with the terms and conditions of said leases, the provisions of the Petroleum Law, and the aforesaid directives of the Petroleum Commissioner, and in connection with any damage that may be caused in relation to the activity or inactivity in said leases, including in connection with the execution or non-execution of an abandonment plan (in respect of 100% of the rights). The Company's share in such guarantees amounts to USD 7.2 million (USD 5.9 million for the Tamar Lease and USD 1.3 million for the Dalit Lease).
- (b) The Transfer and Pledge of a Petroleum Asset Right and Benefit in a Petroleum Asset Right
- On December 31, 2015, the Petroleum Commissioner issued directives for the purpose of Section 76 of the Petroleum Law, the objective of which is to regulate the procedure for the transfer and pledge of a petroleum right (preliminary permit, license and lease) and a benefit (including a right to contractual royalties) in a petroleum right⁹³ (in this section: the "Directives") whose main points are as follows:
- In this section, "benefit in a license" and "benefit in a lease" - including the holding of any of the following: (1) control of a licensee or a leaseholder, or of a corporation that holds part of a license or of a lease, or of a group, as the case may be; (2) more than 25% of a particular type of means of control in a license holder or a leaseholder, or in a corporation that holds part of a license or of a lease, or of a group, as the case may be; (3) a right to contractual royalties.
- "Means of control" – means of control in a group or means of control in a corporation, as the case may be";
- "Means of control in a group" – each of the following: (1) voting right at a meeting, operating committee or other forum where decisions are made

⁹³ It should be noted that directives with respect to Section 76 were also applied to the transfer of a petroleum right or a benefit between anyone who has a direct share in a petroleum right within the framework of a group by virtue of the agreement between them, and will also apply to a transfer or allotment of means of control which confer a benefit in a petroleum right or control in the corporation or group holding a petroleum right or benefit in a petroleum right.

that are binding on the group as regards exercising the petroleum right; (2) the right to appoint members at a meeting, operating committee or other forum where decisions are made that are binding on the group as regards exercising the petroleum right, or appointing a person whose job is to make the aforementioned decisions; in this regard, "operating committee" – a body which the group members agreed would direct the group's activity in exercising the petroleum right or determine the manner of exercising the petroleum right, and the performance of the duties imposed on the petroleum right holder according to the terms of the right or its policy in these matters or oversee them.

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

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

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

"Control in a corporation" - the ability, alone or together with others acting collaboratively on a regular basis, to direct the activity of the corporation, except for the ability deriving only from filling the position of a director or other officer in the corporation; without derogating from the generality of the foregoing, it is presumed that a person controls a corporation (1) if he holds half or more of a certain type of means of control in the corporation; (2) if he has the ability to make decisions regarding the exercise of the

petroleum right for the corporation, or to prevent such decisions being made in the corporation, by virtue of the corporation's bylaws or by virtue of an agreement. In a corporation that is a limited partnership – each of the aforementioned rights in a corporation that is the General Partner.

- (1) The Petroleum Commissioner may approve the transfer of a license and of a benefit in a license prior to the Petroleum Commissioner's confirmation of the existence of a discovery (as defined in the Petroleum Law), if all the following conditions are fulfilled:
 - a. The application was filed at least a year after the grant date of the license and at the time of filing the application, the transferor was the holder of the transferred right for at least one year;
 - b. The exploration and development experience of the license holder after the transfer meets the requirements of the Petroleum Law and the provisions of the Petroleum Commissioner;
 - c. If the transferor is an operator, and following the transfer it will cease holding such capacity, the transferee will fulfill all the conditions required of the operator, in accordance with the Petroleum Law and the provisions of the Petroleum Commissioner;
 - d. The financial capacity of the license holder after the transfer meets the requirements under the Petroleum Law and the provisions of the Petroleum Commissioner;
 - e. If the transferor provides a monetary commitment to prove financial capacity also for the other partners directly holding rights in the petroleum asset, said partners must also prove financial capacity as stated in Subsection d. above;
 - f. The time remaining until expiration of the license as of the filing date of the application is greater than three months, and in any event the validity of the license prior to the filing of the application may not exceed six and a half years;
 - g. If the license and the preliminary permit which preceded it were granted without payment to the State, and the

consideration exceeds double the transferor's expenses in the purchase of the transferred rights and in the financing of the pro rata share, according to the percentage of the transferred rights, of the expenses in performing the actions enumerated in the Directives, and linked to the representative rate of the dollar, the difference between the expenses and the financing, as stated, will be used for the continued performance of the actions under the license.

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

- (6) The Petroleum Commissioner will not approve transfer of a petroleum right or of a benefit in a petroleum right, if in his opinion one of the following is fulfilled:
 - a. The transfer may delay or harm the performance of the duties of the holder of the petroleum right for exploration or production of petroleum according to the license or lease or according to the Petroleum Law, as the case may be;
 - b. The transfer may significantly harm the competition in the field of exploration and production;
 - c. The transfer may significantly harm the payment of the royalties which are due to the State Treasury according to the Petroleum Law and the law;
 - d. The transferee or its controlling shareholder breached the provisions of the Petroleum Law, or the provisions and requirements prescribed by the Petroleum Commissioner by virtue thereof, in relation to another petroleum right which it has or had or a benefit related thereto, or the conditions of such petroleum right, or acted with respect to such petroleum right inefficiently or irresponsibly, and as a result it is not fit to be a holder of a petroleum right or a holder of part of a petroleum right or a holder of a benefit in a petroleum right, as the case may be;
 - e. The transferor or transferee have not yet paid an amount they are required to pay to the State Treasury with regard to a petroleum right which they have or had.
- (7) In addition, the Petroleum Commissioner has the discretion not to approve a transfer even if all the conditions for providing the approval which are detailed in these Directives are fulfilled, if he is convinced that reasons of public security, national security, foreign relations or international trade relations so justify, including in a case where the transferee is a corporation controlled by a foreign country or where there are other special circumstances due to which the transfer is not in the best interests of the public or the energy sector in Israel.

- (8) The Petroleum Commissioner may approve a pledge of a petroleum right or benefit in a petroleum right prior to the commencement of commercial production, if the pledge is meant to serve as collateral for receiving a loan to finance activities which the petroleum right holder must perform, or to ensure the receipt of contractual royalties or on special grounds which the Petroleum Commissioner deemed fit to approve. Additionally, similar conditions were established for approving a pledge of petroleum rights after commercial production commences.
 - (9) Permission for a pledge does not constitute permission to transfer the pledged right, and if the conditions for realizing the pledge are fulfilled, the license or lease or any part thereof or a benefit in the license or lease, as the case may be, will not be transferred to the pledge holder or any other entity, unless the Petroleum Commissioner allows the transfer to the transferee in advance and in writing, pursuant to the Directives. The appointment of a receiver for the pledged right will not be subject to the rules applicable to the transfer thereof, provided that the Petroleum Commissioner agreed in advance and in writing to the identity of the receiver and the powers provided to him.
- (c) Export permit applications
- On December 31, 2015, the Petroleum Commissioner issued directives concerning the submission of applications for the receipt of a permit to export natural gas, which determine, inter alia, the date and the manner for submitting an application for receipt of a permit to export natural gas from the lease area, the details to be included in such application and the documents to be attached thereto, as well as clarifications pertaining to such export permit. It should be emphasized that an export permit will be granted in accordance with the terms and conditions specified in the Gas Framework, as set out in Section 7.16.1(c)(2) above, and subject to any law.
- As of the report approval date, export permits have been received for the export agreements signed by the Company, as specified in Section 7.4.5 above.
- 7.16.8 Directives on manner of calculation of the value of the royalty at the wellhead

On February 9, 2020, the Natural Resources Administration in the Ministry of Energy published for public comments (which were received until March 15, 2020) directives on the manner of calculation of the value of the royalty at the wellhead in connection with offshore oil rights. The directives set out, inter alia, the following principles:

- (1) The value of the royalty at the wellhead for oil produced and used will be equal to 12.5% of the selling price to customers at the point of sale net of deductible expenses, as set out below. The calculation is by the net-back method, which is the method that has been used until now.
- (2) Recognized expenses for the purpose of calculating the value of the royalty at the wellhead will be expenses actually incurred by the lease holder between the wellhead and the point of sale, provided they are necessary, in the Petroleum Commissioner's opinion, for the oil to be saleable. The following expenses will be recognized:
 - a. Capex expenses – Expenses for treatment, processing and transport of the oil to the point of sale.
 - b. Opex expenses – arising directly from the types of capex expenses.

The Petroleum Commissioner will issue to each lease holder specific directives for each lease, setting out the deductible expenses for purposes of calculating the royalty, according to the specific characteristics of the lease.

The following expenses and expenses associated with them will not be recognized (whether capex or opex): exploration expenses; expenses for drilling including exploration, development and production; production expenses; expenses for development of the subsea system; general and administrative expenses; fines; excise taxes; finance expenses, including interest expenses both in respect of fixed assets and in respect of current expenses; operating expenses and investment expenses for fixed assets, which were not actually used for their intended purpose.

- (3) Abandonment costs will be recognized for purposes of calculating the royalty according to an abandonment plan to be prepared by the lease holders and approved by the Petroleum Commissioner. These costs will first be recognized in the year after the year in which at least 50% of the

reserves in the reservoir were produced cumulatively and the abandonment plan was approved by the Petroleum Commissioner.

- (4) Expenses in respect of assets will be recognized such that the depreciation rate for fixed assets will be calculated by the depletion method (category 2P), from the date of operation of the asset for oil treatment, processing and transport. Total recognized depreciation expenses may not exceed the cost of the fixed assets.
- (5) Depreciation expenses will be recognized in respect of fixed assets such that at the end of the "asset's life" the value of the asset will be zero. If an agreement is signed that grants third parties a right of ownership or right of use of the fixed assets, with or without consideration, or an agreement is signed that includes the receipt of payment from third parties for the transport or treatment of oil, a correction of estimate of fixed assets will be made in the year in which the economic value was created, with the lease holder possibly being required to pay the State royalties on this value, even if it had no income in that year.
- (6) Reports on revenues and expenses will be subject to audits by the Royalties, Accounting and Economics Division of the Natural Resources Administration.

For details regarding the method of calculating the value of the royalty at the wellhead in the Tamar Project, and the Company's assessment in connection with the calculation method, see Section 7.18 below and Note 15 to the Financial Statements.

7.16.9 Additional regulatory restrictions

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

In October 2011, a committee was formed to examine the government's policy with regard to the natural gas sector in Israel and its future development, headed by Mr. Shaul Tzemach, the then Director General of the Ministry of Energy(in this section: the "**Tzemach Committee**"). On September 12, 2012 the Tzemach Committee released a final report. On June 23, 2013 the Israeli Government adopted the principal recommendations of the Tzemach Committee, with certain changes (in this section: the "**Government Resolution on the Tzemach Committee**").

The Gas Framework described in Section 7.16.1 above, which took effect on December 17, 2015, included several clarifications and amendments to the aforesaid government resolution. On January 21, 2018, the Ministry of Energy announced the establishment of a professional inter-ministerial committee, headed by the Director General of the Ministry of Energy, Udi Adiri (the "**Adiri Committee**"), to carry out a periodic review of the Tzemach Committee's recommendations. The Adiri Committee examined the developments that occurred in the natural gas sector in the five years since the adoption of the Tzemach Committee's recommendations and reviewed the issue of natural gas supply and demand in 2018. On December 18, 2018 the Adiri Committee published its final recommendations, and on January 6, 2019 the Israeli government adopted the principal recommendations of the committee (the "**Government Resolution on the Adiri Committee**"). Following are the main points of the Government Resolution on the Adiri Committee:

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

The obligation to supply the Minimum Amount for the Domestic Market with respect to discoveries recognized before the approval of the Government Resolution on the Adiri Committee will remain as specified in the Government Resolution on the Tzemach Committee, as set out below:

<u>Amount of Natural Gas in Reservoir</u>	<u>Rate of Minimum Supply to Domestic Market out of Natural Gas Amount in Reservoir</u>
Above 200 BCM (inclusive)	50%
Above or equal to 100 BCM, but below 200 BCM	40%
Above or equal to 25 BCM, but below 100 BCM	25%
Below 25 BCM	To be determined by the Petroleum Commissioner

The obligation to supply the Minimum Amount for the Domestic Market with respect to discoveries recognized after the approval of the Government Resolution on the Adiri Committee will be as set out below:

<u>Amount of Natural Gas in Reservoir</u>	<u>Rate of Minimum Supply to Domestic Market out of Natural Gas Amount in Reservoir</u>
For each additional 1 BCM from 200 BCM and up	55%
For each additional BCM from 50 BCM to 200 BCM	50%
Below 50 BCM	No obligation to supply

In respect of reservoirs shared by Israel and other countries, the Petroleum Commissioner will determine specific arrangements and conditions⁹⁴. In addition, export facilities must be located in Israeli-governed territory that is in its exclusive economic zone, unless otherwise stipulated in a bilateral agreement between Israel and another country.

- (2) The export of natural gas will require approval from the Petroleum Commissioner⁹⁵, and the amount of gas permitted for export will be in accordance with the pro rata part of the quantities permitted for export in the reservoirs at that time, subject to ensuring the minimum quantity for the domestic market, as aforesaid.
- (3) Notwithstanding the aforesaid, a reservoir developed prior to the Government Resolution on the Tzemach Committee (i.e. Yam Tethys Project and Tamar Project), may export 50% of the amount which the leaseholders have not yet committed to the domestic market as of the date of the Government Resolution on the Tzemach Committee and no more, with immediate effect, provided that export approval is given. If a consumer exercises the option to reduce quantities granted to it by an agreement signed with the leaseholders prior to such date, the quantity of natural gas for which the option to

⁹⁴ The permitted export quota from the Karish and Tanin reservoirs in the amount of 47 BCM was exchanged, as of the date of approval by the Petroleum Commissioner of the transfer of rights in Karish and Tanin, against the duty to supply to the domestic market imposed on the holders of the Leviathan leases.

⁹⁵ For details regarding the Petroleum Commissioner's directives with respect to the submission of applications for receipt of a natural gas export permit, see Section 7.16.6(c) below.

reduce quantities was exercised, will be deemed part of the quantity of natural gas which the leaseholders have not yet committed to the domestic market.

- (4) The holder of a lease in a developed reservoir will be entitled to exchange its export quota against an obligation to supply to the domestic market according to its size and at the rates determined, and subject to the approval of the Petroleum Commissioner and the Competition Commissioner, after they took all the relevant considerations into account.
- (5) It was decided to stipulate an obligation to connect reservoirs to the domestic market according to the size of the reservoir, in the following manner: (a) Reservoirs with a volume of more than 200 BCM will be obligated to connect to the domestic market upon their development and before the commercial flow of natural gas begins. (b) Reservoirs of between 50 BCM and 200 BCM which begin commercial production of natural gas until January 1, 2028, will be obligated to connect to the domestic market by December 31, 2032, according to the discretion of the Petroleum Commissioner; such reservoirs which begin commercial production after January 1, 2028, will be obligated to connect to the domestic market upon their development and before the commercial flow of natural gas begins. (c) Reservoirs of up to 50 BCM will not be obligated to connect to the domestic market. In fields that produce by means of a single production system, where the same party is approved as operator or holds more than 50% of the rights in at least two of the leases within which such fields are located, the amount of gas will be calculated for the purpose of the obligation to connect to the domestic market on an aggregate basis. Notwithstanding the aforesaid, the Commissioner will be entitled, based on a reasoned decision, not to calculate the amount of natural gas in the fields on an aggregate basis.
- (6) In order to encourage the connection of additional natural gas fields to the domestic market, to task the Commissioner, the Director General of the Natural Gas Authority and the Director of Budgets in the Ministry of Finance to consider the state's participation in the

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

- (7) In view of the expected shortage in meeting demand at the hourly level in the middle of the 2030-2040 decade, it was proposed to formulate a set of solutions, including imposing on the Petroleum Commissioner the duty to consider, in relation to export permits, the issue of demand in the domestic market at the hourly level; to work towards encouraging the connection of additional fields to the domestic market (particularly towards the middle of the next decade (2030-2040)), and to consider only in 2021 the cancellation of the agreement with the LNG regasification vessel (the agreement is currently valid until 2022).
- (8) To task the Minister of Energy, in consultation with the Minister of Finance and the Minister of Economy and Industry, with formulating principles of the required regulation regarding the sale of natural gas to consumers in the domestic market that is used to produce by-products designated mainly for exports. Further to that stated, a subcommittee was set up for the purpose of formulating such regulatory principles (in this subsection: the "**Subcommittee**"). On March 16, 2020, the Subcommittee published a draft summary report for a hearing on the regulatory principles pertaining to exports of natural gas by-products (the draft was published for the receipt of public comments until April 16, 2020), the main points of which are as follows:
 - a. Natural gas by-products were defined as natural gas-based products the production of which involves a chemical change

in the methane molecule resulting in the conversion of natural gas to another compound or compounds, other than by oxidation (including methanol, ethylene, propylene, ammonia, GTL and DME).

- b. The Subcommittee noted that the determination that sales of natural gas to the by-product industry would be regarded as exports has numerous implications, the main ones being: implications arising from the Government's policy in relation to the natural gas sector, including the requirement for an export approval; the inclusion of the gas in the total quantity guaranteed for the domestic market; the gas calculation with respect to the minimum supply obligation of a natural gas field to the domestic market; the price of natural gas and financing of the transmission pipeline. It was likewise determined that the definition of the sales as exports would not apply to other aspects, such as taxation, including as regards the Encouragement of Capital Investments Law, 5719-1959.
- c. The Subcommittee recommended that a fixed quantity of up to 1.4 BCM per year of natural gas sales to the by-product industry be classified as sales in Israel and not for export, to enable the existence of the industry without distortions in the calculation of the demand for the domestic market.
- d. The allocation mechanism will be on "first-come-first-serve" basis, the condition for receiving the allocation being the presentation of an agreement or at the very least a signed MOU with respect to the enterprise in question. The allocated quantity refers to all the by-products, without any internal breakdown or limitations with respect to certain by-products. The allocating function will be the Director General of the Ministry of Energy in consultation with the Director General of the Ministry of Economy.
- e. It is likewise provided that if during two years after the date of adoption of the Government resolution in this regard, requests are submitted for the allocation of natural gas to the

by-product industry in an amount of more than 1.4 BCM per year, both the quantity allocated for this purpose and the relevant policy will be reviewed.

- f. The Subcommittee noted that the arrangement will be reviewed, together with the Government's entire policy in relation to the natural gas market, at the end of five years from the date of adoption of the Government resolution (as detailed in Subsection 10 below).
 - (9) To task the Minister of Energy, in consultation with the Minister of Finance, with initiating regulatory amendments, including legislative amendments, if required, in order to regulate secondary trading of natural gas that could be directed to exports, and inter alia to task the Minister of Energy, in consultation with the Minister of Finance, with ensuring by means of said regulatory amendments that secondary trading of natural gas that could be directed to exports is enabled in an amount limited to 3% of the total sales of natural gas to the Israeli market during the past year. This amount will not be counted in the calculation of the total amount to be guaranteed to the domestic market, but will be counted as part of the obligation of minimum supply by a natural gas field to the domestic market. It is clarified that no export permit will be required for exporting such limited amount.
 - (10) The Government Resolution on the Adiri Committee will be examined by the government at the end of five years from its approval date, for the purpose of making any necessary revisions in the policy regarding discoveries that will be recognized by the Commissioner after five years from the date of approval of the resolution, based on the needs of the domestic market and taking the supply of natural gas into account.
- (b) Natural gas price control
- On May 25, 2011, the Ministry of Energy requested the Joint Prices Committee of the Ministry of Finance and the Ministry of Energy (the "**Prices Committee**") to examine the need for the imposition of control on the prices of natural gas sold in Israel.

Pursuant to the recommendation by the Prices Committee, the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, was issued on April 24, 2013. The order imposes control on the gas sector in terms of reporting on profitability and prices. The need to control natural gas prices in Israel in terms of price fixing will be examined based on information to be received. According to the Gas Framework, as long as Delek Drilling and Noble comply with all the terms of the Gas Framework, such reporting obligation will remain in force. Such reporting obligation applies to the partners in the Yam Tethys Project, in the Tamar Project and in the Leviathan Project, and also applies separately to each project.

For details regarding the effect of the imposition of price control on natural gas prices in Israel at the price fixing level, see Section 7.24.17 below.

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

On December 9, 2012 the Natural Gas Authority at the Ministry of Energy (in this section: the "**Authority**") issued a decision regarding the regulation of allocation of capacity in the pipeline, including with regard to the preservation of gas capacity for consumers and marketers in the distribution network and in connection with the resolution of the issue of supply capacity shortage in the Tamar Project. It is the Authority's position that the Tamar Partners will not refuse to sign contracts for the sale or marketing of natural gas with consumers wishing to enter into an agreement with them merely because the agreement means that the total hourly quantity of natural gas to pass through the gas pipeline overruns the maximum capacity estimated as of such time at 40,000 MMBTU per hour.

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

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

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

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

Designated for Export as aforesaid) the pro rata portion in respect of the duplication of the Segment Designated for Export. The Council will determine the division of the cost between the exporter and the transmission license holder.

- e. In the event that the Director General of the Natural Gas Authority determines that there is sufficient capacity in the transmission system at the time the agreement is signed between the transmission license holder and the exporter, but that it is likely that during the ten years after the commencement date of the initial natural gas flow, there will be a capacity shortage in respect of the transmission system's Israeli consumers, in the segment leading to the Segment Designated for Export, then at the date of signing the transmission agreement, the exporter will choose between one of the following alternatives: (1) to pay the transmission license holder 50% of the future duplication budget for the relevant segment of the transmission system, and this amount will not be repaid to the exporter even if said segment is ultimately not duplicated; or (2) not to pay said amount and in the event of duplication of the segment as aforesaid, the provisions of Subsection d. above will apply.
- f. The Director General of the Natural Gas Authority will determine, in each case, the point in the Transmission System from which the beginning of the segment leading to the Segment Designated for Export will be calculated and such point will be explicitly indicated in the transmission agreement.
- g. Although the construction cost is imposed (in whole or in part) on the exporter, the latter will not own the segment and will not have any stake in such segment.
- h. This decision will not apply to export transmission agreements signed with the transmission license holder before November 2, 2014 (including the transmission agreement signed in connection with an agreement dated February 19,

2014, for the export of gas from the Tamar Project to consumers in Jordan) (as detailed in Section 7.4.5 above).

- i. It should be noted that in the framework of the Amended Export Agreement detailed in Section 7.4.5(b) above, it was agreed that the Tamar Partners would bear the costs of the gas transmission in the INGL's transmission system.
- (2) On March 30, 2017, the Natural Gas Sector Council published a decision regarding the distribution of the costs of expansion of the transmission system to Jordan, which prescribes that NBL will pay INGL 58% of the final cost of construction of the additional transmission segment from Tel Kashish to Dovrat.
- (3) On March 26, 2020, the Natural Gas Sector Council published an addendum to the decision regarding the financing of export projects that use the Israeli transmission system and the distribution of the construction costs of the Ashdod-Ashkelon combined segment. The addendum establishes the following principles:
 - 1) In addition to the categories defined in the decision from September 7, 2014, as aforesaid, the Council will be entitled to define an export-dedicated segment that enables closing a loop in the system or creates redundancy and backup for natural gas that is piped to Israeli transmission consumers as a "combined segment."
 - 2) If a segment is designated as a "combined segment," the Council will define the ratio of allocation of the costs of construction of such segment between the exporter and the transmission license holder, and if necessary, the Council will set additional conditions and obligations for any of the parties.

Regarding the distribution of the costs of the Ashdod-Ashkelon combined segment, the following was prescribed:

- 1) The offshore segment of the transmission system that is to be constructed from the terminal in Ashdod to the delivery point to the export facilities of Prima Gas Ltd. will be defined as a combined segment (the "**Combined Segment**")

- 2) The cost of the combined segment and the manner of allocation of the cost between the exporter and the transmission license holder will be anchored in a transmission agreement to be made between the transmission license holder and the exporter (the "**Transmission Agreement**") according to the following principles:
 - a. The cost of the segment will be determined based on the Council's decision published in September 2014, such that the transmission license holder and the exporter will present to the Director of the Natural Gas Authority the cost on which they agreed together with an economic opinion, while the Director of the Natural Gas Authority will be entitled not to accept the agreed cost and to set another cost. If the transmission license holder and the exporter do not agree on the segment cost by May 15, 2020, the Director of the Natural Gas Authority will set the cost.
 - b. 43.5% of the segment cost, as determined in accordance with Subsection a. above, will be financed by the transmission license holder.
 - c. 56.5% of the segment cost will be financed by the exporter according to milestones determined in the Transmission Agreement.
 - d. Additionally, the exporter will pay the transmission license holder NIS 27 million against its share of the cost stemming from the advancement of the doubling of the Dor-Hagit and Sorek-Nesher segments (the "**Doubling Cost**"), which is estimated at NIS 48 million, after the doubling of the Dor-Hagit and Sorek-Nesher segments will have been included in Appendix A to the construction and operation license for the transmission system of the transmission license holder, and before construction of the segments begins.
 - e. The exporter will provide the transmission license holder with an autonomous financial guarantee of an

Israeli bank, at 110% of the cumulative amount of the cost in Subsection b. above (i.e. the transmission license holder's share plus 10%), and of NIS 21 million, which will decrease as provided in the addendum to the decision.

- f. As long as the exporter exports to Egypt, the quantity of natural gas specified in the Transmission Agreement will be piped through the transmission system of the transmission license holder and not through a segment outside the Israeli transmission system.
- g. If the exporter ceases to export to Egypt, it will be required to pay to the transmission license holder the difference, if any, between 110% of the cumulative amount of the total cost specified in Subsection b. and the total Doubling Cost (i.e. NIS 48 million), on the one hand, and the cumulative transmission and capacity fee the exporter paid to the transmission license holder from the day of completion of the combined segment and the payments it made to the license holder as specified in Subsections c. and d. above, on the other.

As of the report approval date, the Company is considering together with the Tamar Partners the significance and implications of the decision.

(e) The Marine Zones Bill

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

On November 13, 2017, the Marine Zones Bill passed its first reading in the Knesset, and since then several deliberations have been held by the Knesset Finance Committee ahead of its preparation for the second and third readings. The proposed law, to the extent it passes its second and third

readings, may have an effect on the Company's operations and costs, the scope of which cannot be estimated as of the report approval date.

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

- (f) The decisions of the Minister of Energy in connection with the discontinuation of use of coal and the reform in the IEC and in the electricity sector

On August 24, 2016, the Minister of Energy announced his decision to shut down four coal-operated production units of the IEC upon the connection of three natural gas reservoirs to the shore, and the construction of new natural gas-operated power plants within six years. Further thereto, on September 30, 2016, the IEC received emission permits under the Clean Air Law, 5768-2008, for its coal-fired power plant sites, which prescribe, inter alia, the duty to continue installing means of emission reduction and to discontinue the operation of Units 1-4 in the coal-fired power plant at the "Orot Rabin" site, no later than June 1, 2022.⁹⁶

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

⁹⁶ According to an immediate report of IEC from October 5, 2016.

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

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

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

- (1) The IEC will reduce its activity in the electricity generation segment by selling five generation sites with a total maximum capacity of 4,000 megawatts, representing approximately one half of its electricity generation capacity, as follows: a. Alon Tavor – within a year and a half from the Reform approval date;⁹⁷ b. Ramat Hovav – within two and a half years from the Reform approval date; c. Reading – within three years from the Reform approval date; d. Hagit East – within four years from the Reform approval date; e. Eshkol – within five years from the Reform approval date.
- (2) The IEC will establish two CCGTs operating with natural gas at the Orot Rabin site, as part of the trend towards reducing the use of coal in the electricity generation process, replacing coal-based units 1-4 which are expected to be shut down. The new generation units will be operated by a new subsidiary wholly owned by the IEC. The IEC will continue to maintain and operate the transmission and distribution networks. However, responsibility for and management of the national power grid will be transferred to a separate

government company. On July 29, 2018, the government approved the cessation of the operation of coal-based units 1-4 at Orot Rabin by June 2022 at the latest, subject to the fulfillment of conditions precedent (the connection of three natural gas reservoirs to the shore and completion of the construction of an alternative electricity generation system). In July 2018 the Knesset approved the amendments to the Electricity Sector Law, 5756-1996, for the purpose of implementing the government resolution concerning the Reform.

On October 9, 2018, the Minister of Energy published the "Plan to Save Israel from Polluting Energy," which essentially deals with reducing the use of polluting fuel products by 2030. Further thereto, in March 2019, the Ministry of Energy published a policy document – Energy Sector Targets for 2030.⁹⁸ The plan set targets for 2030, detailing concrete steps and setting timetables in three main areas, as follows:

- a. Power generation segment – To gradually reduce coal-based power generation until 2028, when the use of coal for power generation will be completely discontinued in all coal-fired power plants, and power generation will be based solely on natural gas and renewable energy sources, with units 1-6 in the coal-fired Orot Rabin power station in Hadera and units 1-4 in the coal-fired Rutenberg power station in Ashkelon to be permanently shut down. Additionally, the ability to expand the scope of use of renewable energy sources beyond the target of 17% by 2030 is being examined. As mentioned above, on November 13, 2019 the Ministry of Energy announced a further shortening of the timetables for ending the use of coal in power generation, in the framework of which it was decided to convert the coal-based stations in Hadera and Ashkelon to natural gas by the end of 2025.
- b. Transportation sector – Discontinuing consumption of polluting fuel products in land-based transportation, and transition to electric vehicles and compressed natural gas vehicles. Accordingly, starting in 2030, the import of vehicles powered by polluting fuels to Israel

⁹⁸ <https://www.gov.il/BlobFolder/rfp/target2030/he/e>

will be completely prohibited. Further to this policy, the Ministry of Energy issued a tender⁹⁹ for the nationwide deployment of 2,500 charging stations for electric vehicles, and in June 2019 it published the list of winners in the tender, pursuant to which these stations are expected to be deployed by the end of 2020.¹⁰⁰

- c. Industrial sector – Discontinuing the use of mazut, LPG and diesel fuel and replacing them with more efficient and cleaner energy sources starting from 2030. Likewise, additional advantages are being examined, such as the use of electricity instead of fuels and the supply of compressed natural gas. Accordingly, in 2019 the Ministry of Energy gave the distribution companies grants to expedite the deployment of the distribution network.¹⁰¹
- d. Promoting energy efficiency through the use of various mechanisms, including mechanisms for encouraging reduced power generation among electricity suppliers, producers and consumers and holders of other licenses in the electricity sector; steps to require zero-energy construction; promoting a model city for efficient and smart use of energy sources; increased efficiency among government bodies by reaching a target of 17% already in 2023, and achievement of energy rating targets based on actual consumption in existing buildings in Israel.
- e. Ensuring energy security in the economy by guaranteeing redundancy in the supply of natural gas to the economy, in the transportation, industrial and electricity sectors.

The plan will be submitted to the government for approval.

The Ministry of Energy's work plan for 2019,¹⁰² published in February 2019, states that the Ministry of Energy will act in the course of the year to advance the conversion of one generation unit at the Rutenberg power station in Ashkelon from coal-based to natural-gas-based generation, further to the Ministry of Energy's policy to discontinue the use of coal. Furthermore, to the best of the Company's knowledge, the Ministry has

⁹⁹ https://www.gov.il/he/departments/general/electric_vehicle_ac_dc

¹⁰⁰ https://www.gov.il/he/departments/news/electric_car_110619

¹⁰¹ https://www.gov.il/he/departments/news/electric_car_110619

¹⁰² https://www.gov.il/BlobFolder/reports/work_plans_2019/he/work_plans_2019.pdf

met one of the targets set in the work plan for 2019, namely, compliance with a rate of use of polluting fuels in the routine generation of electricity of 29% by the end of 2019 (similar to 2018).. The plan likewise states that the Ministry of Energy intends to take steps to cause the rate of use of polluting fuels in the generation of electricity to stand at 0%, with polluting fuels to serve for backup only.

On November 13, 2019, the Minister of Energy announced that following in-depth professional work and an examination of all the relevant considerations, the timetables for conversion of the coal-based power stations in Hadera and Ashkelon to natural gas could be shortened to 2025, bringing the coal era in the State of Israel to an end in that year. Thus, in accordance with his new decision, he was shortening the timetables previously set by him by four years. The decision prescribes the conversion of the generation units in the Rutenberg power station and of units 5-6 in the Orot Rabin power station in Hadera from coal to natural gas by the end of 2025. The decision to convert the power station from coal to natural gas was made following a professional examination of the different alternatives by the Electricity Authority, namely – leaving the existing situation unchanged, converting the station to natural gas, preservation or scrapping. Among the considerations taken into account: environmental costs, capex and opex costs, fuel prices and Israel's energy security.¹⁰³

The conversion itself will be carried out gradually, so as to minimize the risk of harm to supply reliability, and it is contingent on an appropriate gas agreement for the converted units in order to reduce the costs to the economy.¹⁰⁴ Furthermore, on January 7, 2020, the National Planning and Construction Council approved the plan to build two new generation units in the Orot Rabin power station in Hadera, to operate on natural gas, and it submitted the plan for approval by the government housing cabinet.¹⁰⁵

On January 29, 2020, the Electricity Authority announced¹⁰⁶ that it was examining the possibility of increasing the target for power generation from renewable energy sources to 30% of power generation in 2030, at the

¹⁰³ https://www.gov.il/BlobFolder/policy/electricity_no

¹⁰⁴ https://www.gov.il/he/departments/news/ng_131119

¹⁰⁵ https://www.gov.il/he/departments/news/ng_070120

¹⁰⁶ <https://pua.gov.il/Publications/PressReleases/Pages/2030.aspx>

request of the Minister of Energy, compared to the present target of 17% power generation from renewable energy sources in 2020.

In the Company's estimation, approval and implementation of the plan may lead to an increase in demand for natural gas in the Israeli market. On the other hand, approval and implementation of the plan will lead to increased demand for renewable energy sources, which could reduce demand for natural gas. The extent of the effect will be a function of the development of technologies for the storage of such renewable energy sources.

- (g) Fuel Excise Tax Order (Exemption and Refund) (Tax Amendment and Temporary Order), 5778-2018 (Green Taxation); Fuel Excise Tax Order (Imposition of Excise Tax) (Amendment No. 2 and Temporary Order No. 3), 5778-2018 (Amendment), 5779-2019; Customs Tariff and Exemptions and Purchase Tax on Goods Order (Amendment No. 8), 5778-2018 (Coal)
(hereinafter jointly called: the "Orders")

On March 14, 2018, and in accordance with an amendment from February 21, 2019, the Knesset Finance Committee, followed by the Knesset Plenum, approved the Orders, which provide that as of January 1, 2021, the excise tax on coal will go up by 125%, in view of the government's policy to include external costs of fuels and to encourage expansion of uses of natural gas.

In addition, it was decided that, as of January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of at least 25 CNG fueling stations, which will receive all the approvals required for operation. It was also provided that the refund of the excise tax on diesel oil, which is used primarily for transportation purposes, will be phased out as of January 1, 2021.

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

- (h) Paris Agreement and PPCA Agreement

In December 2018 Israel signed onto the initiative of the PPCA(Powering Past Coal Alliance), a worldwide coalition working to reduce the use of

coal. The partners to the initiative have pledged to gradually reduce the production of electricity from coal and to support clean energy in government and corporate policies. The coalition supports the reduction of the use of coal in OECD countries by 2030 and the world by 2050. The most significant steps, on the basis of which Israel's participation in the initiative was approved, are, *inter alia*, the determination in the Government Resolution that coal units 1-4 at the Orot Rabin power station in Hadera, which account for one third of coal-based production capacity in Israel, will be shut down by June 2022 (as detailed in Section 7.16.9(f) above), as well as the declaration that the use of coal will be completely discontinued by 2030 (the date for discontinuation was advanced to 2025, as detailed in Section 7.16.9(g) above).

As stated in the Ministry of Energy's announcement, Israel's participation in the initiative presents an opportunity to continue promoting the government's policy to reduce the share of coal in Israel's mix of fuels for generating electricity, thus lessening air pollution and helping to achieve the greenhouse gas emissions reduction target to which Israel committed in the Paris Agreement from 2015 (which was signed by Israel in 2016), the aims of the Agreement being, *inter alia*, to strengthen the implementation of the UN Framework Convention on Climate Change as well as reduce greenhouse gas emissions. In light of the foregoing, the Israeli government is promoting an environmental policy designed to increase reliance on and use of natural gas in electricity production, in industry and in transportation. It is noted that the central undertaking of each country that has signed the Paris Agreement is to submit a plan every five years, setting out the measures it will take to cope with climate changes.

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

In September 2016, the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives intended to regulate the environmental aspects of offshore oil and natural gas exploration, development and production operations. These directives are meant to instruct the holders of offshore petroleum rights regarding the actions and documents they are required to prepare in

the framework of their operations in the areas of their rights, in order to prevent, or minimize to the greatest extent possible, environmental hazards that might be created during offshore oil and natural gas exploration, development and production operations. Such directives constitute an integral part of the petroleum right and the work plan therefor, and deviation therefrom may lead to the revocation of the right. Therefore, the Ministry of Energy specifies, inter alia, the following directives:

- (1) Environmental directives for the performance of a seismic survey (geological and geophysical research): In view of the strong noise level created as a result of the performance of a seismic survey, and its consequences, it is required to report to the Commissioner on the noise level of, and the routes and dates planned for the seismic survey, and to obtain approval from the Petroleum Commissioner for the performance thereof. In cases where the activity is carried out in reservations or in proximity to infrastructure facilities, the activity must be coordinated with the competent authorities or entities. In addition, it is mandatory to prepare a plan for the performance of the survey, and to obtain the Petroleum Commissioner's approval for the survey's performance.
- (2) Environmental directives for licenses: At the license granting stage, a right is granted for petroleum exploration by means of exploration wells and appraisal wells, in the area of the license. In the event of findings which indicate the presence of hydrocarbons in the well, further tests are carried out, with the purpose of examining the quantity and quality of the hydrocarbons. As a condition for receiving a drilling permit, the license holder must submit an application for the Petroleum Commissioner's approval, which includes the following documents: (1) an environmental document that includes a background monitoring plan for the marine environment; and (2) an enterprise emergency plan for the treatment of sea pollution by oil, approved by the National Marine Environment Protection Division. In addition, the license holder is also required to obtain a sea discharge permit and a poisons permit.
- (3) Environmental directives for post-discovery licenses and for leases: As a condition for the receipt of approval for the development plan

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

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

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

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

Several petitions were filed with the High Court of Justice (HCJ) against the Plan. On December 22, 2015, a judgment was issued on the petitions, which determined that the Plan had overcome most of the legal hurdles placed in its path by the petitioners, and on the whole, passed the test of judicial review. However, the court accepted two specific arguments that had been raised in the aforesaid petitions, and ruled that the National Council would be granted 18 months to remedy the two specific flaws found in the Plan.

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

in the matter. Said approval was given the force of a government resolution on April 14, 2016.

(k) Decision of the Electricity Authority – principles for recognizing gas costs for private producers that use natural gas

(1) On September 12, 2016, the Electricity Authority laid down principles for recognizing costs for a vital service provider in respect of natural gas purchase agreements, as follows (in this section: the "**Authority's Decision**"):

- a. The manner of calculating the recognized price in NIS per one MMBTU, for a producer that has signed a gas agreement in which the gas price is linked to the production component.
- b. The Authority's Decision will apply to license holders that fulfill the following two cumulative conditions: (1) license holders that have signed a gas agreement in which the price is linked to the production component up to no later than December 31, 2018; (2) license holders that have not yet received a rate confirmation as of August 16, 2015 and that will complete financial closing and receive a rate confirmation no later than December 31, 2018.
- c. The Authority's Decision does not derogate from the authority of any governmental entity vis-à-vis the gas agreements and specifically not vis-à-vis the authority of the Committee for Price Control. It was further clarified in the Authority's Decision that if gas price control is imposed, the price recognized by the Electricity Authority will be according to the controlled price.
- d. It was determined that if electricity producers show an intention to sign gas agreements at a price that is not linked to the production component, the Electricity Authority will act to issue a separate decision regarding the recognized cost of gas, in accordance with the Gas Framework, for electricity producers that have signed a gas agreement with a different linkage mechanism.

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

- (2) The Electricity Authority's decision of June 12, 2017 states that the Electricity Authority will continue to recognize IEC's costs arising from the gas supply agreement between the IEC and the Tamar Partners, including costs arising from the minimum contract quantity (Take or Pay), subject to the following conditions:
 - a. IEC will act in a reasonable manner to minimize the costs of the agreement and to meet the minimum consumption commitment, while utilizing all the tools at its disposal, including investing all efforts to reduce the price of gas at any date that the agreement allows, including the resale of gas. This decision provides that the gas price in a resale to other electricity producers may not exceed the cost of purchasing gas from the gas supplier.
 - b. The IEC may not order gas in a quantity exceeding the quantities required for the generation of electricity according to the individual loading plan, less that stated in Subsection 1 above. IEC will use diesel and liquefied gas (LNG) as per the instructions of the system administrator.
- (3) The Electricity Authority's recognition of the costs of the IEC agreement will be subject to annual cost control which will be conducted by the Electricity Authority, taking into account IEC's activities to minimize the costs of the agreement and the IEC's compliance with the conditions detailed above.
- (4) On March 6, 2019, the Electricity Authority decided on principles for recognition of the costs of the supplier of an essential service (the

System Management Unit) in respect of natural gas supply agreements, as follows:

- a. The recognized price is calculated in shekels for one MMBTU, for a producer signed on a gas agreement in which the gas price is linked to the production component.
- b. The Authority's decision will apply only to license holders who are entitled to recognition of the cost of the gas agreement according to decisions of the Authority that are applicable to them, subject to fulfillment of the following two cumulative conditions: (1) license holders who sign a gas agreement at a price linked to the production component, as of January 1, 2019 and by no later than December 31, 2021; (2) license holders who complete a financial closing and receive a tariff approval by no later than December 31, 2010.
- c. A producer who signs a gas agreement replacing a prior gas agreement recognized by the Authority will receive 25% of the price difference between the agreements, provided the price in the new agreement is lower. A producer who signs a gas agreement that does not replace a gas agreement recognized by the Authority will receive 25% of the difference between the maximum gas price under the Gas Framework and the gas price in the agreement.

7.16.10 Permits and licenses for the facilities of the Tamar Project

In the framework of the Tamar Project development plan, the Tamar Project partners received approval to construct a permanent rig for the production of natural gas and petroleum and also an approval for the operation of a production system of natural gas and condensate from the Tamar Project, according to which the Tamar Project partners were required, inter alia, to provide guarantees in the amount of NIS 100 million (in terms of 100%).¹⁰⁷

Furthermore, on August 29, 2016, the Minister of Energy granted Tamar 10-Inch Pipeline Ltd. (a company owned by the Tamar Partners according to their respective pro rata interests in the lease) a temporary transmission license for the

¹⁰⁷ The Tamar Partners provided a guarantee in the amount of USD 35 million to ensure said commitment and to ensure the terms and conditions of the Tamar Lease deed.

operation of a pipeline to be used for the transport of natural gas originating in the Tamar Lease, from the Tamar Platform to the entry point of the natural gas processing terminal in Ashdod, all subject to the conditions of the license. The pipeline was constructed as part of the Production System, as defined in the operation approval for Tamar, mainly in order to serve for the transport of condensate, and its operation for the purpose of natural gas transmission is for a limited period, following which it will revert to being used for the transport of condensate.

7.17 Material Agreements

Following are listed the agreements to which the Company is a party and which may be deemed material agreements:

- 7.17.1 Sale agreement with Delek Drilling – For details see Section 6.2 of the Prospectus; these details are included herein by reference.
- 7.17.2 Sale agreement with Noble – For details see Section 1.5 above, as well as the Immediate Report from January 30, 2018 (Ref. No. 2018-01-008823) and the Supplementary Immediate Report from March 1, 2018 (Ref. No. 2018-01-016854), the information of which is included herein by reference.
- 7.17.3 Joint Operating Agreement in respect of the Tamar Lease – For details see Section 7.2.14 above.
- 7.17.4 Agreements for the sale of natural gas to the domestic market from the Tamar Project – For details see Section 7.5.1 above.
- 7.17.5 Agreement for the sale of natural gas by the Tamar Partners to the IEC – For details see Sections 7.4.4 and 7.4.4(d) above.
- 7.17.6 Agreements for the export of natural gas from the Tamar Project – For details see Sections 7.4.4 and 7.4.5 above.
- 7.17.7 Agreement for the grant of usage rights in the facilities of the Yam Tethys Project:
Under an agreement dated July 23, 2012 between the Yam Tethys Partners and the Company jointly with the other Tamar Partners (the "**Usage Agreement**") it was agreed, inter alia, as follows:
 - (a) The Yam Tethys partners grant the Tamar Partners usage rights in the existing facilities of the Yam Tethys Project, including the wells, the Mari-B platform, the compression system, the pipeline and the terminal, and the Tamar Partners are also granted the right to upgrade and/or construct facilities for the transmission and storage of natural gas from the Tamar

Project (the "**Yam Tethys Facilities**"). The usage rights in the Yam Tethys Facilities are granted subject to the reservation of capacity for gas produced from the Yam Tethys Project in the pipeline and in the Terminal.

- (b) The term of the Usage Agreement will end upon the earlier of: (1) the expiration or termination of the Tamar Lease, and in the event that the Dalit field is developed such that use is made of the Yam Tethys Facilities, the expiration or termination of the Dalit Lease; (2) the giving of notice by the Tamar Partners of the permanent cessation of commercial gas production from the Tamar Project; (3) the abandonment of the Tamar Project.
- (c) In consideration for the use of the Yam Tethys Facilities, the Tamar Partners paid the Yam Tethys Partners a total amount of \$380 million, in payments that ended in December 2015. As of reporting date, the consideration was paid in full.
- (d) The transfer of the rights of a party to the Usage Agreement in the Tamar Lease, in the JOA of the Tamar Lease, in the Yam Tethys Lease or in the Yam Tethys Operating Agreement is subject to the assignment of such party's rights and obligations under the Usage Agreement according to the proportionate share transferred as aforesaid. The transferee must agree to assume the transferor's obligations under the Usage Agreement.

(e) Fundamental breaches

If the Tamar Partners:

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

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

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

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

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

It should be noted that in light of the termination of production from the Yam Tethys Project, the Tamar Partners are holding discussions with the Petroleum Commissioner over their continued use of the Mari B rig, without derogating from the liability of the Yam Tethys Partners for their obligations under the Usage Agreement.

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

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

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

The Petroleum Law prescribes that a lease holder shall pay royalties to the State at the rate of one eighth of the quantity of petroleum produced from the area of the lease and exploited, excluding the amount of petroleum used by the lease holder for operating the area of the lease, but in any event no less than the minimum royalty provided for by law. The sum of royalties is calculated according to the market value of the royalties at the wellhead.

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

Pursuant to a letter received from the Ministry of Energy, as of January 1, 2017 the Tamar Partners pay royalty advances for 2017 and 2018 at a rate of 11.65%. On March 28, 2019, a letter was received from the Ministry of Energy specifying that starting from 2019 until otherwise notified, the effective rate of the royalty advances payable on the Tamar Lease would stand at 11.3%. The position of the Operator and the other Tamar Partners is that the calculation of the actual rate of State royalties in respect of the revenues from the Tamar Project should reflect the complexity of the project, the risks involved in it and the amount of investment in the project compared to the Yam Tethys Project.

It is noted that according to a calculation based on the principles of the "English formula," which constitutes the closest estimate to the agreement signed with the State in the Yam

Tethys Project (this calculation, as determined in the agreement, is not accepted by the State as a basis for calculating the royalties in the Tamar Project), the rate of the royalties to the State, which the Company applied in its financial statements, in the Tamar Project in 2017 and 2018 is 11.22% and 11.16%, respectively.

In February 2020 the Ministry of Energy issued guidelines for a hearing that include general guidelines on the manner of calculating the value of the royalty at the wellhead for offshore oil rights (for details see Section 7.16.8 above). Based on said guidelines and on the Company's assessments and estimates, the manner of calculating the royalty rate to the State from the date of acquisition of the leases by the Company (July 2017) was revised and its rate for 2019 based on the revised calculation is 11.3%. For the avoidance of doubt it is clarified that the royalty rate for 2019 and the estimate of its effect for the period from July 2017 until the end of 2018 rely on estimates based on the hearing guidelines, which are general and not final, and therefore such estimates may change according to the final directives that will be adopted for the Tamar reservoir.

As stated above, these rates do not reflect the royalty rate actually paid to the State in these years. It is further noted that for the discounted cash flow of the Tamar reservoir the Company assumed a royalty rate of 11.5%. There is no certainty that the Tamar Partners will succeed in the negotiations or in a legal proceeding for setting a lower royalty rate in the future.

Regarding the liability and rights of Delek Drilling in relation to the obligation to pay royalties to the State or the reimbursement of royalties from the State for the period before July 1, 2017 with respect to the rights in the Tamar Project which the Company acquired from Delek Drilling, see Section 6.2 of the Prospectus, the details of which are included herein by reference. Regarding the liability and rights of Noble in relation to the obligation to pay royalties to the State or the reimbursement of royalties from the State for the period before January 1, 2018 with respect to the rights in the Tamar Lease which the Company acquired from Noble, see immediate report dated January 30, 2018 (Reference No.: 2018-01-008823) and supplementary immediate report dated March 1, 2018 (Reference No. 2018-01-016854), the details of which are included herein by reference.

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

7.19.1 Under the Sale Agreement with Delek Drilling, the rights in the Tamar and Dalit Leases that were transferred to the Company from Delek Drilling (i.e.: rights at a rate of 9.25%) (in this section 7.19: the "**Right Acquired from Delek Drilling**") are subject to commitments that applied to Delek Drilling for payment of royalties

to interested parties and to third parties, prior to the transfer of the rights to the Company. Following is information on said royalties. It is hereby clarified that the rights in the Tamar and Dalit Leases that were transferred to the Company by Noble (i.e.: rights at a rate of 7.5%) are not subject to any royalties, other than payment of royalties to the State under the Petroleum Law.

Holder of right to royalties as of December 31, 2019	Rate of the royalties	Additional information
<p>Continuing Education Funds for School and Preschool Teachers – Management Company Ltd. and Continuing Education Funds for High School and Seminary Teachers and Inspectors – Management Company Ltd. (jointly: "School and Preschool Teachers Funds" and Delek Royalties¹⁰⁸ (the "Holders of the Delek Group Royalties")</p>	<p>Collectively: 1.5% before the return-on-investment date and 6.5% thereafter, of the Rights Acquired from Delek Drilling¹⁰⁹</p>	<p>Said right to royalties derives from a rights transfer agreement from 1993, under which Delek Energy and Delek Israel Fuel Company Ltd. ("Delek Israel") transferred certain petroleum rights to Delek Drilling (the "Delek Group Royalties").</p> <p>For details regarding the main terms of the Delek Group Royalties, as prescribed in said rights transfer agreement, see Paragraphs and a)-e) below.</p>

¹⁰⁸ The aforesaid right to royalties is held by: (1) School and Preschool Teachers Funds (25%), to which the royalty right was assigned by Delek Group Ltd. ("**Delek Group**") in December 2019; (2) Delek Royalties (75%), to which the royalty right was assigned by Delek Energy in June 2018 (Delek Energy and Delek Group are hereinafter referred to jointly as: the "**Transferors**"; Delek Royalties and the School and Preschool Teachers Funds are hereinafter referred to jointly as: the "**Transferees**"). It should be noted that as part of said assignments, the Transferors and the Transferees confirmed that the assignment of the royalty rights to the Transferees does not change their terms or harm any right and/or contention and/or relief the Company has or may have by law against the Transferors and/or the Transferees and/or any right that would have accrued if not for the assignment of the royalty right, including the Company's right to reimbursement by the Transferors and/or the Transferees of royalties that were and/or may be overpaid by it, also by way of offset against future royalty payments. The registration in the Petroleum Register was amended accordingly. It should be noted that to the best of the Company's knowledge, said rights were transferred at the rate determined ex-post the ROI date, and indemnity arrangements were established between the Transferors and the Transferees in the event it will be determined that a different royalty rate is payable.

¹⁰⁹ For further details regarding the determination of the return-on-investment date, see Section 7.19.2 below.

Holder of right to royalties as of December 31, 2019	Rate of the royalties	Additional information
Cohen Development Gas & Oil Ltd., YNU Nominee Company Ltd., Allied LP – Limited Partnership, and JOEL Jerusalem Oil Exploration Ltd.	Collectively: 3% of the Company's share in the Rights Acquired from Delek Drilling	Said right to royalties derives from the right of the general partner of Avner that was determined in the limited partnership agreement of Avner (the " Avner Royalties "). For details regarding the main terms of the Avner Royalties, see Sections 7.19.3 and 7.19.5 below.
Dor Chemicals Ltd. ("Dor")	0.48% of the Rights Acquired from Delek Drilling, calculated after the royalties to the State (i.e. 0.42%)	Said right to royalties derives from an agreement dated January 21, 2007 signed by Delek Drilling and Avner with Dor, whereby Delek Drilling and Avner purchased from Dor 2.5% (out of 100%) of the rights in the Michal and Matan Licenses, in whose place the Tamar and Dalit leases were later granted (respectively) (the " Dor Royalties ") and undertook to pay Dor royalties at a rate of 6% for the rights purchased. For details regarding the main terms of the Dor Royalties, as prescribed in said rights purchase agreement, see Paragraphs d) and e) below.

7.19.2 Delek Group Royalties

- (a) The Delek Group Royalties at a total rate of 1.5% before the return-on-investment date ("**ROI Date**"), and 6.5% thereafter, shall apply in respect of petroleum and/or gas and/or other valuable substances produced and exploited from the rights in the Tamar and Dalit Leases that were acquired by the Company from Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

The terms and conditions of the Delek Group Royalties specify, inter alia, that the term "**ROI Date**" means – the date on which the Net Value of

Revenues (as defined below) that Delek Drilling/the Company received or is entitled to receive for the petroleum and/or natural gas and/or other valuable substances that were produced and exploited from the petroleum asset, calculated in dollars, reaches a sum equal to the Value of All Expenses of Delek Drilling/the Company (as defined below), calculated in dollars.

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

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

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

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

In 2002 Delek Drilling, on the one hand, and Delek Group and Delek Energy, on the other, appointed by consent an expert to determine the correct meaning of certain definitions and terms relating to the royalties which Delek Drilling is required to pay as stated above.

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

- (1) Only revenues/receipts received for petroleum and/or natural gas and/or other valuable substances (jointly: "**petroleum and/or gas**"), that were produced and exploited from the petroleum assets (and

- certified as such by the auditor of Delek Drilling), should be taken into account; and
- (2) Only the value of the expenses of Delek Drilling that were incurred in the petroleum asset (the license or the lease) in which the petroleum and/or gas were produced (and certified as such by the auditor of Delek Drilling) should be taken into account; and – if an expense was incurred in more than one such petroleum asset, it should be split among the petroleum assets in which it was incurred and/or which it was meant to serve. Thus, where the expense was incurred in petroleum asset A from which, at the end of the day, no petroleum and/or gas was produced – this expense will not be taken into account in determining the ROI Date for petroleum asset B from which petroleum and/or gas are being produced; and
- (3) The expenditure on exploration activities (including dry drilling) will be taken into account as an expense of the petroleum asset within whose area these activities were carried out, for the purpose of determining the ROI Date, and the same applies to development activities and activities for determining the boundaries of the field; and
- (4) Expenses in respect of facilities (on land and on the continental shelf), including for the production, treatment, transmission, measurement, storage, operation, maintenance, marketing and sale (including sale agreements) of the gas, should be taken into account; and
- (5) The expenses taken into account for the purpose of determining the ROI Date must be full expenses (without depreciation) and finance expenses; and
- (6) The determination of the ROI Date is a one-time determination that cannot be retracted, even if subsequently a situation arises in which the expenses in the petroleum asset exceed the revenues received from the petroleum and/or gas output from that petroleum assets.
- (c) Additionally, the Delek Group Royalties are subject to the additional conditions set out in Section 7.19.5 below.

- (d) In April 2018 the Company began paying the Delek Group and Delek Energy royalties on revenues from the Tamar Project, according to the increased rate applying after the ROI Date (6.5%), with effect from December 12, 2017, based on a draft calculation made by Delek Drilling (which included the rights of Delek Drilling and the rights of the Company in the Tamar Lease), from whom the Company acquired said rights subject to an undertaking to pay said royalties, it being made clear to the Company that said payment constitutes an advance payment only, in light of the fact that the Company had not yet performed all the examinations and calculations in connection with the calculation of the ROI Date. The Company likewise informed Delek Group and Delek Energy that it was aware that the supervisor at Delek Drilling was carrying out an independent examination of the calculations of Delek Drilling with the assistance of an outside consultant, and it therefore was reserving all its rights in the event it would become apparent, following the completion of all the aforesaid examinations and calculations, that the actual ROI Date was not on the aforesaid date but on a later date, including its right to reimbursement of royalties that were overpaid by it, by deducting such royalties from future royalty payments that would be made by it to Delek Group and Delek Energy. In August 2018, in light of a revision in Delek Drilling's draft calculation, the ROI Date set by Delek Drilling at January 19, 2018 was postponed. In the wake of this postponement and further to the Company's communication to Delek Group and Delek Energy, the Company was reimbursed royalty payments in an amount of USD 0.8 million.
- (e) In February 2019, upon the completion of all the examinations and calculations that were made by the Company, the Company's audit committee and board of directors approved an interim calculation report as of the ROI Date, according to which the ROI Date falls on February 25, 2018, based on data of Delek Drilling up to June 30, 2017, with the adjustments made by the Company, and on data of the Company starting from July 1, 2017, subject to the adjustments, assumptions and qualifications set out in said report (the "**ROI Date Report**"). The calculation is an interim calculation, since it does not include the effect of the petroleum profit tax under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Sheshinski Levy**") on the ROI Date. The

ROI Date Report was submitted to the Delek Group and Delek Energy on February 19, 2019, together with a special report of the independent auditors as well as a letter according to which the Company had requested the reimbursement of royalties in an amount of USD 0.85 million in light of the postponement of the ROI Date to February 25, 2018. The Company's aforesaid request not having been granted, it deducted said payment from the royalty payments made to the Delek Group and Delek Energy at the end of February 2019. The letter likewise stated that in light of the fact that the Company had good arguments for the inclusion of the Sheshinski Levy in the final calculation, it was requesting to establish with them an agreed mechanism for examining the Sheshinski Levy and its inclusion in the ROI Date calculation. In letters from February 28, 2019 Delek Group, Delek Energy and Delek Royalties stated their objection to the contents of the Company's letter, denying the Company's right to make the deduction (which, according to them, was made unlawfully) and likewise noting that they had weighty arguments regarding the advancement of the ROI Date so that it should fall long before the date set by the Company. Said royalty holders stated, furthermore, that if the Company would not transfer the amount that had been deducted, and if it failed to agree with their position regarding the advancement of the ROI Date, they would consider their steps regarding the appropriate way to clarify these issues.

On July 29, 2019, the Company addressed to Delek Group and Delek Energy a demand to reimburse a sum of USD 170,000 they had been overpaid, due to the deferral of the ROI Date from February 25, 2018 to March 5, 2018, pursuant to an arbitrator's decision issued in the international arbitration that was conducted between Delek Drilling, Isramco and Dor Gas, on the one hand, and OPC, on the other, in the wake of disagreements over the linkage of the gas price in respect of quantities of gas that were supplied prior to the start of the Company's operations.¹¹⁰ In letters dated July 31, 2019, Delek Group and Delek Energy stated that they disagree with the contentions in said letter of demand and reject the Company's demand for reimbursement of royalties as aforesaid. Therefore, on the same day, the Company notified Delek Royalties and Delek Group

¹¹⁰ For a clarification regarding said arbitrator's decision see the Company's immediate report dated July 21, 2019 (Reference No. 2019-01-062748), the contents of which are included in this report by reference.

of the offset of said amount from the royalty payment it had made to them on that day, in accordance with the right conferred on it. Following the performance of the offset, Delek Royalties notified the Company that it disagrees with the contents of the letter of demand and denies the Company's right to make such an offset.

On August 4, 2019, the Company signed with Delek Group, Delek Energy and Delek Royalties an agreement (the "**Mediation and Arbitration Agreement**"), whereby they agreed to try settling the disagreement between them regarding the determination of the "ROI Date" as this term is defined in the agreement for the transfer of rights in a mediation process before the Honorable Supreme Court Justice (emeritus) Yoram Danziger.¹¹¹ The parties agreed that if the mediation process would be discontinued before a settlement agreement was signed between them, they would submit to an arbitration proceeding according to the mechanism established in the agreement. In September 2019 the parties began the mediation process. It should be noted that as of the report approval date the parties have not come to any agreements.

- (f) To the best of the Company's knowledge, a claim is underway at Delek Drilling that was filed in January 2019 by the supervisor on behalf of the holders of participation units in Delek Drilling, against Delek Drilling, the general partner in Delek Drilling, Delek Group, Delek Energy and Delek Royalties, requesting, *inter alia*, to declare that the Sheshinski Levy should be included in the ROI Date calculation, and that the ROI Date in the Tamar Project had not yet arrived, and requesting as well not to pay said royalty holders a royalty at an increased rate and to reimburse royalties that had been overpaid until then.

Pursuant to said claim, said royalty holders submitted a statement of defense and a statement of counterclaim against Delek Drilling, the general partner in Delek Drilling and the supervisors, in which they argue, *inter alia*, that the calculation of the ROI Date in the Tamar Project as performed

¹¹¹ It should be noted that simultaneously with the signing of the agreement, Delek Energy signed a letter of undertaking in which it committed to pay the Company any amount held in an arbitration decision that Delek Royalties or its successor must reimburse to the Company as a result of the arbitrator's determination that the ROI Date should have taken into account the payments due to the State in respect of the Sheshinski Levy. Likewise, if the Company chooses to exercise its right of offset against the royalty holders in respect of the Sheshinski Levy, the letter of undertaking will be invalid and will lapse as of the date of the offset. For further details see Note 11G2a)1) to the Financial Statements.

by Delek Drilling included expenses that had been "loaded" onto the calculation, among them finance costs of Delek Drilling itself, disposal and abandonment costs, administrative expenses of Delek Drilling and post-"wellhead" costs. According to said royalty holders, excluding the aforesaid expenses, the ROI Date in the Tamar Project had occurred already in August 2015, and alternatively in 2016, and in the further alternative in 2017. Accordingly, said royalty holders requested the court, inter alia, to declare which expenses should be taken into account in the ROI Date calculation, and to order Delek Drilling to prepare a new calculation of the ROI Date based on their arguments and of the royalties which said royalty holders are entitled to receive.

As of the report approval date, said proceedings were not yet concluded.

Given that the Company's ROI Date calculation includes data of Delek Drilling, the outcome of said legal proceedings may affect the determination of the date of the return on the investment of the Company.

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

7.19.3 Avner Royalties

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

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

7.19.4 Dor Royalties

The Dor Royalties at a total rate of 0.48% shall apply in respect of petroleum and/or gas and/or other valuable substances that will be produced and exploited from the rights in the Tamar and Dalit Leases that were acquired by the Company from Delek Drilling (i.e. rights at a rate of 9.25% out of 100%), after deduction of the royalties to the State (i.e. 0.42%).

7.19.5 Further conditions

- (a) The Royalty Holders or any of them shall be entitled to receive all or any of the royalties in kind, i.e. to receive in kind a part of the petroleum and/or natural gas and/or other valuable substances that will be produced and

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

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

- (b) The right to royalties shall be linked to the Company's share in the petroleum asset. Should the Company transfer its rights in a petroleum asset, the Company shall ensure that the transferee assumes all the undertakings to pay royalties as aforesaid. The foregoing shall not apply in the event of asset forfeiture due to the Company being behind on payments.
- (c) The Company shall keep complete and accurate records regarding its share in the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset. Each of the Royalty Holders shall be entitled to appoint an accountant who shall be entitled to inspect, examine and copy, during normal work hours, the Company's books and other documents and records relating to the Royalty Holders' right to the royalties.

7.20 Payment of royalties to the State from the Dalit Lease

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

7.21 Legal proceedings

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

On November 23, 2016 a decision was handed down rejecting a motion that had been filed by the Tamar Partners to summarily strike the Certification Motion, and on December 15, 2016 the Tamar Partners submitted an application for leave to appeal this decision. On September 28, 2017, the Supreme Court issued a judgment in the application for leave to appeal. The Supreme Court considered said application as if leave to appeal had been granted, and ruled on the merits that there was no room for intervening in the decision of the District Court and that the appeal should be rejected. Nevertheless, it held that a further factual clarification should be made, and it therefore returned the case to the District Court for consideration of the Certification Motion on the merits.

On November 15, 2017 the Company filed an application for its joinder as a respondent to the Certification Motion. On December 8, 2017 the court ordered the joinder of the Company as a respondent, but imposed on it certain restrictions in the submission of a response. On January 10, 2018 the Company submitted its response to the Certification Motion, in which it requested to dismiss the Certification Motion against it, *inter alia*, based on the arguments in the response of the other respondents and the opinions that were attached to them, as well as on additional grounds which were detailed, with emphasis placed on the circumstances pertaining to the Company.

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

As of the report approval date the evidentiary hearings, in which the parties' experts and affiants were examined, have been completed, and the parties' closing arguments also have been submitted. On February 19, 2020, the court accepted the Tamar Partners' motion to set a date for a hearing on the parties' closing arguments, and a date was set for June 1, 2020. For further details see Note 11J(1) to the financial statements.

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

- 7.21.2 On December 9, 2018, an application under Section 198A of the Companies Law, 5759-1999 was submitted by the Company's shareholders against the Company in the Tel Aviv-Yafo District Court (Economic Department) for the disclosure and inspection of documents, aimed, according to its contents, at requiring the Company to provide the applicant with documents to help him examine the possibility of filing a motion to certify a derivative action, in which the requested relief would be the reimbursement to the Company of royalty amounts it overpaid (insofar as the documents provided would reveal the overpayment of royalties) to the Delek Group, Delek Energy and Delek Royalties (the "**Royalty Holders**"). In the motion it is contended, inter alia, that the Company's officers were negligent in that they began paying the aforesaid royalties according to a rate of 6.5% (instead of 1.5%) with effect from January 2018, based on a calculation made by Delek Drilling, without preparing an independent calculation before the Company completed its examinations on the subject, without requesting the Company's independent auditors to audit the ROI Date calculation, and without taking into account in said calculation the levy on gas and oil profits by virtue of the Taxation of Profits from Natural Resources Law, 5771-2011. On January 6, 2020, the court handed down its decision, summarily dismissing the motion, inter alia, due to the absence of a previous application by the applicant to the Company which would have obviated the proceeding, and in light of the conduct of a legal

proceeding against the Royalty Holders in matters forming the subject matter of the motion.

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

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

The damage alleged by the Applicants is the difference between the amount of the dividend the Company is expected to distribute for the period, as specified in the offering document for institutional investors, and the amount of the dividend which, according to an expert opinion that was attached to the Certification Motion, the Company is expected to distribute for the Period, totaling at least USD 53 million. The requested relief includes the restitution of the full damages of the class members and a mandatory injunction directing the Company to distribute the full amount of the dividends which it guaranteed to the buyers of its shares. On August 12, 2019, the Company and the other Respondents submitted their response to the Certification Motion, arguing that the Certification Motion should be summarily dismissed. On February 2, 2020, the Applicants submitted their response to the Respondents' replies, attaching a

supplementary economic opinion in which the damage alleged in the Certification Motion was reduced to USD 48.4 million. Further to the court's request, on February 6, 2020 the Attorney General submitted his position, stating that he did not see fit to join the proceeding at that stage. On March 19, 2020, the Respondents submitted a motion to strike the Respondents' response to the Respondents' replies to the Certification Motion. For further details see Note 11J(3) to the Financial Statements.

- 7.21.4 On December 9, 2014, the Tamar Partners submitted an appeal to the Minister of Energy against the Petroleum Commissioner's decision to reject the plan for the development of the Tamar SW reservoir which was submitted to him by the Tamar Partners, in view of the fact that the Tamar SW reservoir partly overflows into the Eran license. Following the Commissioner's approval of the development plan for the Tamar SW reservoir in January 2019, said appeal became redundant. On March 25, 2019, the Tamar Partners notified the Minister of Energy that they were withdrawing the appeal on the Petroleum Commissioner's decision to reject the plan for the development of the Tamar SW reservoir. On April 11, 2019, the parties' agreed mediation settlement, as detailed in Section 7.2.8 above, was given the effect of a judgment. For details regarding the aforesaid development plan see Section 7.2.8 above.
- 7.21.5 Further to Section 7.4.4(d)(20) above, regarding the failure to choose the Tamar Partners' proposal as the winning proposal in the competitive process, on April 18, 2019, the Company and other partners in the Tamar Project (in this section, the "**Petitioners**") submitted an administrative petition against the IEC, Delek Drilling, Noble and Ratio (Delek Drilling, Noble and Ratio are referred to jointly in this section as: the "**Leviathan Partners**"; the IEC and the Leviathan Partners are referred to jointly in this section as: the "**Respondents**"), requesting the court to declare that the decision of the IEC's Tender Committee (in this section: the "**Committee**") of April 4, 2019, awarding the tender to the Leviathan partners, is invalid and contrary to law, harms equality and undermines the basic principles of the tender laws and is therefore void; alternatively, to remand the decision to the Committee and instruct it to consider other options as set forth in the petition; and in the further alternative, to order the cancellation of the tender due to the serious defect that occurred in the tender process. Simultaneously with the submission of said petition, an application was submitted to the court for an interim injunction prohibiting the Respondents to perform any act for the

advancement or implementation of the tender results until a decision would be handed down in the petition.

On May 6, 2019, the Respondents submitted their responses to the application for an interim injunction, and on May 14, 2019, the Petitioners submitted their response to said responses. On May 19, 2019 and on May 20, 2019, the Leviathan Partners and the IEC, respectively, submitted their response to the petition.

On July 7, 2019, the Tel Aviv District Court handed down its judgment rejecting said administrative petition. On August 19, 2019, the Petitioners filed an appeal against the judgment with the Supreme Court, in which the court was requested to set aside the judgment and rule as requested in the petition (the "**Appeal**"). Pursuant to the Supreme Court's decisions, the Tamar Partners submitted their closing arguments on December 4, 2019. In accordance with the court's decision of January 19, 2020, the partners in the Leviathan reservoir and the IEC are required to submit their closing arguments by April 5, 2020, and the Tamar Partners are required to submit their closing arguments in reply by May 5, 2020. Additionally, a hearing in the Appeal has been set for May 14, 2020. For further details see Note 11C(9) to the Financial Statements.

- 7.21.6 On July 9, 2019, an application under Section 198A of the Companies Law (the "**Application**") was submitted in the Tel Aviv District Court (Economic Department) against the Company, Isramco, Alon and Dor Exploration (jointly in this section: the "**Respondents**"), for the disclosure and inspection of documents, aimed, according to its contents, at requiring the Company to provide the applicant with various documents listed in the Application, in connection with the competitive process published by the IEC for the supply of natural gas,¹¹² in order to enable the applicant to examine the possibility of filing a derivative action against officers and role holders who, according to him, by their illegal and non-competitive conduct caused the Respondents damage due the Tamar Partners' failure to win the competitive process. The court ordered the Respondents (including the Company) to submit their response by January 5, 2020, and the applicant is expected to submit his response to the Respondents' reply within 60 days from the date of submission thereof. On December 31, 2019, the court granted a consent motion filed by the parties to stay the proceeding and to approve a procedural arrangement, whereby, inter alia, the proceeding in the

¹¹² For details regarding the competitive process, see Section 7.4.4(d)(2) above.

application for disclosure would be stayed until a judgment would be handed down in the appeal against the judgment referred to in Section 7.21.5 above or during six months, whichever the earlier, and the deadline for submitting the Respondents' reply to the application for disclosure would be extended, such that it would be submitted 60 days after the termination of the stay of proceeding (insofar as the applicant would not petition to amend the application for disclosure). For further details, see Note 11J(4) to the Financial Statements.

- 7.21.7 For details regarding a class action and class certification motion filed with the Tel Aviv District Court by an electricity consumer against Delek Drilling and Noble, to which all the other Tamar Partners and Leviathan Partners, including the Company, were joined, with the applicant noting that they are parties against whom no relief was being sought but they are a "necessary party" in light of their close connection to the events forming the subject matter of the certification motion regarding the abuse of the monopolistic power of Delek Drilling and Novel, see Section 7.16.4(g) above.

7.22 Goals and business strategy

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

- 7.22.1 Continued optimal supply of natural gas and condensate from the Tamar Project in accordance with the signed agreements
- 7.22.2 Conduct of negotiations and entry into additional agreements for the sale of natural gas and condensate to the various potential consumers in Israel and in the region.
- 7.22.3 Expansion of the production capacity of the Tamar Project as specified in Section 7.2.7 above, or by means of other alternatives.
- 7.22.4 Continued promotion of projects for export by means of pipelines from the Tamar Project to consumers in Egypt and in Jordan.
- 7.22.5 Reduction of the Company's financial leverage, whether through the repurchase of bonds or through the acquisition of additional rights in the Tamar and Dalit leases.¹¹³ For details regarding the Board of Directors' resolution of March 29,

¹¹³ On November 17, 2019, the Company submitted to the Alon board of directors a nonbinding proposal for the conduct of negotiations for the acquisition of all of the Alon shares by way of a reverse triangular merger transaction, in which all the Alon shareholders would receive, in exchange for their holding in Alon shares, shares of the Company. On December 25, 2019, Alon notified the Company that the Alon board of directors had decided, after examining the proposal, that at this point the proposal does not suit Alon, and that Alon was continuing to examine the alternatives available to it.

2020 adopting a bond repurchase program for Series A and B bonds, see Chapter Three of the Board of Directors' Report.

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

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

The Company from time to time purchases the insurance policies which are customarily effected in Israel in the energy sector for exploration, development and production of natural gas, subject to changes dictated by statutory and regulatory requirements (in and outside Israel), license terms, obligations towards the trustee for the bondholders, the scope of the Company's operations and the Company's exposures in and outside Israel.

The insurance that is taken out covers the assets and liabilities in the Company's various operations, against only some of the potential risks, as customary in the natural gas exploration, development and production sector, subject to this section. The insurance includes, inter alia, coverage for damage to property forming a part of the Project on land and at sea, certain coverage for consequential loss associated with damage to the insured property in the stage of production from the wells (coverage for finance expenses and debt repayment), control-of-well coverage covering costs in the event of loss of control of a well following an accidental occurrence (including coverage for regaining control, sealing and redrilling of the well and cleanup of pollution damage resulting from uncontrolled release of liquids and/or gas), as well as insurance of legal liability towards third parties covering damage to person or property due to drilling and/or production activities, including pollution damage resulting from an accidental occurrence.

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

It should be noted that the Company monitors from time to time changes in the value of the insured property and the amounts of the consequential damage associated with damage to such property, in order to adjust the scope of the purchased insurance according to the exposure, subject to the insurance costs and to the insurance coverage supply in the energy industry. Consequently, the Company is able to decide to modify the purchased coverage

and/or to reduce the purchased amount insured and the insurance coverage and/or to decide not to purchase insurance at all for one or another risk.

7.24 Risk factors

The following are the main risk factors that affect the

7.24.1 Economic slowdown and/or economic crisis

An economic slowdown and/or economic crisis in the Israeli economy and/or in the global economy could be caused by a variety of factors, such as epidemics, uncertain security situation, political uncertainty, confrontations between countries, emergencies and so forth. An economic slowdown and/or economic crisis may be reflected in sharp declines in the financial markets, in changes in exchange rates and in changes in prices of commodities including oil and natural gas, which could reduce demand for the natural gas sold by the Tamar partners and/or affect its price and/or adversely affect the Company's revenues from existing and future gas sale agreements (including in connection with the mechanism for Take or Pay quantity changes in the Amended Export Agreement as detailed in Section 7.4.5(b) above), as well as the economic viability of new projects or the expansion of existing projects. For details regarding such changes in prices of a Brent barrel and in natural gas prices, see Section 6.9.4 above. For details regarding the spread of the coronavirus and its possible impact on the Company's business, see Section 6.9.1 above.

7.24.2 Decrease in the Electricity Production Tariff and/or U.S. CPI and/or Brent barrel price

The prices paid by the consumers for the natural gas produced from the Tamar Project are determined according to various price formulas which include, inter alia, linkage to the Electricity Production Tariff (to which the gas agreements with private electricity customers are linked), linkage to the U.S. CPI, and linkage to the price of a Brent barrel. Regarding the Electricity Production Tariff, it is noted that the frequent methodological changes made by the Electricity Authority in the manner of calculation thereof makes the tariff levels difficult to predict, and may lead to disputes with customers with respect to the manner of calculation thereof.

A decrease in the Electricity Production Tariff (due, inter alia, to a price adjustment, if any, in the agreement with the IEC, according to the mechanism set in the agreement with it, as detailed in Section 7.4.4(d) above) and/or changes

in Brent prices and/or a decrease in the U.S. CPI could adversely affect the Company's revenues from existing and future gas sale agreements.

7.24.3 Changes in demand for natural gas and in fuel prices around the world and other energy sources

In the event of significant changes in prices of oil, natural gas (including LNG) and other energy sources, including coal and other substitutes for the natural gas produced from the Tamar reservoir, the consumption model of the IEC and of other large customers could change, with a resulting decrease in demand for the natural gas sold by the Tamar Partners and/or decrease in natural gas prices in the economy. For details regarding a decrease in oil prices, gas prices and LNG prices in the months preceding the report approval date, see Section 6.9.3 above. Additionally, decisions and reforms in the electricity sector in general, and at the IEC in particular, could reduce demand for the natural gas sold by the Tamar Partners and/or result in a decrease in natural gas prices in the economy. For details regarding decisions and reforms in the electricity sector as of the report approval date, see Section 7.16.9(f) above.

7.24.4 Geopolitics

The security and economic situation in Israel as well as the political situation in the Middle East may affect the willingness of countries and foreign bodies, including in the Middle East, to engage in business relations with Israeli bodies, including the Company, in the different projects.. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors in the relevant target markets, for security and/or political and/or economic reasons, might adversely affect the Company's ability to promote its business dealings with such countries and bodies and export gas to neighboring countries and also adversely affect the Company's sales in the domestic market due to the potential effect of a decrease in the quantities of gas expected to be sold to the export markets by the Leviathan reservoir on competition in the domestic market.

7.24.5 Difficulties in obtaining financing

For promoting the expansion of the Tamar Project and/or for the development of additional reservoirs in the future, the Company may need additional financing sources, and it may need to raise funding, including through bank debt and/or capital market funding. If such financing is required, the Company could encounter difficulties in receiving bank and/or non-bank financing at terms suited

to it, especially in case of an economic crisis expressed in the reduction of available credit sources and the toughening of the requirements of the financing bodies for providing financing. The raising of additional financing is also subject to the Company's obligations stipulated in the terms of its existing bonds, as detailed in Section 7.13 above. For further details regarding the spread of the coronavirus and its potential impact, *inter alia*, on the availability of financing sources and/or the reduction of credit sources, see Section 6.9.1 above.

7.24.6 Competition in gas supply

In recent years a number of gas reservoirs of considerable size have been discovered in Israel, which materially exceed the estimates of the Ministry of Energy for demand for gas in the domestic market. Furthermore, there have been reports of significant discoveries in Cyprus and Egypt. Moreover, additional reservoirs may be discovered in the future, both in Israel and in other countries in the East Mediterranean Basin, the development of which may lead to the entry of additional competitors into the area of natural gas supply to the domestic market and neighboring countries. Currently, Israel has, apart from the Tamar and Leviathan producing reservoirs, two other reservoirs which are in development stages: the Karish and Tanin reservoirs, which are expected to be additional major suppliers of natural gas to the domestic market. In light of the scope of demand for natural gas in the domestic gas market, the entry of additional competitors into the domestic gas market and limitations on the volume of exportable gas, competition in selling gas to the domestic market could significantly increase. Likewise, the Company may face competition *vis-à-vis* alternative energy sources, such as coal, liquid fuels (e.g., diesel oil and fuel oil), and sources of renewable energy. Competition in natural gas supply may undermine the Company's ability to market the gas reserves discovered by it and/or to be discovered by it in the future (if any) and/or lead to a reduction of the price at which the Company will sell the natural gas, thereby adversely affecting its revenues. For further details regarding existing and expected competition in the supply of gas, see Section 7.1.9 above.

For details regarding the option given to natural gas buyers to reduce the quantities under the gas agreements signed with them, see Section 7.4.4(c) above. For details regarding the Electricity Authority's decision, which incentivizes private electricity producers to enter into gas sale and purchase agreements, at a lower price than the maximum price set in the Gas Framework, and also

incentivizes private electricity producers to enter into natural gas purchase agreements with new gas suppliers that are not Tamar Partners, see Section 7.16.9(k) above.

7.24.7 Restrictions on export

The volume of the gas reserves in the Tamar Project is greater than the expected demand in Israel's domestic market in the coming years. Therefore, the Company's operating results also depend on the possibility of exporting the gas and selling it on the regional and international market. The Government's resolutions on export, as detailed in Section 7.16.9(a) above and the regulatory approvals required for export could limit the quantity of exportable gas. A reduction in the exportable natural gas quantities could significantly adversely impact the Company's business. Moreover, the possibility of exporting and selling the gas depends on many highly uncertain factors, such as the foreign relations between the State of Israel and countries that are potential target markets, the setup of an export and transport system and receipt of the relevant regulatory approvals, the economic viability of setting up such a system, locating potential customers on the international market, finding funding sources for the investments required for the development and construction of the export system, and competition with local and international suppliers in the relevant target markets. Said factors could result in a limitation on the quantities of exportable gas from the Tamar Project, adversely impacting the Company's business and operating results.

7.24.8 Dependence on transmission systems

The Company's ability to supply the gas discovered by it to existing customers and to additional potential customers in and outside Israel, is contingent, inter alia, on the development, functionality and capabilities of the National Transmission System for gas supply, regional distribution networks and transmission pipelines to consumers in the neighboring countries (in this section, collectively: "**Transmission Systems**"). Any significant malfunction or disruption in the Transmission Systems serving the Company presently and/or in the future could limit the Company's ability to supply gas to its customers, exposing the Company to loss of revenues and potential legal proceedings, which could adversely impact on the Company's business operations and operating results.

7.24.9 Operational risks

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

The occurrence of any of these events could significantly reduce or interrupt natural gas production or supply, affect the reservoir development timetable and budget and impact negatively on the quality of the gas produced from the reservoir, possibly resulting in the cancellation of the Company's existing agreements for the sale of gas. For details regarding the possible impact of the spread of the coronavirus pandemic, inter alia, on the operation of the Tamar reservoir, see Section 6.9.1 above.

7.24.10 Lack of adequate insurance coverage

Although the Company is insured under various insurance policies against various kinds of damage that may be caused in connection with its operation, the different policies that were purchased do not or cannot fully cover all possible risks. Therefore, the insurance payments, if received, will not necessarily cover the entire scope of the damage and/or all of the possible losses (as to third party damage, as to possible loss of income, as to the costs of constructing the production system in case of an event due to which damage is caused to the production system, including due to terrorism, war, cyber, political risks and loss of control of the well, and as to damage to any kind of property in the wells). In addition, there is no certainty that suitable policies may be further purchased in the future on reasonable commercial terms or at all. Additionally, there are certain insurance policies the Company may decide not to purchase at all for various

reasons, such as their being financially unviable. The Company's expected activity in Egypt (as detailed in Section 7.4.5(b) above) presents exposures that might be impossible to insure fully or at all, inter alia, consequential damage associated with damage of any kind to property and/or associated with damage to the property of a supplier and/or of a customer and/or breach of agreements or cancellation of agreements for a reason not permitted under the agreement and/or a change in the law and/or in the directives of competent authorities in Jordan and Egypt which could adversely affect the Company's business and property. Thus, in case of large-scale loss or damage, the insurance policies taken out may be insufficient for covering all of the damage to the Company and/or third parties, including with respect to environmental pollution damage. Such risks, if they materialize, may cause postponements and delays in the Company's exploration, development and production activities, harm the Company's business or have a materially adverse impact on the Company's business, financial position, operating results or forecasts, and in an extreme case may even lead the Company to insolvency. It should be noted that the decision on the type and scope of the insurance is usually made separately for every well and/or activity, taking into consideration, inter alia, the insurance costs, type and scope of the offered coverage, the regulatory requirements, the ability to obtain suitable coverage in the insurance market, the available capacity for the Company in the insurance market and the foreseeable risks.

7.24.11 Dependence on contractors and on professional services and equipment providers

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

are suitable for the performance of the aforesaid operations cannot be ordered within short periods of time and therefore it is necessary to order professional equipment and manpower services from abroad far in advance, which significantly increases the costs of and delays the activities. Entering into agreements with foreign contractors for the performance of offshore oil and/or natural gas exploration, development and production operations (including contractors for the performance of maintenance and repair work) may encounter difficulties also due to the political and security situation of the State of Israel. The price of services and the costs of exploration, development and production operations are set according to market supply and demand, which are affected, *inter alia*, by commodity prices, regulatory changes, the supply of alternative products and the level of activity in the sector. For details regarding the possible impact of the spread of the coronavirus, *inter alia*, on the availability of manpower and/or on the availability of equipment for the Tamar Project facilities, see Section 6.9.1 above.

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

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

that the information appearing in the report on the reserves in the Tamar and Dalit reservoirs is only an estimate and should not be seen as information on exact quantities, and therefore changes may occur from time to time in the estimates of the volume of producible gas and/or condensate reserves. These estimates form the basis for gas sale agreements made by the Company with its customers, and therefore changes in such estimates could affect the Company's gas supply commitments. In addition, the gas reserves estimate is used to determine the rate of amortization of the producing assets in the Company's financial statements, and in light of the materiality of the asset amortization, the changes detailed above could have a material impact on the Company's operating results and financial position.

7.24.13 Merely estimated costs and timetables and possible lack of means

The estimated costs of the performance of exploration, development, operation and maintenance activities and the estimated timetables for the performance thereof are based on merely general estimates and may contain considerable deviations, including due to events beyond the Company's control. Development and exploration plans may change to a significant degree, *inter alia*, following findings obtained in the course of the performance of such activities, and cause considerable deviations in the timetables and estimated costs of such activities. Malfunctions during exploration, development, operation or maintenance activities, as well as other factors, might cause the timetable to be extended for much longer than planned and the actual expenditure required for the completion of activities to be much higher than the costs planned for such activities. For details regarding the spread of the coronavirus and its possible impact, *inter alia*, on the operation of the Tamar reservoir, see Section 6.9.1 above.

7.24.14 Forfeiture of the Company's rights its petroleum assets

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

In addition, in a situation where other parties to the Joint Operating Agreement have failed to pay sums that they were supposed to pay, in breach of the agreement, the Company may be required to pay sums that considerably exceed

its pro rata share in order to complete the missing amounts, according to the percentage of its participation in the petroleum asset(s) with respect to which the breach was committed, and should it fail to timely make this payment, it will risk losing all of its rights in such asset(s). Due to the especially high cost of development expenses and offshore drillings, the deviations (both foreseen and unforeseen) may result in the Company being unable to meet its financial commitments, in consequence of which the Company will lose its rights. Thus, the spread of the coronavirus pandemic and worldwide changes in the price of energy, which occurred recently, as detailed in Section 6.9.1 and 6.9.4 above, could impact the financial capabilities of its partners.

7.24.15 Dependence on the receipt of approvals from external entities

The performance of activities in natural gas and oil assets requires various approvals, *inter alia*, approvals under the Petroleum Law and the Natural Gas Sector Law and approvals from the security authorities and the IDF, the Israel Nature and Parks Authority, the environmental authorities, the Civil Aviation Authority, local authorities and/or planning and building committees, the Ministry of Agriculture – Department of Fishing, the Ports Authority and shipping officials at the Ministry of Transportation. Obtaining these approvals may entail additional expenses beyond the budgets designated for the aforesaid activities or cause a delay in the deadline for the performance of the planned activities.

7.24.16 Regulatory changes

Many regulatory approvals are required in the Company's operating sector, mainly from the entities authorized pursuant to the Petroleum Law and the Natural Gas Sector Law, as well as related approvals from the state authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities and the various planning authorities). In recent years, there has been an increase in the scope of regulation in the energy sector in Israel. For further details regarding the regulation applying to the Company's activity, see Section 6.9.3 above. The tightening of regulation, *inter alia* with respect to oil and gas exploration, development and production, the terms of natural gas supply, natural gas export, taxation of oil and gas profits, rules for allocation, insurance and guarantees, transfer and pledge of petroleum rights, antitrust, control of gas prices, planning regulation and so forth, could adversely affect the Company's business.

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

7.24.17 Potential control over natural gas prices

The Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, as detailed in Section 7.16.9(b) above, imposes control on the gas sector in terms of profitability and price reporting. The reporting duty includes half-yearly reporting on prices and profit margins of the sold natural gas. Based on the information to be received, the need to impose control over natural gas prices in Israel, in terms of fixing a maximum price for the sale of natural gas, will be examined. In the event that price control is imposed and a maximum price is determined which is lower than the prices set forth in the Company's natural gas sale agreements, and insofar as such determination withstands judicial review, this may adversely affect the Company's business, the scope of which will be a function of the maximum price determined. In accordance with the Gas Framework, the Price Control Committee was approached on the matter, and it decided that as long as Delek Drilling and Noble comply with all the conditions of the Framework, control should be kept at the level of reporting on profitability and prices as aforesaid, during the transition period, as detailed in Section 7.16.1(c) above.

7.24.18 Class certification motion in connection with the price in the agreement between the Tamar Partners and the IEC

On June 18, 2014, a motion to certify a class action was filed with the Tel Aviv District Court by an IEC consumer against the Tamar Partners as described in Section 7.21.1 above (in this section: the "**Certification Motion**"). If the Certification Motion is accepted, and thereafter a final and absolute judgment is obtained in the class action itself against the Tamar Partners, this could have an adverse effect on the Company's business, operating results and ability to meet its obligations, including on the discounted cash flow and on the prices at which the Company together with the other Tamar Partners will sell natural gas to its customers, the scope of which will be derived from the outcome of the class action. Regarding the undertakings of Delek Drilling and Noble with respect to

the certification of the class action in relation to the amounts received by them before the effective date for the acquisition of the rights in the Tamar Lease which they sold to the Company, see Note 4A and 4B to the Financial Statements, respectively.

7.24.19 Environmental regulation

The Company is subject to various laws, regulations and directives concerning environmental protection, which address various issues, such as: leakage of oil or natural gas or other pollutants into the sea, the discharge of pollutants and waste of various types into the sea (sewage, remnants of drilling equipment, drilling mud, cement, etc.), chemical substances used in the various stages of work, the emission of pollutants into the air, lighting hazards, noise, the construction of pipeline infrastructure on the seabed and related facilities. In addition, the Company is required to obtain, through the Operator, approvals for its activity from the competent entities under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws).

Noncompliance with the provisions of such environmental regulation may expose the Company and the Tamar Partners and possibly also their officers to various enforcement measures, which also include lawsuits, penalties and various sanctions, including on the criminal level, as well as to delays in and even the discontinuation of the Company's activity. The Company and/or its officers may also be liable for the acts of others, such as the Operator or third party contractors related to the Operator, as well as for pollution associated with the Company's facilities or resulting from its activities.

Oil and natural gas exploration and production in deep water involves various risks, including emissions and waste which are dangerous to the environment, as well as human exposure to such dangerous emissions and waste. Thus the Company and/or its officers may be liable for some or all of the consequences of the risks presented by dangerous emissions or waste or exposure thereto. As aforesaid, in September 2016, the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives that regulate the environmental aspects of offshore oil and natural gas exploration, development and production activity. Such directives could have an effect on the costs and manner of the Company's activity, the scope of which cannot be estimated as of the report approval date.

Furthermore, as mentioned in Section 7.6.9(e) above, on November 13, 2017 the Knesset approved in the first reading the Marine Zones Bill, and on November 5, 2018 the bill was discussed by the Knesset Economic Committee ahead of its preparation for the second and third readings. The proposed law, if approved by the Knesset Plenum in the second and third readings, could adversely affect the Company's operations and their costs.

There is no certainty that the costs that will be required of the Company in connection with the existing and foreseeable laws, regulations and directives in the field of environmental protection, and in connection with the consequences arising from the emission of substances into the environment, will not exceed the amounts allocated by the Company for such purposes, or that such costs will not have a significant adverse impact on the Company's financial position and operating results. Furthermore, the interpretation and enforcement of environmental laws and regulatory provisions changes from time to time and may be more stringent in the future.

7.24.20 Dependence on weather and sea conditions

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

7.24.21 Information security risks

The partners in the Tamar Project, including the Company and also the Operator thereof (directly and via subcontractors) (in this section: the "**Corporations**"), rely in their work on computer systems. Use is made of industrial control systems for supervisory control and data acquisition in industry ("**ICS**"), which monitor and control comprehensive processes, including, *inter alia*, monitoring of the natural gas and condensate transmission pipelines. ICS-based systems are exposed to the risk of cyber attacks. Additionally, the Company and the Operator depend on computer systems, including information and infrastructure systems, in all that pertains to processing and documentation of financial and operational

data, contracting with workers at the Tamar reservoir and with business partners, analysis of seismic and drilling data, evaluating the amounts of oil and gas reserves, and other activities involved in the Company's business. The Company's business partners, including suppliers, service providers, customers and financial institutions, also depend on computer systems. The greater the dependence thereon, the higher the potential for exposure to cyber threats (targeted and untargeted) . Furthermore, there has been an increase in the intensity of cyber threats in terms of their sophistication and complexity. Breakdowns in computer systems, including in information and infrastructure systems, and failures in securing such information, systems and infrastructure, including hacking of the computer systems of the Corporations or of third parties with access to said systems, infrastructure and information, could enable unauthorized access to the systems for improper use of the Company's assets, disruptions and/or damage to the information, systems and/or infrastructure, harm to the regular operation of the systems supporting the business activity, and in extreme cases even disruption or interruption of the natural gas supply and loss of information, as well as incurrence of substantial costs in respect of the recovery of the information systems. In addition, intentional harm to computer systems, including to the Corporations' information and infrastructure systems, could result in damage to the administrative networks of the Company and the Operator, leakage of information to unauthorized entities and corruption of the information in its possession, which could have a material adverse effect on the Company's business, financial position, operating results or capabilities. As of the report approval date, the Corporations take action to prevent failures in the information systems, *inter alia*, by means of backup and security mechanisms, mechanisms for preventing failures in their computer system, and increasing the level of information security. For details regarding the obligation to secure vital computerized systems pursuant to the Regulation of Security in Public Bodies Law, see Section 7.16.6 above.

It should be noted that the Company does not have direct access to the computer systems of the Operator and the other partners in the oil asset, and *inter alia* it has not control over the central ICS systems that monitor and control the production activity, which are under the Operator's responsibility and control. However, to the best of the Company's knowledge, the Operator implements proper

procedures and means for effective information security management and cyber protection across all these systems.

7.24.22 Tax risks

Tax issues, including the levy imposed under the Taxation of Profits from Natural Resources Law, enacted in 2011, which are related to the Company's activity have not yet been discussed in the rulings of Israeli courts. The implementation of the Taxation of Profits from Natural Resources Law is relatively new and has not been examined by the Israeli courts, and it is therefore hard to determine or predict how the tax authorities and the courts will interpret and rule on issues pertaining to this law, when such issues are brought before them. Likewise, it is impossible to foresee the position of the tax authorities on some of the legal issues. Changes resulting from changes in legislation, case law or a change in the position of the Israel Tax Authority, as aforesaid, may have material adverse implications for the tax arrangement applicable to the Company.

7.24.23 Dependence on a major customer

The IEC is currently a major customer of the Company. The Company cannot predict what changes (if any) will occur in the IEC's license terms and how such changes will affect IEC's financial position. It should be noted that significant fluctuations in the prices of alternative energy sources to natural gas (including coal and other gas substitutes) relative to the price of natural gas, including those occurring due to reforms in the electricity sector and in the IEC or due to Ministry of Energy directives, could cause the IEC to generate electricity using natural gas substitutes, subject to its Take or Pay obligation with respect to the minimum annual quantity specified in the agreement with it (as detailed in Section 7.4.4(d) above), a factor which could adversely affect the Company, its financial position and its operating results (for details regarding the recent purchase of LNG by the IEC as a substitute for the use of natural gas, see Section 7.1.9(a) above). The agreement with the IEC provides that on the occurrence of several specified events of "force majeure", the IEC is not obligated to continue making payments under such agreement. Additionally, the agreement with IEC sets two dates on which any party to the agreement may request a price adjustment. In the event that the IEC requests a price adjustment for the gas it purchases, according to the mechanism prescribed in the Agreement, and if such an adjustment is made, this could have a material adverse effect on the Company's business and the results of its operations (for further details see Section 7.4.4(d) above). Therefore,

significant loss of or damage to the Company's revenues from the IEC could have a material adverse effect on the Company's business and financial position. Furthermore, if the IEC should publish in the future additional tenders or competitive processes for the purchase of gas, that result in a reduction in the quantities sold to the IEC, while on the other hand no alternative customers are found for those quantities, this will have a material adverse effect on the Company's business and activity. Also, in the event that the Tamar Partners exercise the export options available to them, as detailed in Section 7.4.5 above, the dependence on the IEC will be significantly reduced. For details regarding the competitive process for the supply of natural gas to the IEC and the related legal proceeding, see Sections 7.4.4(d)(20) and 7.21.5 above, respectively.

7.24.24 Financial soundness of the Company's customers

Noncompliance of the Company's customers from the Tamar Project with their obligations, while the Company is unable to sell the contract quantity determined in such agreements to other customers, will adversely affect the Company's revenues. For details regarding the possible effects of the coronavirus, *inter alia*, on the Company's customers, see Section 6.9.1 above.

7.24.25 Dependence on the Operator

The Company relies to a great extent on the operator of the Leases, both in light of the provisions of the JOA and as a result of the experience accumulated by Noble in carrying out projects of a similar magnitude elsewhere around the world and the Company's relative lack of experience in such projects. Noble's withdrawal, for any reason (including due to the spread of the coronavirus pandemic and changes in the price of energy around the world, which have occurred recently and could adversely affect the operator's financial position), from the Tamar Project or a change in its status and/or rights such that it ceases to be the operator of the Tamar Project may impair the Company's ability to meet its obligations under the work plans of the Tamar Project and/or under the gas sale agreements. In such an event, the Company cannot guarantee that an operator will be found to replace Noble or that a replacement operator will be found having similar experience and/or at the same terms as currently in effect with Noble. The Company's inability to find a replacement operator for Noble could adversely affect the activity of the Tamar Project and the obligations under the existing gas sale agreements, resulting in a decrease in the Company's revenues.

7.24.26 Minority vote

The Company holds 16.75% in the Tamar Project. Since the resolutions specified in the JOA are passed by a majority vote (at the rate defined in the JOA), the Company will not be able to ensure the adoption of resolutions desirable to it and/or prevent the adoption of resolutions undesirable to it. In addition, in these transactions, it is possible that the withdrawal of one of the participants, while the other participants did not assume its share (of the expenses that were not yet approved) in the exploration or development actions, will lead to the termination of such activities before the completion of the plan determined in the transaction and the surrender of the petroleum assets in which they are performed. The Company has limited ability to influence exploration, development and production activities in the Tamar Project, including the timing and costs of these activities.

7.24.27 Conflicts of interest between the partners in the Tamar reservoir

Marketing from the Tamar reservoir is at present done jointly by all the partners in the Tamar reservoir. It should be noted that in light of the cross-holdings of Delek Drilling and Noble in the Leviathan Project, the Tamar Partners with no holdings in the Leviathan Project are of the opinion that Delek Drilling and Noble may not exercise a veto (together or separately), thereby preventing the joint marketing of gas from the Tamar Lease to a new customer or the amendment of an agreement for joint marketing of gas from the Tamar Lease to a preexisting customer (including the Amendment to the IEC Agreement), where the other partners in the Tamar Project support such joint marketing or such amendment to the agreement, in accordance with the 2006 Decision and the provisions of the Gas Framework, respectively. For details regarding an application to the Competition Commission in respect of disagreements in this context that have arisen between the Tamar Partners with no holdings in the Leviathan Project and Delek and Noble, see Section 7.16.4(f) above. If the Competition Commissioner does not enforce the foregoing on Delek Drilling and Noble and/or if said disagreements lead to protracted court proceedings, this could have a materially adverse effect on sales from the Tamar reservoir, and as an outcome on the Company's business and operating results.

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

The process of deciding whether it is justified to invest in the development of a field and its commercial production and perform interim actions until commercial

production as well as performing the development and commercial production (should it be decided that they are justified) may extend over long periods of time and require the Company to invest considerable sums that exceed the sums currently held by it. These sums, especially in case of the existence of discoveries at sea, are very high, and there is no certainty that the Company will be able to obtain the funding required for such development and production. It is further noted that development and production in deep waters (such as the water depth of the Tamar natural gas discovery) is a complex high-risk operation that requires the construction of special production facilities.

7.24.29 Revocation or expiration of petroleum rights and assets

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

7.24.30 Overflow of reservoirs

Petroleum or natural gas reservoirs discovered or to be discovered in areas in which the Company holds rights may "overflow" (in terms of the geological structure and scope of the reservoir) into other areas in which the Company does not hold rights, and vice versa. In the event that the reservoir overflows into areas in which other parties hold rights, it may be necessary to reach agreements as to joint utilization of and production from the reservoir, in order to achieve efficient utilization of the petroleum or natural gas reserves, possibly resulting in deferrals and delays in development activities. For details regarding the overflow of the Tamar SW reservoir into the Eran license, see Section 7.2.8 above.

7.24.31 Security risk

The production facilities of the Yam Tethys Project and Tamar Project are located at sea in relative proximity to the maritime and land border between Israel and the Gaza Strip and are therefore exposed to security risks, including terrorist attacks and sabotage. Furthermore, the Terminal is exposed to security risks, including terrorist attacks and sabotage. The materialization of such security risks may, inter alia, impair the Company's ability to find and retain the appropriate human capital and cause damage and/or harm to said facilities and other equipment, which could disrupt the gas supply and even lead to the termination

of gas sale agreements or to the reduction of sums payable by customers due to a claim of a "force majeure" event. This could also have a material adverse effect on the Company's business, financial position, results of operation or capabilities, and likewise could limit the ability of service providers and equipment suppliers to provide their services or supply the items required for the activity of the Tamar Project.¹¹⁴ Furthermore, the transmission infrastructures to Jordan and Egypt (including the EMG transmission pipe), the terminal in Egypt and the related infrastructures in Egypt are also exposed to security risks, including terrorist attacks and sabotage, which could impair the Company's ability to export gas and disrupt the gas supply under the Export Agreement. The materialization of any of said risks could significantly reduce the Company's revenues, with a material negative impact on the Company's business and operating results.

7.24.32 Fluctuations in the dollar rate

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

7.24.33 Restrictions on the sale of rights in petroleum assets

Exploration and production activity requires considerable sums, which in many cases cannot be raised by means of loans or debt and therefore some cases may require that additional partners join the petroleum asset in which the Company is a partner, with the Company selling some of its rights in the petroleum assets. Should the Company wish to sell a part of its rights in the petroleum assets, such sale would be contingent on compliance with the provisions of Sections 5.9.2b) and 9.3 of the trust deeds of the Series A and B bonds issued by the Company, which impose limitations that could be significant when implementing such a sale (for the trust deed for the Series A bonds, see Appendix A to the supplementary notice of July 6, 2017 (Reference No. 2017-01-0577724); for the trust deed for the Series B bonds, see Appendix B to the shelf offering report dated March 12, 2018 (Reference No. 2018-01-019125)).

¹¹⁴ See in this regard footnote 38 above.

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

The Tamar Partners were declared monopoly holders in natural gas supply in Israel. Due to this declaration, limitations may be imposed on the activity of the Tamar Partners including the Company, including a prohibition on unreasonable refusal to supply natural gas as well as a prohibition on abuse of its market position in a manner that may undermine business competition or harm the public (for example, by fixing prices at an unfair level, or by setting different terms for similar transactions, which could confer on certain customers an unfair advantage over their competitors). Restrictions on the Company in light of its position as a monopoly in natural gas supply in Israel may affect the Company's ability to expand its activity in Israel. For further details regarding restrictive trade practices, see Section 7.16.4 above.

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

The Company's noncompliance with the obligations assumed by it in relation to the repayment of the Company's bonds, including as a result of its inability to refinance the final repayment of the bond principal (regarding the risk of difficulties in obtaining funding see Section 7.24.5 above) and/or as a result of noncompliance with financial covenants applicable to the Company, may lead to the acceleration of such amounts and/or to an increase in the interest rate on the Company's bonds and/or to the foreclosure of collaterals that were provided as security for the bonds. For details regarding the financial covenants with which the Company is required to comply, see Part Five of the Board of Directors Report.

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

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

Under the existing natural gas sale agreements, some of the Company's customers, including the IEC, are obligated to take or pay for a minimum annual quantity of natural gas on a scale and according to a mechanism prescribed in the natural gas sale agreement. However, this obligation may be suspended upon the occurrence of events of "force majeure," as defined in the existing natural gas sale agreements, which affect the Company's customers or the Company. An

event of "force majeure" may arise, inter alia, from war, terrorist attacks and other events which could prevent the Tamar reservoir from supplying natural gas or a customer from receiving or using natural gas, or make it impossible to transmit natural gas due to a failure or defect in the National Transmission System and/or in the natural gas export transmission infrastructures.

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

7.24.37 Reliance on a single petroleum asset

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

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

	Extent of Risk Factor's Effect on Company's Business		
	Major Effect	Moderate Effect	Minor Effect
Macro Risks			
Economic slowdown and/or economic crisis		X	
Decrease in the Electricity Production Tariff and/or in the U.S. CPI and/or in the price of a Brent barrel		X	
Changes in demand for natural gas and in fuel prices around the world and other energy sources	X		
Geopolitics	X		
Difficulties in obtaining financing		X	
Industry-Specific Risks			
Competition in gas supply	X		
Restrictions on export	X		
Dependence on transmission systems		X	
Operational risks		X	
Insufficient insurance coverage		X	
Dependence on contractors and on professional service and equipment providers		X	
Exploration activity risks and reliance on partial and estimated data		X	
Merely estimated costs and timetables and possible lack of means		X	
Forfeiture of the Company's rights in its petroleum assets			X
Dependence on the receipt of approvals from external entities		X	
Regulatory changes		X	
Possible control on natural gas prices		X	
A motion to certify a class action in connection with the IEC agreement price			X
Environmental regulation		X	
Dependence on weather and sea conditions			X
Information security risks		X	
Company-Specific Risks			
Tax risks			X
Dependence on primary customer		X	
Financial soundness of the Company's customers			X

	Extent of Risk Factor's Effect on Company's Business		
	Major Effect	Moderate Effect	Minor Effect
Dependence on the Operator	X		
Minority votes			X
Conflicts of interest between the partners in the Tamar reservoir	X		
Risk and lack of means for development and production in the event of a discovery			X
Revocation or expiration of petroleum rights and assets			X
Overflow of reservoirs		X	
Security risk	X		
Fluctuations in dollar rate		X	
Restrictions on the sale of rights in petroleum assets			X
The Company's position as a monopoly in natural gas supply in Israel		X	
Obligations in relation to the repayment of the Company's bonds		X	
"Force majeure" clause in the existing natural gas sale agreements			X
Reliance on a single petroleum asset	X		

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

Professional Terms Annex

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

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

"BCM" – One billion cubic meters.

"Commercial quantities" – Petroleum and/or gas quantities allowing the economic production thereof.

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

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

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

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

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

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

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

"Lease" – As defined in the Petroleum Law.

"License" – As defined in the Petroleum Law.

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

"LNG" – Liquid natural gas.

"MMBTU" – Million British thermal unit

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

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

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

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

"Petroleum exploration"

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

(2) Test drilling;

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

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

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

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

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

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

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

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

"Test drilling" – Drilling of test wells for discovering petroleum and/or gas and obtaining preliminary information about the composition of the reservoir rocks and the quality thereof and about the size and boundaries of the reservoir.

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

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

BCM	BCF	MMCF
1	35.3107	35310.7

BCF	MMCF	BCM
1	1000	0.0283

MMCF	BCF	BCM
1	0.001	0.00003

Appendix A

**Consent of NSAI to the inclusion of
the reserves reports in Tamar Lease
and the resources reports in Dalit
Lease**

March 29, 2020

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

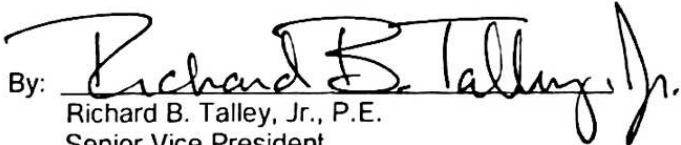
Dear Mr. Raikin:

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

- The report dated January 8, 2020, which sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2019, to the Tamar Petroleum interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.
- The report dated March 7, 2018, which sets forth our estimates of the unrisked contingent and prospective gas resources, as of December 31, 2017, to the Tamar Petroleum working interest in discoveries and prospects located in the Dalit Discovery area, offshore Israel.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: 
Richard B. Talley, Jr., P.E.
Senior Vice President

RBT:MDK



Tamar Petroleum Ltd.

Chapter B

**Board of Directors Report for the year
ended December 31, 2019**

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

March 29, 2020

Tamar Petroleum Ltd.

Board of Directors' Report For the year ended December 31, 2019

The board of directors of Tamar Petroleum Ltd. (the "Company") respectfully submits the Board of Directors' Report for the year ended December 31, 2019 (hereinafter: the "reporting year").

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

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

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

As of the reporting date, the Company holds 16.75% of the rights in the Tamar lease and in the Dalit I/13 lease (jointly: "Leases").

2. Spread of the coronavirus and its possible implications on the Company

At the end of 2019 and during the first quarter of 2020, the coronavirus (Covid-19) began to spread in China and subsequently throughout the world, and it was declared a global pandemic by the World Health Organization (WHO) in March 2020 (the "coronavirus pandemic"). As of the report approval date, amid the coronavirus pandemic and as a result thereof, there has been a slowdown in global economic activity, which, if it persists, may lead to an ongoing global economic crisis affecting numerous sectors, including the energy sector in which the Company operates.

For further details on the spread of the coronavirus pandemic, including the Company's assessment of the possible implications of the continuation and/or worsening of the pandemic on the Company's business and activities, see Section 6.9.1 in the chapter "Description of the Company's Business" (Chapter One of the Periodic Report).

As detailed in Section 6.9.1, in light of existing cash balances of the Company beyond the safety buffers required by the trust deeds of the Series A and B bonds, and in light of the existence of commitments for the purchase of certain minimum quantities and floor prices, the Company estimates that it will not require funding at least in the coming year for financing its activity and/or meeting its existing and expected obligations.

As the extent of the negative impact of the coronavirus pandemic on the domestic and world economy depends on the magnitude of the coronavirus pandemic and the time required to eradicate

the pandemic or halt its spread, regarding which, as of the date of approval of this report, there is great uncertainty, the Company is unable at this point to estimate the duration and magnitude of the pandemic and the full consequences for the Company's operations and business results.

Forward-looking information disclaimer – The Company's assessments regarding the absence of a need for funding in the coming year at least for financing its operations and/or meetings its obligations, as well as regarding the possible consequences of the coronavirus pandemic as detailed above, constitute forward-looking information within the meaning of the Securities Law, which is based, among other things, constitute forward-looking information within the meaning of the Securities Law, on the existence of customer commitments to purchase minimum quantities and on Company estimations regarding the selling prices of natural gas, as well as on information currently in the possession of the Company, on publications issued in Israel and around the world on this subject and on the directives and guidelines of the relevant authorities. This information may not materialize, in whole or in part, or may materialize in a materially different manner, due to various factors that are not within the Company's control, such as, inter alia, harm to the operational aspects of the Tamar reservoir and/or of the Company's customers and harm to the financial robustness of customers, as well as to the extent there are changes in the spread of the coronavirus pandemic, in the directives and guidelines of the relevant authorities and in the economic situation in Israel and around the world.

3. Results of Operations

A. Analysis of statements of comprehensive income

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

	Year ended December 31	
	2019	2018
Revenues from gas and condensate sales	349,937	311,273
Less royalties	57,853	49,691
Net revenues	292,084	261,582
Costs and expenses		
Cost of production of natural gas and condensate	28,450	21,897
Depreciation, depletion and amortization expenses	50,037	44,466
General and administrative expenses	3,207	2,661
Total costs and expenses	81,694	69,024
Income from ordinary activities	210,390	192,558
Finance expenses	(60,147)	(58,293)
Finance income	3,279	1,832
Finance expenses, net	(56,868)	(56,461)
Income before income taxes	153,522	136,097
Income taxes	(27,871)	(37,279)
Total comprehensive income	125,651	98,818
Gas sales in BCM¹	10.4	10.3
Condensate sales in thousands of barrels²	483	477

Net revenues in the reporting year amounted to \$292.1 million compared with \$261.6 million the year before, an increase of 11.7%. The year-over-year increase in net revenues is mainly

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

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

due to an increase in the average holding rate in the rights in the leases in 2019 compared to 2018, as a result of the transaction for the acquisition of 7.5% (out of 100%) of the working interests in the leases from Noble Energy Mediterranean Ltd. ("Noble"), which was completed on March 14, 2018 ("**the rights acquired from Noble**").

Net revenues for Q4/2019 amounted to \$71.2 million compared with \$71.3 million in the year-before period.

Natural gas was supplied in 2019 to the Israel Electric Corporation (46% of total Company revenues), to Dalia Power Energies Ltd. (10% of total Company revenues), as well as to various other customers.

The cost of production of natural gas and condensate mainly includes the management and operation expenses of the Tamar project, which comprise, inter alia, expenses for payroll and fringe benefits, shipping and transportation costs, operation management, maintenance and insurance. The cost of gas and condensate production in the reporting year amounted to \$28.5 million compared with \$21.9 million the year before, an increase of 30.1%, mainly due to an increase of \$2.7 million in the rights acquired from Noble as well as an increase of \$3.9 million in maintenance expenses.

The cost of gas and condensate production in Q4/2019 amounted to \$6.4 million compared with \$7.3 million in the year-before period. The major part of the change derives from a decrease in maintenance expenses.

Depreciation, depletion and amortization expenses amounted in the reporting year to \$50 million compared with \$44.5 million the year before. The major part of the change derives from an increase of \$6.4 million in depreciation expenses associated with the rights acquired from Noble.

Depreciation, depletion and amortization expenses in Q4/2019 amounted to \$12.8 million compared with \$11.3 million in the year-before quarter.

General and administrative expenses in the reporting year amounted to \$3.2 million compared with \$2.7 million the year before, and include, inter alia, expenses for professional services, payroll expenses and general expenses. The increase is mainly due to an increase in professional services.

General and administrative expenses in each of Q4/2019 and Q4/2018 amounted to \$0.8 million.

Net finance costs amounted in the reporting year to \$56.9 million compared with \$56.5 million the year before. The increase in net finance costs in the reporting year mainly derived from an increase in finance costs totaling \$4 million in respect of the Series B bonds issued in March 2018, which was partly offset by a decrease of \$1.8 million in finance costs in respect of the Series A bonds, by an increase of \$1 million in interest income and by a net decrease of \$0.8 million in other finance costs.

Net finance costs in Q4/2019 amounted to \$13.7 million compared with \$15.8 million in the year-before quarter. The decrease derives primarily from a decrease of \$1.4 million in finance costs in respect of Series A and B bonds.

Income taxes in the reporting year amounted to \$27.9 million compared with \$37.3 million the year before. Tax expenses in the reporting year are after a decrease of \$8.2 million originating in the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the Financial Statements (USD). Year-before tax expenses include a sum of \$7.5 million deriving from the difference between the measurement basis of income as reported for tax purposes and the measurement basis as reported in the Financial Statements.

Tax expenses in Q4/2019 amounted to \$7.9 million compared with \$9.6 million in the year-before quarter. Tax expenses in Q4/2019 are after a decrease of \$0.6 million originating in the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the Financial Statements (USD). Tax expenses in Q4/2018 include a sum of \$2.8 million deriving from the difference between the measurement basis of income as reported for tax purposes and the measurement basis as reported in the Financial Statements.

4. Financial position, liquidity and financing sources

A. Financial position

Following are details of the main changes in the items of the statement of financial position as of December 31, 2019, compared with the statement of financial position as of December 31, 2018:

Total assets in the statement of financial position as of December 31, 2019 and 2018 amounted to \$1,317 million.

Total current assets in the statement of financial position as of December 31, 2019 amounted to \$140.2 million compared with \$130.1 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** amounted to \$79.2 million as of December 31, 2019 compared with \$86.9 million as of December 31, 2018. The decrease, which is mainly due to the payment of principal and interest on Series A and B bonds in an amount of \$156 million, the payment of a dividend in an amount of \$40 million, the making of a restricted deposit as detailed in (2) below in an amount of \$20 million, investments in gas and oil assets totaling \$10 million and investments in other long-term assets totaling \$8.6 million (originating mainly in the Company's share of a payment in connection with the agreement for exports to Egypt), was partly offset by the cash flow from operating activities for the year amounting to \$223.4 million.
- (2) **Restricted deposits**, amounting to \$20.3 million as of December 31, 2019, are attributable to the board of directors' decision from April 2019 to allocate amounts that will be required for construction or operating expenses for the Tamar project to an "expense reserve account" within the meaning of Section 5.10.2 of the trust deeds of the Series A and B bonds, totaling \$20 million, and to deposit said amounts in a special bank account opened for this purpose.
- (3) **Trade receivables** amounted to \$6.2 million as of December 31, 2019 compared with \$9.8 million as of December 31, 2018. The decrease, which is mainly attributable to a decrease of \$7.1 million in the debit balance of income tax, was partly offset by an increase of \$3.7 million in the balance of the Joint Venture Operator.

Total non-current assets in the statement of financial position as of December 31, 2019 amounted to \$1,176.5 million compared with \$1,186.6 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** amounted to \$1,008.4 million as of December 31, 2019 compared with \$1,040.6 million as of December 31, 2018. The decrease, which is mainly attributable to depreciation, depletion and amortization expenses in the Tamar project amounting to \$50 million, was partly offset by an increase in oil and gas assets totaling \$17.8 million.
- (2) **Deferred taxes** amounted to \$112.7 million as of December 31, 2019 compared with \$98.4 million as of December 31, 2018. The increase derives from deferred tax income for the period totaling \$14.3 million, resulting mainly from the effect of the exchange rate on the difference between the measurement basis of oil and gas assets in the books (USD) and their measurement basis for tax purposes (NIS).
- (3) **Other long-term assets** amounted to \$12.2 million as of December 31, 2019 compared with \$5.4 million as of December 31, 2018. The increase mainly derives from an increase of \$8.4 million in connection with the agreement for exports to Egypt (see Note 11F to the financial statements as of December 31, 2019, attached hereto – hereinafter, the "**Financial Statements**"), offset by a decrease of \$1.2 million in a long-term asset resulting from an adjustment in the calculation of the rate of royalties at the wellhead (see Note 15B-C to the Financial Statements).

Current liabilities as of December 31, 2019 amounted to \$120.9 million compared with \$124.4 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Current maturities of bonds** amounted to \$87.6 million as of December 31, 2019 compared with \$95.2 million as of December 31, 2018.
- (2) **Income taxes payable** as of December 31, 2019 amounted to \$4 million. As of December 31, 2018, the Company had no such liability.

Non-current liabilities as of December 31, 2019 amounted to \$970.7 million compared with \$1,052.9 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Bonds net of current maturities** amounted to \$944.7 million as of December 31, 2019 compared with \$1,032.3 million as of December 31, 2018. The decrease mainly derives from the payment of principal on Series A and B bonds in the amount of \$101.8 million, which was partly offset by a decrease of \$7.6 million in current maturities and by amortization of issue and discount costs in the amount of \$6.6 million.
- (2) **Other long-term assets** amounted to \$26 million as of December 31, 2019 compared with \$20.6 million as of December 31, 2018. The increase stems primarily from an increase in the asset retirement obligation due to the adjustment of the discount rate.

The Company's equity as of December 31, 2019 amounted to \$225.1 million compared with equity of \$139.4 million as of December 31, 2018. The increase stems primarily from comprehensive income for the period totaling \$125.7 million, offset by a dividend distributed in the amount of \$40 million.

B. Cash flow

Net cash flows provided by operating activities amounted in the reporting year to \$223.4 million compared with net cash flows provided by operating activities amounting to \$208.5 million the year before. The increase, deriving mainly from operating activities arising from the rights acquired from Noble, was partly offset by income taxes paid.

Net cash flows used for investing activities amounted in the reporting year to \$35 million compared with \$511.8 million a year ago. The decrease, deriving mainly from the cost of acquisition of the rights acquired from Noble in 2018 in the amount of \$475.2 million and from a deposit of \$31.6 million in the corresponding period into restricted deposits serving as safety buffers for the Series A and B bonds, was partly offset by a deposit of \$20 million in the reporting year into a restricted deposit (see Section 3A2 above) and by an investment of \$8.6 million in other long-term assets.

Net cash flows used for financing activities amounted in the reporting year to \$196 million and included the payment of principal on the Series A and B bonds in the amount of \$101.8 million, interest payments on the Series A and B bonds totaling \$54.1 million and a dividend payment amounting to \$40 million.

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

C. Financing Sources

In the reporting year the Company financed its current operations, the investments in the Tamar project, the principal and interest payments on Series A and B bonds and the dividend distributions to the Company's shareholders from revenues from the sale of gas and condensate to its customers.

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

Part Two – Aspects of Corporate Governance

1. The Company's policy on donations

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

2. Directors having accounting and financial expertise

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

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

3. Independent directors

The Company's articles do not include any provision regarding the number of independent directors. Four independent directors serve on the board of directors: Ran Efrati, Sigalia Hefetz, Nechama Ronen and Avraham Eini.

4. Disclosure regarding the Company's internal auditor

A. Details of the internal auditor

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

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

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

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

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

B. Manner of appointment

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

C. Identity of the internal auditor's organizational superior

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

D. Work plan

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

The multiannual plan and internal audit work plan for 2019 was prepared by the internal auditor in collaboration with the Company's management, following which it was presented to the audit committee and approved by it. The work plan does not allow the internal auditor any discretion in deviating from the plan, and therefore any change in the plan requires the approval of the audit committee.

It should be noted that besides the work of the internal auditor, the Company carries out, via an external consultant, jointly with the Israeli partners in the Tamar project, an audit of the Operator's work. In 2019, a periodic audit of the Tamar project Operator's books was carried out for the years 2017-2018 by an international external consultant, an expert on auditing in the

oil and gas industry. The audit was carried out in collaboration with the partners in the project other than the Operator, in accordance with the audit rules specified in the Joint Operation Agreement.

E. Scope of employment

The number of hours provided by the internal auditor is based on the Company's audit needs and determined by the audit committee, the board of directors and management. In the reporting year the internal auditor provided internal audit services on a scope of 375 hours (including in respect of the adoption of work procedures).

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

F. Audit performance

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

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

G. Access to information

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

H. Internal auditor's report

The internal auditor's report was submitted in writing.

The annual audit plan for 2019 covered four subjects as detailed below. The audit reports, except for the fourth subject, were submitted to the Company's management to hear its position, and to the board chairman and the audit committee members, and were extensively deliberated upon by the audit committee as detailed below:

<u>Subject of Report</u>	<u>Date of Deliberation by Audit Committee</u>
Follow-up of implementation of board resolutions	June 24, 2019
Quality of the environment	September 11, 2019
Transactions with interested parties	November 17, 2019
Insurance policies	Not yet completed and therefore still not discussed

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

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

J. Remuneration

The Company paid for internal audit services in 2019 a total of NIS 93,000 (including for the adoption of work procedures). In the board of directors' assessment, the remuneration is reasonable does not affect the exercise of the internal auditor's independent professional judgment.

5. Fee of independent internal auditors

Following are details of the working hours and fee amounts of the Company's independent auditors – Kost Forer Gabbay & Kasierer, CPA, and Ziv Haft, CPA, who until November 7, 2019 acted jointly with Kost Forer Gabbay & Kasierer, CPA, as the Company's independent auditors:

2019

For audit, audit-related and tax services – 2,079 hours; NIS 359 thousand.

For other services – 573 hours; NIS 248 thousand.

2018

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

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

6. The Company's policy on negligible transactions

On March 20, 2018 the board of directors adopted, for the first time, guidelines and rules for the classification of a transaction of the Company with an interested party as a negligible transaction, within the meaning of the term in Regulation 41(a)(3) of the Securities Regulations (Periodic and Immediate Reports) 2010 (the "Negligibility Procedure").

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

- a. It is not an extraordinary transaction (as this term is defined in the Companies Law).
- b. In any transaction tested for negligibility, each of the criteria that are relevant to such transaction will be examined before the event as specified below, and insofar as it applies to the transaction at a rate of less than 1% or in an amount below \$500,000, whichever is lower, the transaction will be deemed negligible:
 - 1) Acquisition/sale of a fixed asset – the amount of the asset involved in the transaction divided by total assets according to the latest reviewed or audited financial statements, as the case may be.
 - 2) Sale of products or services – the amount of the sales involved in the transaction divided by total annual sales, calculated based on the last four quarters regarding which reviewed or audited financial statements were published.

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

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

7. Internal enforcement plan

In August 2018, the Company adopted an internal enforcement program (which was revised in September 2019) in the field of securities and also appointed an officer in charge of internal enforcement.

8. Mix of the board of directors

Further to the agreement with Entropy Corporate Governance Consulting Ltd. ("Entropy") as set out in the Board of Directors' Report for the period ended December 31, 2018, Entropy carried out a study of the mix of the board of directors and the degree to which it suits the Company's needs, business and risk profile, at the conclusion of which it submitted to the Company a report with its recommendations. On June 24, 2019, the board of directors appointed a board committee with three members (two outside directors and an independent director), tasked with making recommendations to the board of directors on the adoption of a policy for the mix and composition of the Company's board of directors, as well as locating candidates to serve on the board, with emphasis on including among the candidates an expert in the field of oil and gas. On August 12, 2019, the committee

submitted to the board of directors a summary report with its recommendations. Further to the committee's recommendations, on August 14, 2019 the board of directors adopted a dedicated policy for the mix of the board of directors, with the aim of laying down professional guidelines while maintaining the trust of the investing public in the Company. The policy relates, among other things, to the required expertise and availability of the directors and to the duties, experience and availability of the Chairman of the Board. Subsequently, on September 2, 2019 the board of directors appointed Mr. Eitan Meir as a director of the Company with immediate effect and as active Chairman of the Board starting from January 1, 2020, and it approved the terms of his service as a director and as active Chairman of the Board, after receiving the audit committee's approval and subject to the approval of the general meeting. The general meeting held on November 7, 2019 approved Mr. Meir's reappointment as a director of the Company and the terms of his employment as a director and as active Chairman of the Board. For further details see Section 3.3 of amended immediate report on the convening of a general meeting dated October 29, 2019 (reference no. 2019-01-105832), the contents of which are included herein by reference.

Part Three – Repurchase Program

In its meeting of March 29, 2020, the board of directors adopted a bond repurchase program for Series A and B bonds (the "**repurchase program**"), to be implemented from time to time at the discretion of the Company's management, by way of purchase on the TASE during the period of the program as set out below and at a total cost of up to \$20 million pro rata according to the outstanding par value of each series (i.e. up to \$11 million for Series A bonds and up to \$9 million for Series B bonds). The repurchase will be made from funds contained in the Company's accounts which are not encumbered to the trustee of the Series A and B bonds. The repurchase program is for a period of one year from the date of the board of directors' resolution, subject to a review on or about the date of approval of the report for the second quarter of 2020. The board of directors approved the repurchase program mainly for the following reasons:

1. In the current market situation, the bond repurchase program will enable a reduction in the Company's overall net debt and is expected to contribute to the Company's repayment capacity and to an increase in its asset value.
2. The repurchase program complies with the provisions of the Company's trust deeds, and implementation of the program does not violate the Company's obligations to its bondholders. Additionally, the repurchase under the repurchase program is not expected to result in any breach of the financial covenants included in the trust deeds of the bonds.
3. In light of all the foregoing, the adoption of the repurchase program is in the Company's best interests, from the perspective of both its shareholders and bondholders.

It is clarified that the board of directors' resolution approving the repurchase program does not obligate the Company to purchase bonds for the full amount of the program or any part thereof, and the actual implementation of the repurchase program is subject to the management's discretion.

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

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

See Note 22 to the Financial Statements.

2. In the board of directors meeting of March 18, 2020, the Company adopted an investment policy according to which, in addition to investing in bank deposits, it may invest funds contained in the Company's accounts which are not encumbered to the trustee of the Series A and B bonds, in marketable corporate bonds rated A+(il) or marketable corporate bonds with an international rating of at least A+, linked to or denominated in the U.S. dollar and maturing before the final maturity of the Series A and B bonds.

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

<u>Details</u>	<u>Series A</u>	<u>Series B</u>
Is the series material?	Yes	Yes
Par value on issue date	2,315,668	1,940,113
Issue date	July 9, 2017	March 13, 2018
Par value as of December 31, 2019	2,063,163	1,700,450
Linked par value as of December 31, 2019	2,024,501	1,698,975
Value in the Company's books as of December 31, 2019	2,001,926	1,565,786
Stock exchange value as of December 31, 2019	1,818,884	1,517,822
Amount of accrued interest as of December 31, 2019	31,997	26,852
Annual fixed interest rate	4.69%	4.69%
Principal payment dates	See <u>Annex A</u> to this report	See <u>Annex B</u> to this report
Interest payment dates	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive)	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive)
Linkage basis, base rate (principal and interest)	Linked to the U.S. dollar; base rate – 3.522 NIS/\$	Linked to the U.S. dollar; base rate – 3.459 NIS/\$
Conversion right	None	None
Right for early payment	<ul style="list-style-type: none"> • Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the supplementary notice released on July 6, 2017 (reference number 2017-01- 	<ul style="list-style-type: none"> • Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the shelf offering report dated March 12, 2018 (reference

<u>Details</u>	<u>Series A</u>	<u>Series B</u>
	<p>057724) (the "Series A Indenture").</p> <ul style="list-style-type: none"> • Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series A Indenture. • Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture. 	<p>number 2018-01-019125 (the "Series B Indenture").</p> <ul style="list-style-type: none"> • Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series B Indenture. • Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture.
Guarantee for payment of the liability	None	None
Name of trustee	Strauss Lazer, Trust Company (1992) Ltd. ³	Strauss Lazer, Trust Company (1992) Ltd.
Name of responsible person at the trust company	Ori Lazer, CPA and Adv.	Ori Lazer, CPA and Adv.
Address and email of the trustee	NIP Tower, 17 Yitzhak Sadeh St., Tel Aviv 677775 ori@slcpa.co.il	NIP Tower, 17 Yitzhak Sadeh St., Tel Aviv 677775 ori@slcpa.co.il
Name of company rating the bonds	Midroog Ltd.	Midroog Ltd.
Rating as of the issue date	A1.il (stable outlook)	A1.il (stable outlook)
Ratings from the issue date and rating as of the report date ⁴	A1.il (negative outlook)	A1.il (negative outlook)
Has the Company complied with all the conditions and obligations under the Indenture until December 31, 2019 and during the reporting year?	Yes	Yes
Have conditions establishing grounds for acceleration of the bonds or enforcement of collateral given to secure the payment to the bondholders been fulfilled?	No	No
Pledges for securing the bonds	<ul style="list-style-type: none"> • For pledges given for securing the Series A bonds, see Section 5.8.1 of the Series A Indenture, the contents of which are included herein by reference. 	<ul style="list-style-type: none"> • For pledges given for securing the Series B bonds see Section 5.8.1 of the Series B indenture, the contents of which are included herein by reference.

³ On July 18, 2019, the meeting of holders of Series A bonds confirmed the appointment of the trustee as trustee for the bondholders up to the full and final payment of the bonds.

⁴ Series A bonds were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018, March 12, 2018, March 13, 2019 and March 29, 2020; Series B bonds were rated on February 20, 2018, March 12, 2018, March 13, 2019 and March 29, 2020. For details see immediate report dated March 29, 2020 (reference number 2020-01-027667), the contents of which are included herein by reference.

<u>Details</u>	<u>Series A</u>	<u>Series B</u>
	<ul style="list-style-type: none"> • As of the date of approval of the financial statements, all the pledges set forth in Section 5.8.1 of the Series A indenture have been registered and are valid according to any law and the Company's documents of incorporation. • For restrictions regarding the transfer and pledge of the Company's assets see Section 5.9 of the Series A Indenture, the contents of which are included herein by reference. • For details regarding the Company's right to issue additional Series A Bonds by way of a series expansion, and its right to issue bonds of other series and other additional debt, subject to certain conditions, see Section 2.2 of the Series A Indenture, the contents of which are included herein by reference. 	<ul style="list-style-type: none"> • As of the date of approval of the Financial Statements, all the pledges set forth in Section 5.8.1 of the Series B indenture have been registered and are valid according to any law and the Company's documents of incorporation. • For restrictions regarding the transfer and pledge of the Company's assets see Section 5.9 of the Series B indenture, the contents of which are included herein by reference. • For details regarding the Company's right to issue additional Series B Bonds by way of a series expansion, and its right to issue bonds of other series and other additional debt, subject to certain conditions, see Section 2.2 of the Series B indenture, the contents of which are included herein by reference.
Financial covenants as of December 31, 2019	<ul style="list-style-type: none"> • Equity (including minority interests) net of capital reserve and with the addition of loans subordinate to the rights of the bondholders (as specified in Section 5.10.1 of the Series A indenture) as of December 31, 2019 – \$934 million.⁵ • Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A indenture) (for 	<ul style="list-style-type: none"> • Equity (including minority interests) net of capital reserve and with the addition of loans subordinated to the rights of the bondholders (as specified in Section 5.10.1 of the Series B indenture) as of December 31, 2019 – \$934 million.⁶ • Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B indenture) (for

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

⁶ According to the terms of the Series B Indenture, said equity may be no less than \$350 million.

<u>Details</u>	<u>Series A</u>	<u>Series B</u>
	the 12 months beginning April 1, 2020) – 1.45. ⁷	the 12 months beginning April 1, 2020) – 1.45. ⁸
	<ul style="list-style-type: none"> • Historical coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A indenture) (for the year ended December 31, 2019) – 1.33.⁹ • Economic equity (as defined in Section 5.10.3 of the Series A indenture) as of December 31, 2019 – \$734 million.¹¹ 	<ul style="list-style-type: none"> • Historical coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B indenture) (for the year ended December 31, 2019) – 1.33.¹⁰ • Economic equity (as defined in Section 5.10.3 of the Series B indenture) as of December 31, 2019 – \$734 million.¹²

Additional Information

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

Sincerely,

Eitan Meir
Chairman of the Board

Tamar Petroleum Ltd.

Liami Vaisman
CEO

⁷ According to the terms of the Series A Indenture, said ratio will be no less than 1.05, and for making a distribution – no less than 1.2.

⁸ According to the terms of the Series B Indenture, said ratio may be no less than 1.05 and for making a distribution – no less than 1.2.

⁹ According to the terms of the Series A Indenture, as regards dividend distribution, the historical coverage ratio may be no less than 1.20 on at least one of two consecutive examination dates.

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

¹¹ According to the terms of the Series A Indenture, said economic equity may be no less than \$250 million during two consecutive quarters.

¹² According to the terms of the Series B Indenture, said economic equity may be no less than \$350 million during two consecutive quarters.

Annex A
Schedule of Amortization of Series A Bonds

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

Annex B
Schedule of Amortization of Series B Bonds

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



Tamar Petroleum Ltd.

Chapter C

Financial Statements

Tamar Petroleum Ltd.

Financial Statements as of December 31, 2019

In U.S. Dollars in Thousands

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

Tamar Petroleum Ltd.
Financial Statements as of December 31, 2019
In U.S. Dollars in Thousands

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Independent Auditor's Report to the Shareholders of Tamar Petroleum Ltd.

We have audited the accompanying financial statements of Tamar Petroleum Ltd. (the "Company") as of December 31, 2019 and 2018 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years in the three-year period ended December 31, 2019. These financial statements are the responsibility of the board of directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

The Company's financial statements as of December 31, 2018 and for each of the years in the two-year period ended on that date were issued by us and by the BDO Ziv Haft CPA firm, which has ceased being the joint independent auditor of the Company.

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

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018 and the results of operations, the changes in equity and the cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Tel Aviv
March 29, 2020

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Tamar Petroleum Ltd.

Statements of Financial Position (U.S. dollars in thousands)

		December 31	
	Note	2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	20A	79,167	86,928
Restricted deposits	20A	20,283	-
Trade receivables	20E(2)	34,588	33,429
Other accounts receivable	5	6,201	9,774
		<u>140,239</u>	<u>130,131</u>
Non-current assets:			
Investments in oil and gas assets	6	1,008,360	1,040,550
Deferred taxes	19B	112,736	98,389
Restricted deposits	20A	43,258	42,228
Other long-term assets	7	12,194	5,406
		<u>1,176,548</u>	<u>1,186,573</u>
		<u>1,316,787</u>	<u>1,316,704</u>
Liabilities and equity:			
Current liabilities:			
Current maturities of bonds	9	87,581	95,246
Other accounts payable	8	29,405	29,163
Income taxes payable		3,951	-
		<u>120,937</u>	<u>124,409</u>
Non-current liabilities			
Bonds net of current maturities	9	944,743	1,032,323
Other long-term liabilities	10	25,961	20,580
		<u>970,704</u>	<u>1,052,903</u>
Total liabilities		<u>1,091,641</u>	<u>1,177,312</u>
Equity:			
Ordinary share capital		2,517	2,517
Share premium		784,495	784,495
Retained earnings		145,145	59,494
		<u>932,157</u>	<u>846,506</u>
Capital reserve		(707,011)	(707,114)
		<u>225,146</u>	<u>139,392</u>
		<u>1,316,787</u>	<u>1,316,704</u>

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

March 29, 2020

Date of approval of the
financial statements

Eitan Meir
Chairman of the Board

Liami Vaismann
CEO

Yuval Raikin
CFO

Tamar Petroleum Ltd.

Statements of Comprehensive Income (U.S. dollars in thousands)*

		Year ended December 31		
	Note	2019	2018	2017
Revenues from gas and condensate sales	14	349,937	311,273	172,334
Less royalties	15	57,853	49,691	27,246
Net revenues		<u>292,084</u>	<u>261,582</u>	<u>145,088</u>
Costs and expenses				
Cost of production of natural gas and condensate	16	28,450	21,897	12,234
Depreciation, depletion and amortization expenses	6	50,037	44,466	16,934
General and administrative expenses	17	3,207	2,661	1,698
Total costs and expenses		<u>81,694</u>	<u>69,024</u>	<u>30,866</u>
Income from ordinary activities		<u>210,390</u>	<u>192,558</u>	<u>114,222</u>
Finance expenses	2B,18	(60,147)	(58,293)	(15,859)
Finance income	18	3,279	1,832	332
Finance expenses, net		<u>(56,868)</u>	<u>(56,461)</u>	<u>(15,527)</u>
Income before income taxes		<u>153,522</u>	<u>136,097</u>	<u>98,695</u>
Income taxes	2B,19	<u>(27,871)</u>	<u>(37,279)</u>	<u>(10,469)</u>
Total comprehensive income		<u>125,651</u>	<u>98,818</u>	<u>88,226</u>
Basic and diluted earnings per share (in \$)		<u>1.42</u>	<u>1.22</u>	<u>1.76</u>
Weighted number of shares for the above calculation	2A(4), 13	<u>88,495,576</u>	<u>80,901,928</u>	<u>50,000,000</u>

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017), see Note 2.

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

Tamar Petroleum Ltd.

Statements of Changes in Equity (Deficit) (U.S. dollars in thousands)*

	Ordinary share capital	Share premium	Capital reserve	Retained earnings	Total
Balance as of January 1, 2017	**	386,825	-	-	386,825
Changes in the year 2017:					
Total comprehensive income	-	-	-	88,226	88,226
Owners' investments (distributions to owners)	-	7,112	-	(56,203)	(49,091)
Transaction with a former controlling shareholder (see Note 2A)	-	(17,050)	(707,206)	-	(724,256)
Share issue	1,399	193,761	-	-	195,160
Balance as of December 31, 2017	1,399	570,648	(707,206)	32,023	(103,136)
Changes in the year 2018:					
Total comprehensive income	-	-	-	98,818	98,818
Share issue	1,118	213,847	-	-	214,965
Dividend	-	-	-	(71,347)	(71,347)
Share-based payment	-	-	92	-	92
Balance as of December 31, 2018	2,517	784,495	(707,114)	59,494	139,392
Changes in the year 2019:					
Total comprehensive income	-	-	-	125,651	125,651
Dividend	-	-	-	(40,000)	(40,000)
Share-based payment	-	-	103	-	103
Balance as of December 31, 2019	2,517	784,495	(707,011)	145,145	225,146

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

** Less than one thousand dollars.

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

Tamar Petroleum Ltd.

Statements of Cash Flows (U.S. dollars in thousands)*

	Year ended December 31		
	2019	2018	2017
Cash flows – operating activities:			
Net income	125,651	98,818	88,226
Adjustments required to reconcile net income to net cash used in operating activities:			
Depreciation, depletion and amortization	50,037	44,466	16,934
Income taxes	(3,065)	26,373	6,937
Amortization of bond discount and issue expenses	6,568	5,902	610
Finance expenses, net	50,291	50,757	14,855
Share-based payment	103	92	-
Changes in assets and liabilities:			
Increase in trade receivables	(1,159)	(15,133)	(20,844)
Increase in other accounts receivable and other long-term assets	(79)	(3,778)	(2,307)
Change in balance of the Joint Venture operator	(5,312)	(1,807)	-
Increase in other accounts payable	322	2,769	3,261
Net cash provided by operating activities	<u>223,357</u>	<u>208,459</u>	<u>107,672</u>
Cash flows – investing activities:			
Cost of acquisition of additional rights in the Tamar and Dalit leases (see Appendix C and Note 4B)	-	(475,199)	-
Deposit in restricted deposits	(20,000)	(31,567)	(9,940)
Investments in oil and gas assets	(10,400)	(7,231)	(18,507)
Investment in other long-term assets	(8,618)	-	(1,666)
Change in balance of the Joint Venture operator	-	-	9,545
Interest received	3,085	1,424	109
Receipts in connection with other long-term assets	941	792	130
Net cash used for investing activities	<u>(34,992)</u>	<u>(511,781)</u>	<u>(20,329)</u>
Cash flows – financing activities:			
Payment to a former controlling shareholder in respect of the Sale Agreement (see Note 4A)	-	-	(845,299)
Proceeds from a bond issue, net	-	512,239	647,955
Repayment of bonds	(101,813)	(30,791)	-
Proceeds (payment of issue costs) from a share issue, net	-	(204)	195,160
Repurchase of bonds	-	(840)	(7,523)
Receipt of short-term credit from a former controlling shareholder (see Note 4A(3))	-	-	34,000
Repayment of short-term credit from a former controlling shareholder	-	-	(34,000)
Distributions to owners	-	-	(49,091)
Dividend paid	(40,000)	(71,347)	-
Interest paid	(54,180)	(46,978)	(106)
Net cash provided by (used for) financing activities	<u>(195,993)</u>	<u>362,079</u>	<u>(58,904)</u>
Losses from exchange rate differences on cash and cash equivalents			
	(133)	(268)	-
Increase (decrease) in cash and cash equivalents	(7,761)	58,489	28,439
Cash and cash equivalents at beginning of year	86,928	28,439	-
Cash and cash equivalents at end of year	<u>79,167</u>	<u>86,928</u>	<u>28,439</u>

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

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

Tamar Petroleum Ltd.

Statements of Cash Flows (U.S. dollars in thousands) (cont.)*

	Year ended December 31		
	2019	2018	2017
Annex A – Investing activities not involving cash flows			
Issuance of shares in consideration for the acquisition of rights in Tamar and Dalit	-	215,169	-
Investments in oil and gas assets against other accounts payable	4,278	1,120	485
Asset retirement obligation against oil and gas assets	4,330	1,795	197
Annex B – Additional information on cash flows			
Income tax paid	<u>30,936</u>	<u>10,906</u>	<u>3,530</u>

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

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

Cash flows – investing activities:

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

- * Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 1 – General:

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

The Company's revenues from gas sales are mainly affected by the scope of consumption of natural gas by the IEC (see Note 11C below).

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

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 1 – General: (cont.)

- E. At the end of 2019 and during the first quarter of 2020, the coronavirus (Covid-19) began to spread in China and thereafter throughout the world, and it was declared a global pandemic by the World Health Organization (WHO) in March 2020 (the "**coronavirus pandemic**"). As of the date of approval of the financial statements, on the background of the coronavirus pandemic and as a result thereof, there has been a slowdown in global economic activity, which, if it persists, may lead to an ongoing global economic crisis affecting numerous sectors, including the energy sector in which the Company operates. Many countries, among them Israel, have taken drastic measures in an attempt to contain the virus, such as a lockdown in affected areas, stay-at-home and self-isolation orders, restrictions on the transport of passengers and goods, restrictions and in some cases even a ban on travel between countries, complete or partial shutdown of air and/or maritime traffic, full or partial closure of nonessential businesses and so forth. Additionally, during the first quarter of 2020, a confrontation developed between Russia and Saudi Arabia over the rate of oil production, resulting in a sharp drop in oil prices around the world. All these factors have led to a steep decline in the value of securities in Israel and the world, including a significant decrease in the value of the Company's shares and an increase in the yields on its bonds. As of the date of approval of the financial statements the market value of the Company's shares amounts to \$30 million, considerably below its equity as of December 31, 2019 (regarding a significant decrease in the market price of the Company's Series A and B bonds subsequent to the date of the statement of financial position, see Note 20B). Regarding an impairment test on the Company's investments in oil and gas assets as of December 31, 2019, see Note 2E below. The Company will assess in subsequent periods the need for an impairment of its investment in the Tamar reservoir, in light of said decrease in the share value as well as other changes that may materially affect the calculation of the recoverable amount of the Company's investment in the reservoir and, accordingly, its operating results and equity.

It should be noted that the Company has limited exposure to a short-term decrease in energy prices, since most of its existing agreements with customers contain take-or-pay provisions as well price floors, while some of the agreements include customer commitments to purchase natural gas from the Tamar reservoir only (see Note 11B1 below). It is further noted that in light of existing cash balances of the Company beyond the safety buffers required by the indentures of the Series A and B bonds, and in light of the factors mentioned above, the Company estimates that it will have sufficient funds at least in the coming year for financing its activity and/or meeting its existing and expected obligations.

Since the extent of the negative impact of the coronavirus pandemic on the global and local economy depends on the intensity of the pandemic and on the time it will take to eradicate it or halt its spread, factors which as of the date of approval of the financial statements are subject to uncertainty, at this stage the Company is unable to estimate the full impact of the pandemic on the Company's operations and business results.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 2 – Basis for Preparation of the Financial Statements:

- A.** The acquisition of the rights in the Tamar and Dalit leases from Delek Drilling (9.25%) in 2017, which constituted a transaction with a controlling shareholder as stated in Note 1B above, does not constitute a business combination within the scope of IFRS 3, and therefore it was accounted for in the financial statements using the pooling method. Accordingly, the Company prepared the financial statements to reflect therein the acquisition of the working interest in those leases from Delek Drilling as if it was closed on January 1, 2015, while carrying out the following adjustments:
 - 1) For periods prior to July 1, 2017, the Company did not participate in assets and liabilities arising from the following differences: differences in the rate of royalties to the State and to third parties due to a disagreement of the partners in the Joint Venture with the Ministry of Energy (see Notes 15B and 15C below); differences due to disagreements between the Tamar partners and several customers in connection with the price of gas linked to the Electricity Production Tariff.
 - 2) General and administrative expenses for periods prior to July 1, 2017 were included according to an estimate of the share attributable to the Tamar project out of the Partnership's total general and administrative expenses.
 - 3) Equity of the transferred operations was classified in the statement of changes in equity under share premium. Distributions made to the owners before the date of transfer of the Leases were recognized in the statement of changes in equity under share premium and retained earnings.
 - 4) As stated in Note 13B below, on the closing date of the acquisition transaction the Company issued 49,990,000 shares. Said issue was accounted for by way of retroactive adjustment of the number of shares in the calculation of the earnings per share for all the periods prior to July 1, 2017, as if the shares had been issued on January 1, 2015.
- B.** The figures presented in these financial statements for periods prior to July 1, 2017 do not reflect finance expenses incurred by the Company due to the issue of Series A bonds for the purpose of acquiring the Leases from Delek Drilling (the Company began recording finance costs in connection with said bonds as of the date of their issuance in July 2017), and do not include income taxes (the activity of the Leases in those periods was carried out within the Partnership, which does not include income taxes in its financial statements, since the tax liability for the Partnership's profits is imposed on the holders of the participation units).
- C.** The financial figures in these financial statements are based, among other things, on documents and accounting figures that were provided to the Company by Delek Drilling (for the period prior to the start of the Company's operations) and to the Israeli participants in the Joint Venture by the Operator.
- D.** The acquisition of the rights in the Tamar and Dalit leases from Noble in the reporting period (see Note 4B below) was accounted for by the acquisition method, in accordance with the principles laid down in IFRS 3: Business Combinations. Accordingly, the statement of comprehensive income includes the results of operations attributable to said rights in the Tamar and Dalit leases as of the acquisition date (March 14, 2018).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

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

E. Judgment and critical assumptions based on significant estimates:

Preparation of the Company's financial statements in accordance with IFRS requires that management use estimates and make assumptions that affect the amounts presented in the financial statements. These estimates occasionally require the exercise of judgment in an environment of uncertainty and have a material effect on the presentation of the data in the financial statements.

Following is a description of the key assumptions based on significant accounting estimates used in the preparation of the Company's financial statements, whose formulation required management to make assumptions regarding circumstances and events involving significant uncertainty. In exercising judgment when making the estimates, management relies on various facts, exogenous factors and reasonable assumptions according to the circumstances relevant to each estimate. Actual results may differ from management's estimates.

Estimate of natural gas and condensate reserves (the "gas reserves") – The estimate of gas reserves is used in determining the rate of amortization of the producing assets serving operations during the reported period. Investments related to the discovery and production of proved gas reserves are amortized by the depletion method as stated in Note 3H1d below.

The estimated quantity of the proven reserves in the reported period is determined annually based on opinions of external experts for the evaluation of reserves in oil and gas reservoirs.

The assessment of proved gas reserves is a subjective process, and the assessments of different experts may occasionally differ substantially. In light of the materiality of the amortization expenses, changes in the estimation of gas reserves may have a material effect on the Company's results of operations and financial condition.

Estimate of impairment of oil and gas assets – The Company evaluated the need for recording a provision for impairment of the investments in oil and gas assets, whose amortized book cost is \$1,008 million as of December 31, 2019, inter alia in light of the fact that as of said date the market value of the Company's shares is less than its equity. The evaluation was carried out by an independent external appraiser, who estimated the lower limit of the present value of the Company's discounted cash flow from 2P reserves (proved reserves + probable reserves) in the Tamar reservoir as of December 31, 2019, as published on January 8, 2020 (the "**Company's forecast**"), applying a conservative scenario to the company's forecast that combines: (1) a reduction in the annual rate of production of natural gas and condensate by 20% compared to the Company's forecast, and (2) a reduction of 10% compared to the Company's forecast for gas and condensate prices (the "**lower cash flow limit**"), and using a weighted average cost of capital (WACC) (after tax) of 8.2%. Based on said evaluation, the lower cash flow limit was estimated by the external appraiser at \$1,150 million and is higher than the book balance of investments in oil and gas assets as of December 31, 2019, which, net of the retirement obligation and other long-term assets (whose effect was included in the discounted cash flow), amounts to \$993 million. According to a sensitivity analysis performed by the external appraiser, an increase of 1.5% in the WACC after tax would reduce the present value of the lower cash flow limit to \$998 million.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

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

E. Judgment and critical assumptions based on significant estimates: (cont.)

According to the above assessment of the external appraiser, under the assumptions described above, the lower limit of the recoverable amount is higher than the amortized book cost of the investments in oil and gas assets as of December 31, 2019, and therefore there is no need for a provision for impairment of the Company's investments in the Tamar reservoir.

For details regarding the coronavirus pandemic outbreak and spread and regarding a significant decrease in the market price of the Company's shares and bonds after the date of the statement of financial position, see Notes 1E and 20B.

Lawsuits and legal proceedings – In assessing the prospects of lawsuits filed against it and legal proceedings that are under way between the Company and other parties, the Company relied on opinions of its legal advisers. The assessments of the legal advisers are based on their best professional judgment, taking into account the current stage of the proceedings. Naturally, the results of the lawsuits and proceedings may differ from said assessments. See in this regard Note 11J.

Income taxes – The Company recognizes deferred tax assets and deferred tax liabilities based on the differences between the carrying amount of the assets and liabilities and their amount taken into account for tax purposes. The Company regularly tests for recoverability of the deferred tax assets included in its accounts, based on forecast taxable income, the timing of the expected reversal of temporary differences and the application of tax planning strategies. Should the Company fail to earn taxable revenues in a sufficient amount in the future, it may be required to cancel deferred tax assets or to increase the deferred tax liabilities, which could increase its effective tax rate and adversely affect its results of operations.

Asset retirement obligation – The Company recognizes an asset concurrently with a liability in respect of its obligation to retire oil and gas assets at the end of the period of use thereof. The timing and amount of the economic resources required to discharge the obligation are based on an estimation by management, which relies, inter alia, on an evaluation by professional consultants, and are examined periodically to ensure the fairness of such estimations.

Return-on-investment (ROI) date for determining the overriding royalty rate(see Note 11H2) – In determining the overriding royalty rate, used for calculating the royalty expenses in the financial statements, the Company relied on an interim calculation report as of the ROI date, prepared by the Company and based, inter alia, on the principles established in a decision by an external expert from 2002, appointed by mutual consent of Delek Drilling, on the one hand, and Delek Group Ltd. ("Delek Group") and Delek Energy Systems Ltd. ("Delek Energy"), on the other, who stated his opinion on the method of calculating the ROI date and on the different components that should be taken into account. As regards a dispute concerning the ROI date, see Note 15D. Any change in the determination of the ROI date may materially affect the Company's results of operations and financial position.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies:

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

The accounting policies presented in this note have been applied consistently in the financial statements for all the reported periods, unless otherwise stated (see Sections L and N below). The financial statements are prepared on cost basis. The Company has elected to present the profit or loss items by functional expense category.

B. Functional currency and presentation currency:

- 1) The Company presents its financial statements in the U.S. dollar ("dollar"), which is also its functional currency. The functional currency is the currency which best reflects the economic effects of transactions, events and circumstances related to the Company's operations. Any transaction in a currency other than the Company's functional currency is a transaction in foreign currency.
- 2) **Transactions in foreign currency** – Transactions denominated in foreign currency are recorded upon initial recognition in the functional currency, using the immediate exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- Monetary items denominated in foreign currency are translated using the exchange rate at the end of the reporting period;
- Non-monetary items carried at historical cost in foreign currency are translated using the exchange rate at the date of the transaction;
- Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized during the period or at which they were translated in previous financial statements, are recognized in the statement of comprehensive income in the period in which they were created.

C. Operating cycle:

The Company's operating cycle is one year.

D. Business combinations:

Business combinations are accounted for by applying the acquisition method. The consideration transferred in exchange for the acquiree is calculated as the sum of the fair values of the assets transferred by the Company, the liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any costs attributable to the business combination are expensed as incurred, except costs in respect of the issuance of equity instruments or debt instruments of the Company.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

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

1. A joint venture constitutes a contractual arrangement whereby two or more parties undertake an economic activity of oil and gas exploration and/or production in a jointly owned asset. Certain joint ventures often involve joint ownership of one or more assets.

It appears that ventures in which there is no formal requirement for unanimous consent of the venturers do not meet the definition of joint control according to IFRS 11. Nevertheless, examination of such ventures indicates that the ventures themselves have no rights in the assets and do not commit to engagements on behalf of the venturers. Engagements are made directly between the venturers and a third party. Any venturer may pledge its rights in the assets and each venturer is entitled to the economic benefits from the venture. Consequently, the venturers have a proportionate share of the assets and liabilities attributed to the joint venture.

In respect of the Company's rights in activity in jointly owned assets, the Company recognized in its financial statements:

- a) Its share of the jointly owned assets.
 - b) Any liabilities it has incurred.
 - c) Its share of any liabilities incurred jointly in relation to activity in the jointly owned assets.
 - d) Any income from the sale or use of its share of the output of the jointly owned assets, together with its share of any expenses it has incurred for activity in the jointly owned assets.
 - e) Any expenses it has incurred in respect of its interest in the jointly owned assets.
2. The Company presents its share in payments transferred to the Operator and not yet used in other accounts receivable, since such amounts do not meet the definition of cash and cash equivalents.

F. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects part or all of the expense to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Lawsuits:

A provision for lawsuits is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Company to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

F. Provisions: (cont.)

Asset retirement obligation

The Company records in its books a provision for an asset retirement obligation – see H2 below regarding asset retirement obligation costs.

G. Levies:

Under the Taxation of Profits from Natural Resources Law 2011, the Company is subject to payment of an oil profit levy on its profits from the Tamar and Dalit leases. The levy is calculated for each project separately (Tamar or Dalit), and is accounted for in accordance with IFRIC 21 -"Levies." Therefore, the Company recognizes, where relevant, expenses in respect of the levy only on the date on which the obligation to pay the levy is triggered. As of the date of the statement of financial position, the obligation to pay the levy had not been triggered.

H. Expenses of oil and gas exploration and development of proved reservoirs:

- 1) The Company uses the "successful efforts" method of accounting for investments in oil and gas exploration, whereby:
 - a) Participation expenses in respect of geological and seismic surveys and tests performed in the preliminary stages of exploration are carried to the statement of comprehensive income as incurred, until the date on which, following the performance of these surveys and tests, a specific drilling plan is formulated.
 - b) Investments in reservoirs which have not been determined to be non-commercial are classified as "exploration and evaluation assets" and stated under the "investments in oil and gas assets" item, at cost.
 - c) Investments in reservoirs that have proved to be dry and been abandoned or that have been determined to be non-commercial are fully amortized from the "exploration and evaluation assets" item to expenses in the statement of comprehensive income.
 - d) Investments in reservoirs regarding which gas or oil production has been determined as technically feasible and commercially viable(which are reviewed in relation to various events and classified circumstances, the major one being receipt of certification from the Petroleum Commissioner (**the "Commissioner"**) that the reservoir is a commercial finding) are defined as oil and gas assets and classified, subject to the performance of a test for impairment, in the statement of financial position under the "oil and gas assets" item, at cost. The investments in oil and gas item in the statement of financial position mainly includes costs accrued until the date of the statement of financial position in connection with the development of the Tamar gas field and construction of a production system for the gas that has been discovered. These costs, which include, inter alia, reservoir development planning costs, development wells, purchase and construction of production and reception facilities, gas transmission pipelines and asset retirement costs (see also para. (2) below), are amortized to the statement of comprehensive income based on the depletion method (i.e. based on the quantity produced), as follows:

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**H. Expenses of oil and gas exploration and development of proved reservoirs:** (cont.)

Drilling costs are amortized according to the quantity of the proved and developed reserves, and the cost of the additional components (such as platform, pipeline and terminals) is amortized according to the quantity of the proved reserves (developed and to be developed).

- e) Exploration and evaluation assets and oil and gas assets are tested for impairment whenever facts and circumstances indicate that the carrying amount of an exploration and evaluation asset or oil and gas asset may be higher than its recoverable amount in accordance with IAS 36 and IFRS 6.

2) Asset retirement obligation costs:

The Company recognizes a liability in respect of its share in the obligation to retire assets at the end of their useful life. The liability is initially measured at its present value against investments in oil or gas assets, and expenses resulting from the remeasurement of its present value due to the passage of time are carried to the statement of comprehensive income. The asset is initially measured at the present value of the liability and is amortized to the statement of comprehensive income as stated in (1) above. Changes stemming from timing, discount rates and the amount of financial resources required to settle the obligation are added to or subtracted from the asset in the current period concomitantly with a change in liability. The discount rate used in calculating the asset retirement obligation as of December 31, 2019 is 4% (December 31, 2018 – 5.1%). The balance of the liability is recognized in "other long-term liabilities" and the balance of the asset after amortization is recognized in "investments in oil and gas assets" in the statement of financial position.

I. Borrowing costs:

The Company capitalizes borrowing costs attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs commences when expenditures are being incurred in respect of the qualifying asset, activities that are necessary to prepare the asset for its intended use or sale are in progress and borrowing costs are being incurred, and ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The amount of capitalized borrowing costs during the reporting periods includes general borrowing costs at a weighted capitalization rate. All other borrowing costs are recognized in the statement of comprehensive income.

J. Cash and cash equivalents:

Cash and cash equivalents are considered highly liquid short-term investments, including, inter alia, short-term, unrestricted bank deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, with a maturity of three months or less from the time of investment.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**K. Short-term deposits:**

Short-term deposits are bank deposits that do not meet the definition of cash equivalents and/or with an original term to maturity of more than three months. The deposits are presented according to the deposit terms.

L. Financial instruments:

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

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

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

1) Financial assets:

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

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

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

The Company measures debt instruments at amortized cost when:

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

L. Financial instruments: (cont.)

The Company measures debt instruments at fair value through the statement of comprehensive income when: financial assets that are debt instruments do not meet criteria for their measurement at amortized cost or at fair value through other comprehensive income. Subsequent to initial recognition, the financial assets are measured at fair value, with profits or losses as a result of fair value adjustments carried to the statement of comprehensive income.

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

Equity instruments and other financial assets held for trading

Investments in equity instruments do not meet the above criteria and are therefore measured at fair value through the statement of comprehensive income.

Other financial assets held for trading, such as derivatives, including embedded derivatives separated from the host contract are measured at fair value through the statement of comprehensive income, unless they are designated for use as effective hedging instruments.

2) Impairment of financial assets

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

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

The Company differentiates between two situations of loss allowance recognition:

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

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

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

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

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

3) Derecognition of financial assets:

The Company derecognizes a financial asset when and only when:

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

4) Financial liabilities:**Financial liabilities measured at amortized cost:**

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

L. Financial instruments: (cont.)

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

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

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

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, considering both qualitative and quantitative factors.

If the terms of an existing financial liability are substantially modified, or if a liability is replaced by another from the same lender on substantially different terms, the transaction is accounted for as a derecognition of the original liability and recognition of a new liability. The difference between these two liabilities in the financial statements is recognized in the statement of comprehensive income.

If a non-substantial modification is made to the terms of an existing financial liability, or if a liability is replaced by another from the same lender on terms which are not substantially different, the Company adjusts the amount of the liability by discounting the revised cash flows at the original effective interest rate, with any resulting difference carried to the statement of comprehensive income.

6) Offsetting financial instruments

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

M. Impairment of non-financial assets

The Company tests for impairment of non-financial assets, in accordance with the rules established in IAS 36, whenever events or changes in circumstances indicate that the carrying amount is not recoverable. The Company applies this test mainly to investments in oil and gas which are presented in the statement of financial position. Whenever the carrying amount of the tested assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value net of costs of sale and value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to each asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

M. Impairment of non-financial assets (cont.)

For assessing impairment, each reservoir is considered a separate cash-generating unit, except when two reservoirs or more are grouped into one cash-generating unit, *inter alia* in cases where there is dependence on positive cash flows arising from the reservoirs or there is joint use of infrastructures.

Impairment losses are carried to the statement of comprehensive income. An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of such impairment loss is limited to the lower of the previously recognized amount of impairment (net of depreciation or amortization) and the recoverable amount of the asset.

Regarding the test for impairment of oil and gas assets that was performed as of December 31, 2019 – see Note 2E.

N. Revenue recognition:

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

Revenue is recognized in the statement of comprehensive income when it can be reliably measured, it is probable that the economic benefits deriving from the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenue is measured at fair value of the consideration in the transaction, net of trade and volume discounts and refunds.

Revenues from the sale of oil and gas are recognized when the oil or gas is transferred to the customer. Revenues include only the economic benefits the Company receives or is entitled to receive on its own behalf.

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

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

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

N. Revenue recognition: (cont.)

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

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

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

O. Employee benefits:

1) Short-term employee benefits:

Short-term employee benefits, which include salaries, convalescence pay, vacation and social security contributions, are recognized as an expense as the services are rendered. A liability in respect of an employee bonus is recognized when the Company has a legal or constructive obligation to make such payment. The Company classifies employee benefits under current liabilities when the benefit is expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services.

2) Post-employment employee benefits:

According to employment laws and labor agreements in Israel, the Company is liable for the payment of severance pay to employees who are dismissed, and, under certain conditions, to employees who resign or retire from their work. The Company's obligation to pay severance pay to its employees is pursuant to Section 14 of the Severance Pay Law (the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions, even if the plan does not hold sufficient amounts to pay all employee benefits related to employee service during the current period and prior periods) and is treated as a defined contribution plan. The Company recognizes the amount required to be deposited as an expense when contributed concurrently with the performance of the employee's services. Contributions to a defined contribution plan for severance pay or lump-sum distribution are recognized as an expense as the employee provides services in exchange for the contributions.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

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

- 1) Current or deferred taxes are recognized in the statement of comprehensive income, except to the extent that they relate to items which are recognized in other comprehensive income or in equity, in which case the tax results are carried to other comprehensive income or to equity, accordingly. The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years. Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date. Deferred taxes are reviewed at each reporting date based on their expected utilization. Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxation authority.
- 2) The financial statements do not include income taxes for periods prior to the commencement of the Company's operations (July 1, 2017) – see Note 2B above.

Q. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to shareholders of the Company by the weighted number of ordinary shares outstanding during the period.

Earnings per share were calculated in accordance with IAS 33, which, inter alia, requires the Company to calculate basic earnings per share for profit or loss attributable to its shareholders, as well as basic earnings per share for profit and loss from continuing operations attributable to its shareholders, where such earnings are presented. See also Note 2A.

For diluted earnings or loss per share, the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding are adjusted for potential shares deriving from the potential exercise of options granted to employees and officers in the Company into shares. Potential shares are taken into account as stated only when their effect is dilutive (would reduce earnings per share or increase loss per share).

R. Dividend distribution:

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

S. Share-based payment:

The Company granted employees who are officers in the Company unregistered options that are exercisable into Company shares and represent share-based payment.

The cost of transactions with employees which are settled with equity instruments is measured at the fair value of the equity instruments on the grant date. The fair value is determined using a generally accepted option pricing model.

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

T. First-time adoption of new financial reporting standards and amendments to existing accounting standards:

1) IFRS 16 – "Leases":

In January 2016, the IASB issued IFRS 16 - "Leases" (in this section: the "**Standard**"). The Standard sets out the principles for recognition, measurement, presentation and disclosure of leases. Upon initial application the Standard replaced IAS 17 (the "**Old Standard**").

The accounting policy applied as of January 1, 2019 to leases is as follows:

The Company treats a contract as a lease contract when in accordance with the terms of the contract it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For transactions in which the Company is a lessee, it recognizes on the date of commencement of the lease a right-of-use asset against a lease liability, with the exception of lease transactions for a period of up to 12 months and lease transactions in which the underlying asset is of low value, in which the Company elected to recognize the lease payments as an expense in the statement of comprehensive income on a straight line basis over the lease period. On the commencement date the lease liability includes all the lease payments that are not yet paid, discounted by the interest rate implicit in the lease, when it can be readily determined, or by the Company's incremental borrowing rate. Subsequent to the commencement date the Company measures the lease liability using the effective interest method. On the commencement date the right-of-use asset is recognized at the amount of the lease liability plus any lease payments paid on or before the commencement date and the transaction costs incurred. The right-of-use asset is measured under the cost model and depreciated over the shorter of its useful life or the lease term.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

T. First-time adoption of new financial reporting standards and amendments to existing accounting standards: (cont.)

As allowed by the Standard, the Company chose to apply the partial retrospective approach. The Company recognized lease liabilities at the time of initial application of the Standard for leases that were classified as operating leases at the time of application of the Old Standard. The balance of liabilities as of the date of initial application of the Standard was calculated using the Company's incremental borrowing rate as in effect on the date of initial application of the Standard, with the balance of right-of-use assets equal to the balance of lease liabilities.

Regarding contracts which are entered into by the Operator in the framework of the Joint Venture, the Company concluded that given the nature of the Operator's engagement with lessors and the Joint Operating Agreement that was signed in connection with the Leases (the "JOA"), such contracts do not meet the definition of a lease in accordance with the provisions of the Standard, from the Company's perspective.

The Standard has been applied for the first time in these financial statements. The initial application of the Standard did not have a material effect on the financial statements.

2) IFRIC 23 – "Uncertainty over Income Tax Treatments":

In June 2017 the IASB issued IFRIC 23 – "Uncertainty over Income Tax Treatments" (the "**Interpretation**"). The Interpretation clarifies the rules for recognition and measurement of assets or liabilities when there is uncertainty over income tax treatments under IAS 12: "Income Taxes." The Interpretation provides guidance for determining whether uncertain tax positions should be assessed separately or as a group, assessing the position of the tax authorities and measuring the impact of the tax uncertainty on the financial statements and prescribes the accounting treatment of changes in facts and circumstances underlying the uncertainty.

The initial application of the Interpretation did not have a material effect on the Company's financial statements.

U. Disclosure of new standard in the period prior to its adoption:

Amendment to IFRS 3 – "Business Combinations":

In October 2019 the IASB issued an amendment to the definition of a "business" in IFRS 3 – "Business Combinations" (the "Amendment"). The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For purposes of this examination, the Amendment added the possibility of utilizing the concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as, for example, the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

U. Disclosure of new standard in the period prior to its adoption: (cont.)

Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and adds examples illustrating the aforesaid examination.

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

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases:

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

1. Pursuant to a contingent sale agreement from July 2, 2017, signed between Delek Drilling as the seller, of the first part, and the Company as the purchaser, of the second part (in this Section A: the "**Parties**") (the "**Sale Agreement with Delek Drilling**"), and upon fulfillment of the conditions precedent in the agreement, the Company acquired, with effect from July 2017 (in this Section A: the "**Effective Date**"), a working interest of 9.25% (out of 100%) in the Tamar and Dalit leases, subject to existing commitments to pay overriding royalties to related parties and third parties, as well as a pro rata share (9.25%) of the rights and obligations under the JOA, the agreements for the sale of natural gas from the Tamar lease, the agreement for use of the Yam Tethys facilities (see note 6H), the shares of Tamar 10-Inch Ltd.– the owner of the transmission license under Section 10 of the Natural Gas Sector Law, 5762-2002, operating permit for the Tamar platform and the permits for export from Tamar (above and below, in this Section A: the "**Object of Sale**"). The Company's rights in the Leases were registered accordingly in the Petroleum Register and encumbered in favor of the trustee of the Series A bondholders, following receipt of the Commissioner's approval.

2. In consideration for the Object of Sale, the Company paid Delek Drilling in cash \$845 million and allotted it 19,990,000 ordinary shares of the Company of NIS 0.1 par value each (accounting for 39.98% of the Company's issued and paid-up share capital after their allotment at the time). Pursuant to a waiver provided by Delek Drilling, described in Note 13D below, and in accordance with the Company's articles, so long as Delek Drilling holds shares of the Company at a rate of more than 12% of the Company's issued and paid-up share capital, they shall not confer any voting rights.

The Company bore all the payments, expenses and fees payable to the State (excluding taxes) for the transfer of the Object of Sale to the Company, as well as all the costs and expenses related to the Series A bond issue. Delek Drilling bore the costs and expenses of consultants and experts in connection with the Prospectus as well as the expenses in connection with the issue of the Company's shares.

3. In accordance with the Sale Agreement with Delek Drilling, the Company retained a sum of \$34 million out of the consideration as a loan bearing 3% annual interest, which was fully repaid as of December 31, 2017.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases: (cont.)

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

4. Upon the closing of the transaction and as of the Effective Date, the Company and Delek Drilling bear the following obligations and commitments:
 - a) The Company bears any and all obligations and commitments relating to the Object of Sale with respect to the Royalty Holders.
 - b) The Company bears and shall pay, according to its pro rata share, any and all expenses, payments, guarantees, collaterals and liabilities applying in respect of the Object of Sale and pursuant to the provisions of any law, including any liability, debt or claim in connection with the period preceding the date of signing the sale agreement with Delek Drilling, and any tax, compensation, fine or other expense incurred in connection with such liability, except for liabilities regarding which it was explicitly provided that they would remain under the responsibility of Delek Drilling, including also after the Effective Date, as specified in D below.
 - c) Delek Drilling shall indemnify the Company for any damage or liability incurred by the Company in connection with any claim, complaint or other legal proceeding of a governmental authority or third party due to breach of Delek Drilling's representations under the Agreement. Delek Drilling shall not be liable for any damage caused to the Company due to the breach of representations until the sum of such damage exceeds \$500 thousand.
 - d) Delek Drilling shall continue to be responsible for the following matters, also after the Effective Date: the appeal in respect of royalties for the sale of gas from the Tamar project to customers of the Yam Tethys project, including with respect to any liability in connection with those proceedings arising subsequent to the Effective Date; the class action certification motion filed by an IEC consumer against the Tamar partners, as specified in Note 11J(1) below, regarding amounts received by Delek Drilling in the period prior to the Effective Date; any liability with respect to taxes and royalties to the State for the period prior to the Effective Date, or with respect to any profit, income or revenues of Delek Drilling in connection with the Object of Sale (including if such tax assessment was made after the closing date), except for taxes according to reports filed prior to the Effective Date with the tax authorities in connection with the Taxation of Profits from Natural Resources Law, 5771-2011; taxes applying to Delek Drilling in connection with the transfer of the Object of Sale to the Company; and liabilities, if any, in connection with Delek & Avner (Tamar Bond) Ltd.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases: (cont.)

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

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

- 1.** Noble sold and transferred to the Company the Working Interests in the Leases as well as the pro rata share (7.5%) in the operating permit for the system of natural gas production from the Tamar lease, in the shares of Tamar 10-Inch Pipeline Ltd., in the rights and obligations under the JOA, in the agreement for use of the Yam Tethys facilities, in the agreements for the sale of natural gas and condensate from the Tamar lease, in the agreements for the export of natural gas (including the agreements relating to agreements and permits for export to Jordan and Egypt), and in the memorandum of understanding regarding the supply of gas from the Tamar reservoir to the Yam Tethys partners (all the above jointly referred to in this Section B: the "**Acquired Asset**").
- 2.** The settlement of accounts between the parties for the transfer of the Acquired Asset was completed, with effect from January 1, 2018 (the "**Effective Date**")/ The Acquired Asset rights are not subject to any third-party royalties.
- 3.** The Sale Agreement specifies that the Acquired Asset does not include the rights and obligations with respect to the following excluded matters: the appeal regarding the royalties in relation to the sale of gas from the Tamar project to customers of the Yam Tethys project; the class action certification motion filed by an IEC consumer against the Tamar partners, as specified in Note 11J(1), regarding amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State relating to the period before the Effective Date, or taxes and royalties in connection with any profit, income or receipt of Noble in connection with the Acquired Asset in relation to the period before the Effective Date (including if such tax assessment was made after the Effective Date), other than taxes according to the Taxation of Profits from Natural Resources Law, 2011; taxes applicable to Noble in connection with the sale of the Acquired Asset to the Company; claims made by or against Noble customers in respect of the Acquired Asset relating to amounts that were or should have been paid before the Effective Date or in connection with a breach of a gas sale agreement having occurred before the Effective Date, whether or not filed from the Effective Date onwards (the "**Excluded Matters**").

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases: (cont.)

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

4. The consideration for the Acquired Asset was as follows:

- a) **Cash consideration:** an amount of approximately \$ 475 million (the "**Cash Consideration**") representing the proceeds from the issuance of the Company's bonds (Series B) on the TASE, after reduction of a net sum of \$43 million arising from the following adjustments: (1) reduction of the issuance expenses borne by Noble; (2) reduction of amounts received for the Acquired Asset from the period between the Effective Date and March 14, 2018 (the "**Interim Period**"); (3) reduction of the cash and cash equivalents and deposits in bank accounts of the Company as well as net trade receivables (excluding royalties) less accrued interest on the bonds (Series A) as of the Effective Date, and all multiplied by the rate of Noble's holdings in the Company (after the share allocation as specified in (2) below); (4) addition in the amount of payments for royalties and cash calls under the JOA in respect of the Acquired Asset during the Interim Period.
- b) **Consideration in shares:** The Company allocated to Noble in a private placement 38,495,576 ordinary shares of the Company of NIS 0.1 par value each, accounting for 43.5% of the Company's shares after the allocation ("**the Shares**"). Noble provided the Company with an irrevocable waiver signed by it, whereby it waived any and all voting rights attached to the Shares. For the avoidance of doubt, it is clarified that any and all equity rights attached to the Shares shall remain in full force and effect, including: the right to receive dividends and bonus shares and the right to receive surplus assets upon dissolution of the Company. In October 2018, Noble sold the entire shares to third parties in off-market transactions, and effective from the date of the sale of the shares, they confer the entire rights attached to ordinary shares in the Company.

It should be noted that the Shares allocated to Noble were restricted from being transacted on the TASE (without issuing a prospectus) in accordance with the provisions of the Israeli Securities Law, as detailed below: in the first half-year – fully restricted; for six consecutive quarters – in each quarter, the Shares can be sold in a number that does not exceed the daily average trading cycle of the Shares on the TASE in the period of eight weeks before the date of sale and in a number that does not exceed 1% of the Company's issued share capital, after which period the restriction will be lifted. It should be noted that the above restrictions applied to the buyers of the Shares from Noble, and that the restriction period ended in March 2020.

5. Noble undertook to bear any and all payments and expenses due to third parties in connection with the execution and closing of the transaction under the sale agreement with Noble, subject to a cap as determined with the parties' consent, as well as issuance expenses related to fees and payments to the ISA and to the TASE, an early commitment fee and 50% of the fees for underwriters/distributors (regardless of the fulfillment of the conditions precedent underlying the closing of the transaction). These amounts were taken into account in determining the aforesaid cash payment and the acquisition cost.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases: (cont.)**B. Sale agreement with Noble for the acquisition of 7.5% working interests in the Tamar and Dalit leases:** (cont.)

6. The Company undertook to provide the guarantees required to replace the guarantees provided by Noble to the Petroleum Commissioner in connection with the Acquired Asset (see Note 11K).
7. The acquisition cost of \$690 million consists of the Cash Consideration described above and the fair value attributed to the Shares, determined based on their quoted market price on the closing date of the transaction (after adjustments in respect of the Shares' restriction period as explained above). The Company allocated the acquisition cost to the identifiable assets and liabilities as of the acquisition date, based on a purchase price allocation (PPA) study. (As for the PPA, see Appendix C to the statement of cash flows.) The transaction costs, allocated between the bonds (Series B) and the Shares, amounted to \$7.1 million and \$0.2 million, respectively, and the balance of \$0.1 million, was carried to expenses in the statement of comprehensive income for 2018.

Note 5 – Other Accounts Receivable:

	December 31	
	2019	2018
Prepaid expenses and other receivables	1,375	1,711
Receivables within the Joint Venture	3,856	-
Income tax receivable	-	7,076
Amounts receivable in connection with the construction of export infrastructure	970	987
	<hr/> 6,201	<hr/> 9,774

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 6 – Investments in Oil and Gas Assets:

A. Composition:

	December 31	
	2019	2018
Cost		
Balance at the beginning of the year	1,150,763	448,813
Additions during the year:		
Oil and gas assets acquired in the framework of the sale agreement with Noble (see Note 4B)	-	697,288
Investments in development	13,560	6,551
Subtractions	(44)	(683)
Impairment	-	(3,001)
Movement in long-term asset retirement cost	4,331	1,795
	<u>17,847</u>	<u>701,950</u>
Balance at the end of the year	<u>1,168,610</u>	<u>1,150,763</u>
Accumulated depreciation		
Balance at the beginning of the year	110,213	68,748
Depreciation and impairment*	50,037	41,465
Balance at the end of the year	<u>160,250</u>	<u>110,213</u>
Net book value at the end of the year**	<u>1,008,360</u>	<u>1,040,550</u>
* Average rate of impairment of the producing assets during the period	5.1%	5.0%
** Net book value includes:		
Net book value of assets under a finance lease from Yam Tethys (see H below)	32,844	34,403
Balance of amortized asset retirement obligation cost	<u>17,803</u>	<u>14,554</u>

Test for impairment of oil and gas assets

Regarding a test for impairment carried out on investments in oil and gas assets as of December 31, 2019, see Note 2E above.

- B. In December 2009 the Commissioner issued two deeds of lease for the exploration and production of oil and natural gas, as follows: I/12 "Tamar" and I/13 "Dalit. The rights in the leases are effective until December 1, 2038. The deeds of lease set out, inter alia, provisions regarding timetables for the development of the Leases and regarding the construction and operation of the facilities in the Leases, the performance of examinations, reports, liability, insurance, etc. The deeds of lease were given subject to the provisions of the Petroleum Law 1952 (the "**Petroleum Law**"), and they confer on the partners in the Leases an exclusive right to produce oil and natural gas within the areas of the Leases for a 30-year period, with a right of extension by an additional 20 years, in accordance with and subject to the provisions of the Petroleum Law.
- C. The two leases are located 50-100 km off the shores of Haifa. Noble is the operator of the leases. Production from the Tamar reservoir began in the first half of 2013.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

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

D. The development plan of the Tamar project:

The development plan of the Tamar project (in this section, the "Development Plan") includes six subsea production wells, each of which is able to produce 250 MMCF per day. Gas flows from the Tamar field wells, through two 16-inch pipelines, to a treatment platform constructed off the shores of Ashkelon (the "Tamar platform"), approx. 2 km north of the platform of the Yam Tethys project. Natural gas and condensate flow through a 30-inch and 6-inch pipelines, respectively, from the Tamar platform to the terminal, for completion of treatment and from there the natural gas flows to the national transmission system of Israel National Gas Lines Ltd. ("INGL"), while the condensate flows via a pipeline to nearby Paz Ashdod Refinery. The gas supply capacity from the Tamar project (which includes the Tamar project facilities, the compressor systems and the transmission and treatment systems of the Yam Tethys project that were upgraded and adapted for use in the Tamar project) to the INGL transmission system, stands at 1.1 BCF per day at maximum production.

E. The Tamar South West reservoir and development thereof:

According to the development plan for the Tamar SW reservoir, which was approved by the Commissioner in January 2019, taking into consideration the provisions of the Gas Framework, the Tamar SW reservoir is to be developed through the conversion of the development well into a producing well and its connection to the subsea facilities of the Tamar project. It should be clarified that some of the reserves in the Tamar SW reservoir overflow into the area of the 353 Eran license, which expired on June 14, 2013. In this regard, in April 2019 the effect of a judgment was given to a mediation settlement between the Eran license partners pre-expiry and the State, whereby the Tamar SW reservoir would be divided between the area of the Tamar lease (78%) and the area of the Eran license (22%) (following receipt of the consent of the Tamar partners), and the rights in the area of the Eran license would be divided according to a ratio of 76% to the State and 24% to the holders of the rights in the Eran license. As of the date of approval of the financial statements, the Tamar partners are conducting negotiations with the State and the Eran partners to formulate the required agreements for implementing the mediation settlement as set out above.

F. Evaluation of the natural gas and condensate reserves in the Tamar gas field:

According to a report from January 8, 2020 by Netherland Sewell & Associates Inc. ("NSAI," a certified, expert and independent reserve and resource evaluator), based on SPE-PRMS rules, as of December 31, 2019, the amount of natural gas reserves on production in the Tamar project (which include the Tamar and Tamar SW reservoirs) is as follows: reserves classified as proved reserves amount to 219.2 BCM (of which 10.3% are attributed to Tamar SW) and reserves classified as proved + probable reserves amount to 305.1 BCM (of which 8.9% are attributed to Tamar SW). According to said report, as of December 31, 2019, the amount of condensate reserves on production in the Tamar and Tamar SW reservoirs is as follows: reserves classified as proved reserves amount to 10.1 million barrels (of which 9.9% are attributed to Tamar SW), and reserves classified as proved + probable reserves amount to 14 million barrels (of which 8.6% are attributed to Tamar SW). The aforesaid reserves do not include the reserves that overflow into the Eran license. See Section I below regarding uncertainty in the appraisal of reserves.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

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

G. The Dalit well:

In 2009 the Dalit offshore well was drilled at a distance of 50 km off the coast of Israel, following which a commercial finding was announced. According to the latest NSAI report from March 2018, based on PRE-PRMS rules, as of December 31, 2017, the amount of contingent resources in the Dalit lease, which are classified as development pending, ranges between 6.1 BCM (low estimate) and 9.5 BCM (high estimate). As of the approval date of the financial reports, there has been no change in the details brought in said report. In the resource report it is indicated that the contingent resources are contingent upon the approval of a project which includes an approved development plan and a reasonable probability of sales of natural gas. See Section J below regarding uncertainty in the appraisal of reserves. The Company, together with its partners in the Dalit lease, submitted in 2010 to the Commissioner a development plan which is integrated with the development plan of the Tamar field.

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

In July 2012 an agreement (the "**Usage Agreement**") was signed between the partners in the Yam Tethys project and the partners in the Tamar project, whereby the Yam Tethys partners granted the Tamar partners usage rights in the existing facilities of the Yam Tethys project, including the wells, the Mari-B platform, the compression system, the pipeline and the terminal, and the Tamar partners were also granted the right to upgrade and/or construct facilities for the transmission and storage of natural gas from the Tamar project (the "**Yam Tethys facilities**"). The usage rights in the Yam Tethys facilities were granted subject to the reservation of capacity for gas produced from the Yam Tethys project in the pipeline and in the terminal.

The term of the Usage Agreement will end upon the earlier of: (1) the expiration or termination of the Tamar lease, and in the event that the Dalit field is developed such that use is made of the Yam Tethys facilities, the expiration or termination of the Dalit lease; (2) the giving of notice by the Tamar partners of the permanent cessation of commercial gas production from the Tamar project; (3) the abandonment of the Tamar project. In consideration for the use of the Yam Tethys facilities, the Tamar partners paid the Yam Tethys partners, in previous years, a total amount of \$380 million.

The Agreement includes, inter alia, provisions that regulate relations between the Tamar partners and the Yam Tethys partners throughout the term of use of the Yam Tethys facilities, including with respect to the management of the Yam Tethys facilities, the mechanism for the division of operating expenses of the Yam Tethys facilities and the division of capital expenses of the Yam Tethys facilities in connection with the preparation and upgrade of the facilities for the receipt of natural gas from the Tamar Project, based on the gas capacity ratios between the Yam Tethys project and the Tamar project, restrictions on the transfer and/or encumbrance of the rights of the parties to the Usage Agreement, and an arbitration mechanism for the resolution of disputes between the parties.

It is noted that ownership of the upgraded Yam Tethys facilities will remain with the Yam Tethys partners, and the Usage Agreement will establish an account-settling mechanism relating to the value of said facilities at the end of the period of production from the Tamar project.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 6 – Investments in Oil and Gas Assets: (cont.)**I. Appraisals of reserves of natural gas, condensate and contingent resources:**

Appraisals of reserves of natural gas, condensate and resources contingent on the rights of the Company in the leases are based, inter alia, on geological, geophysical, engineering and other information received from the wells and from the operator of the aforesaid working interests. The above appraisals constitute professional assessments and suppositions of NSAI, which are uncertain. The quantities of natural gas and condensate that will actually be produced may differ from said assessments and suppositions, inter alia, due to operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial terms and/or the actual performance of the reservoirs. The above assessments and suppositions may be updated insofar as additional information is accumulated and/or based on an array of factors related to oil and natural gas exploration and extraction projects, including as a result of continued production from the Tamar project.

Note 7 – Other Long-Term Assets:

	December 31	
	2019	2018
Amounts receivable in connection with the construction of infrastructure for export	1,725	2,666
Access and participation fees for gas transmission and guarantee of capacity in the EMG pipeline (Note 11F)	8,375	-
Ministry of Energy in respect of royalties (Note 15B)	1,100	1,899
Interested parties in respect of royalties (Note 21)	345	614
Other	649	227
	12,194	5,406

Note 8 – Other Accounts Payable:

	December 31	
	2019	2018
Interest payable	17,028	18,637
Ministry of Energy in respect of royalties	3,419	3,269
Interested parties (Note 21)	1,051	537
Payables in connection with the Joint Venture	7,001	6,052
Other	906	668
	29,405	29,163

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 9 –Bonds:

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

Effective Interest Rate*	December 31			
	2019		2018	
	As of December 31, 2019	Par Value*	Amortized Cost	Par Value*
%	NIS thousands	USD thou.	NIS thou.	USD thousands
Bonds (Series A)	4.88	2,063,163	585,793	2,245,071
Bonds (Series B)	6.37	1,700,450	491,602	1,873,970
Total			1,077,395	1,179,208
Less discount amounts related to issuance and issuance expenses, after accumulated amortization			(45,071)	(51,639)
Less – current maturities			(87,581)	(95,246)
Total			944,743	1,032,323

*) The interest and principal are linked to the dollar, based on the exchange rates set for the issuances of bonds, as follows: Series A – \$1 = NIS 3.522, Series B – \$1 = NIS 3.459.

B. Bonds (Series A):

In July 2017, the Company raised \$658 million (net amount after deduction of issue costs - \$648 million) through a public offering of NIS2,315,668 thousand par value Series A bonds, according to a supplemental prospectus and a shelf prospectus of the Company dated July 4, 2017 (the "Prospectus") and a supplemental notice dated July 6, 2017.

Series A bonds bear annual interest at the rate of 4.69% (the "Base Interest"), and are linked (principal and interest) to the dollar. Approx. 60.75% of the principal of the bonds are payable in 20 unequal semi-annual installments, starting from August 2018 until February 2028, and the balance of 39.25% of the principal of the bonds is payable in August 2028. The interest is paid every half-year, starting from February 2018 until the final date of payment of the principal. Midroog Ltd. ("Midroog") issued a rating of A1.il with a stable outlook for the Series A bonds (the "Base Rating"). On March 29, 2020, Midroog affirmed the A1.il rating of the Series A bonds and changed the outlook from stable to negative.

An amount of \$650 million of the proceeds of the Series A bond offering was used by the Company to finance the acquisition of the Object of Sale from Delek Drilling pursuant to the Sale Agreement (described in Note 4A above). The Company undertook that the proceeds of the offering of Series A bonds over and above \$650 million would be used for the repurchase or prepayment of Series A bonds. Accordingly, the Company carried out a repurchase amounting to NIS 26,368,000 par value of Series A bonds, during the third quarter of 2017, in consideration for \$7.5 million.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 9 –Bonds: (cont.)

C. Bonds (Series B):

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

The bonds (Series B) bear annual interest of 4.69% ("the **Base Interest**"), and are linked (principal and interest) to the U.S. dollar. About 53.62% of the principal of the bonds is payable in 20 unequal semiannual installments, starting from August 2018 until February 2028, and the balance of 46.38% of the principal of the bonds is payable in August 2028. The interest is paid every half-year, starting from August 2018 until the final date of payment of the principal. Midroog issued a rating of A1.il with a stable outlook for the Series B bonds ("the **Base Rating**"). On March 29, 2020, Midroog affirmed the A1.il rating of the Series B bonds and changed the outlook from stable to negative.

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

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

- 1) The interest rate on the bonds shall be adjusted for changes in the rating of the bonds, such that if the rating of the bonds is revised and the rating determined is lower than the Base Rating by two notches or more (the "**Reduced Rating**"), the annual interest rate on the balance of unpaid principal of the bonds shall increase by 0.5%, and in the event of any additional notch downgrade – the annual interest rate shall increase by 0.25%. Notwithstanding the aforesaid, the increase of the interest rate due to such rating downgrade shall be limited such that the annual interest rate added to the Base Interest does not exceed 1.25%.
- 2) In addition, the Company shall pay added interest at a rate of 0.25% for each of the series, insofar as the Company's equity (as defined in the trust deeds) falls below \$320 million with respect to Series A and \$450 million with respect to Series B). In any event, for a rating downgrade according to Section 1 above and according to this section, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
- 3) The assumption of additional debt by the Company through the expansion of bond series and/or the assumption of other debt, excluding the receipt of financing and/or the opening of a line of credit from a financial institution in a sum up to \$5 million to be used to take out bank guarantees which the Company will be required to deposit by law or pursuant to the Tamar agreements, shall be subject to the fulfillment of conditions set forth in the trust deeds and, inter alia, that the assumption of the additional debt shall not cause the rating of the bonds to decrease compared with their rating prior to the assumption of the additional debt.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 9 –Bonds: (cont.)

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

- 4) The Company may carry out a dividend distribution upon the fulfillment of conditions determined in the trust deeds, including that the "record date" for the dividend distribution shall be no later than 60 days from the date on which a principal and/or interest payment has been made to the bondholders; the expected and historical debt service coverage ratio, as defined in the trust deeds, shall be no less than 1:1.20 (the historical ratio was examined starting from the date of release of the Company's financial statements as of December 31, 2018, with reference to two consecutive examination dates; the historical ratio as of December 31, 2019 is 1.33); the full amount as required shall have been deposited in the debt service safety reserve. As of December 31, 2019, the Company has deposited in the safety reserve the full amount required at that date, which are presented in the statements of financial position under non-current assets in the "restricted deposits" item.

E. Financial covenants and events of default:

The trust deeds define events of default, the occurrence of which shall establish for the bondholders grounds for acceleration of the bonds, which include, inter alia, the following main events: nonpayment of amounts due to the lenders; breach of the Company's undertaking to meet financial covenants including an undertaking to maintain a minimum equity during two consecutive quarters (as defined in the trust deeds) of no less than \$250 million for Series A, and no less than \$350 million for Series B; an expected debt service coverage ratio (as defined in the trust deeds) of no less than 1:1.05 (during two consecutive quarters) – it should be noted that until the financial statements as of December 31, 2018, the Company did not include in the calculation of the expected debt service coverage ratio the effect of the Company's finance expenses for the bonds on its tax liability (the "**tax hedge**"), which are included in the financial statements for 2019. The inclusion of the tax hedge increased the expected debt service coverage ratio for the 12-month period beginning on April 1, 2020 by 0.1 to stand at 1.45; minimum economic equity (as defined in the trust deeds) of no less than \$250 million (during two consecutive quarters) for Series A and no less than \$350 million for Series B (the economic equity as of December 31, 2019 is \$734 million); breach of obligations and representations; insolvency events; failure to release financial statements which the Company is obligated to release within 30 days of the last date on which it is obligated to release the same; a material adverse change in the Company's business compared with its situation on the offering date and the existence of a real concern that the Company will be unable to timely repay the bonds; other debts of the Company are accelerated (cross-default) in the amount specified in the trust deed; there is a real concern that the Company will fail to meet its material obligations to the Series A bondholders; the bond rating is lower than Baa3; a "going concern" note is added to the Company's financial statements.

As of the date of the statement of financial position, the Company is complying with said obligations with regard to both bond series.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 9 –Bonds: (cont.)

F. Encumbrances:

- 1) To secure Series A and B bonds, the Company encumbered in favor of the bonds' trustee, by a single first-ranking fixed charge the following (the encumbrances in Subsections 1-8 below relate only to the rights acquired from Delek Drilling – with respect to Series A, and only to the rights acquired from Noble – with respect to Series B): 1) its rights in the Tamar reservoir; 2) its rights in the operating permit of the Tamar reservoir; 3) the Company's present and future rights in respect of property insurance policies of the Tamar lease; 4) the Company's present and future rights in the Tamar agreements (with the exception of spot agreements and gas sale agreements for a period not exceeding 12 months, under which the quantity of gas to be sold does not exceed 0.1 BCM); 5) the Company's rights in the JOA, including present and future contractual rights in the common equipment and the production system of the Tamar reservoir; 6) the Company's rights in the agreement that regulates the Tamar partners' use of the Yam Tethys facilities; 7) the Company's present and future rights in its bank accounts for the project (the "**Operating Accounts**"); and 8) the Company's rights in the safety reserve accounts for payment of the principal and interest. It is noted that the aforesaid encumbrances are subject to the State's royalty rights, and with respect to Series A bonds – also to rights of other royalty holders entitled to receive royalties from the Company. Likewise, the realization of encumbrances is subject to approval of the Commissioner, pursuant to Section 76 of the Petroleum Law and to any law.

The Company may not subject the encumbered assets to another encumbrance. In the event of the sale of an encumbered asset, provisions have been established for the prepayment of the bonds by the Company out of the amount received for the sale.

- 2) The Company irrevocably instructed all the parties to the gas sale agreements to pay the amounts due from them to the Company into bank accounts as defined in the trust deeds which were encumbered in favor of the bondholders as aforesaid (the "**Operating Accounts**"). It was stipulated that all the payments deposited in the Operating Accounts shall be used by the Company exclusively for making payments that were explicitly determined in the trust deeds as permitted to be paid out of the Operating Accounts and according to the order of payments determined in the trust deeds. The Company shall be entitled to withdraw funds from the Operating Accounts other than for the purpose of payments as aforesaid, only in the amount contained in the Operating Accounts one day after the date on which a principal and/or interest payment has been made to the bondholders out of the account (and after the other payments determined as aforesaid have been made). Regarding amounts that are withdrawn from the Operating Accounts, no limitation shall apply to the Company regarding the use thereof, including the making of "distributions," subject to the other conditions set forth in the trust deeds.

- G. On March 19, 2020 (subsequent to the date of the statement of financial position), the Board of Directors adopted a bond repurchase program for Series A and B bonds, to be implemented from time to time at the discretion of the Company's management, by way of purchase on the TASE during the period of the program as set out below and at a total cost of up to \$20 million pro rata according to the balance of each of the series' par value (i.e. up to \$11 million for Series A bonds and up to \$9 million for Series B bonds). The repurchase will be made from the Company's independent sources and is effective for a year from the date of the Board of Directors' resolution, subject to a review on or about the date of approval of the report for the second quarter of 2020.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 10 – Other Long-Term Liabilities:**A. Composition:**

	December 31	
	2019	2018
Asset retirement obligation	25,674	20,580
Other liabilities	287	-
	25,961	20,580

B. Asset retirement obligations

The Company recognizes a liability and simultaneously an asset in respect of its share in the obligation to retire assets in the Tamar reservoir (see also Note 3H2 below). The following is the movement in the asset retirement obligation in the reporting periods:

	2019	2018
Balance at the beginning of the year	20,580	9,871
Retirement obligation added in the framework of the sale agreement with Noble (see Note 4B)	-	8,046
Additions and other changes	(100)	2,872
Effect of change in passage of time	763	868
Effect of capitalization rate adjustment	4,431	(1,077)
Balance at the end of the year	25,674	20,580

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments

A. Commitments for the supply of natural gas: Agreements for the sale of natural gas and condensate by the Tamar partners (the data refer to 100% of the rights in the petroleum asset):

	Supply Commencement Year	Basic Gas Supply Period ¹	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM) ²	Total Amount Supplied by December 31, 2019 (100%) (BCM)	Primary Gas Price Linkage Basis
IEC ³	2013	15 years	Option for extension by two additional years.	Approx. 87	Approx. 30	The U.S. CPI.
Dalia Power Energies Ltd. ("Dalia")	2015	17 years	Option for extension by two additional years.	Approx. 23.3	Approx. 5.2	The linkage formula is mostly based on linkage to the Electricity Production Tariff and includes a "floor price."
Other private electricity producers	2013-2020	15-18 years except for an eight-year agreement and two agreements for short-term periods	Some of the agreements include an option for extension by one to three additional years. ⁴	Approx. 44.6	Approx. 16.1	The linkage formula in most of the agreements is based on linkage to the Electricity Production Tariff and in small part on linkage to the U.S. CPI. In several agreements, the linkage formula is mostly based on linkage to the Electricity Production Tariff and in small part on linkage to the Brent prices. In all the agreements the gas price is determined according to a formula that includes a base price and linkage, and it includes a "floor price."
Industrial customers and natural gas marketing companies	2013-2020	3-7 years	One of the agreements includes an option for extension by two additional	Approx. 7.6	Approx. 6.1	The linkage formula in most of the agreements is based on linkage to the Brent prices and includes a "floor price" (in one agreement, in addition to the aforesaid, the linkage

¹In most of the agreements, the gas supply period, which starts from the transmission date as per the relevant agreement, will be according to the table presented above or until the purchaser consumes the maximum contractual quantity set forth in the agreement, whichever is earlier.

²This is the maximum quantity for gas supply specified in the agreements for the entire term of the agreements. The quantity the purchasers have undertaken to purchase is lower than this quantity. Said quantity includes quantities that may be reduced according to the reduction option discussed in Section B1 below. It is clarified that the maximum quantity does not include quantities of gas that are sold in the framework of agreements with two customers in which no maximum supply quantity was set.

³For details regarding the agreement with the IEC, see Section C below.

⁴Excluding the extension period set in an agreement in which it is permitted to extend the period under terms that allow the customer to adjust the period of the agreement to the date of piping of gas from the Karish and Tanin leases.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

	Supply Commencement Year	Basic Gas Supply Period ¹	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM) ²	Total Amount Supplied by December 31, 2019 (100%) (BCM)	Primary Gas Price Linkage Basis
			years. Some of the agreements include an extension option for an additional year. ⁵			formula is also based in small part on the Electricity Production Tariff). In one of the agreements, the linkage formula is based on the prices of liquid fuels, and includes a "floor price," while in another agreement the price formula is based on the base price determined in the Gas Framework.
Agreements for export to Jordan ⁶	2017 and 2018	13-15 years	Option for extension by two additional years.	Approx. 3.1	Approx. 0.4	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."
Agreement for export to Egypt - Dolphinus	For details see Section F below	Approx. 15 years	Option for extension by an additional two years.	Approx. 25.3	-	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."

⁵Excluding the extension period set in an agreement in which it is permitted to extend the period under terms that allow the customer to adjust the period of the agreement to the date of piping of gas from the Karish and Tanin leases.

⁶Sales are made through NBL Eastern Mediterranean Marketing Limited ("NBL") – a subsidiary wholly owned (indirectly) by Noble Energy Inc, which is the controlling shareholder in Noble (see Note 21). It should be noted that in accordance with a tax ruling regarding the export agreements, the Tamar partners undertook to offer every new Israeli customer an alternative natural gas price to be determined based on the price of a Brent barrel, calculated by the best formula for the customer existing at the time of the Government's resolution in the agreements of the Tamar partners.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

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

- 1) Most of the agreements for the sale of natural gas include, inter alia, an undertaking by the purchasers, to the extent the supply pursuant to the agreement is on a firm (uninterruptible) basis, to purchase or pay ("Take or Pay") for a minimum annual amount of natural gas on a scope and according to a mechanism specified in the supply agreement (the "**Minimum Quantity**"). Most of the supply agreements further provide for a mechanism for the accumulation of a balance in respect of surplus amounts consumed by the purchasers in a specific year beyond the Minimum Quantity, and the utilization thereof for reducing the purchasers' obligation to purchase such Minimum Quantity during several years thereafter ("**Carry Forward**"). Furthermore, in agreements which include a Minimum Quantity undertaking, provisions and mechanisms are established which allow such purchasers, after consuming the Minimum Quantity for charging for a specific year, to receive in the same year gas with no additional payment up to the balance of the quantity of gas that was not consumed in previous years and for which they paid the sellers in the framework of their undertaking for a Minimum Quantity for charging as aforesaid.

Following the decision of the Antitrust Commissioner regarding the grant of a restrictive arrangement exemption in respect of agreements wherein the basic supply period is longer than seven years, except for the agreement with the IEC, in some of the agreements each of the purchasers was granted the option to reduce the Minimum Quantity to 50% of the average annual amount consumed by it in the three years preceding the notice of exercise of the option, subject to adjustments and conditions as specified in the supply agreement (in this section: the "**Reduction Option**"). Upon the reduction of the Minimum Quantity, the other amounts specified in the supply agreement will be reduced accordingly.

In this connection, it is noted that during 2019 the Tamar partners signed amendments to agreements with several private electricity producers, including Dalia (in this section: the "**Amendments**" and the "**Electricity Producers**," respectively), in which the Electricity Producers undertook to purchase from the Tamar Project, with preference over other sources (other than exceptions mentioned in the agreements), the full quantities of natural gas which they would consume in their facilities during the period from the date of piping of gas from the Leviathan reservoir to the date on which they exercise the Reduction Option (the "**Period**"), if and to the extent they exercise it, or the date of operation of the Karish reservoir. Furthermore, in the framework of the Amendments, the parties agreed that for the purpose of calculating the average quantity consumed by the Electricity Producers under said agreements in the three years prior to the notice of exercise of the Reduction Option for the Period, the calculation will be performed, starting from the date of operation of the Leviathan reservoir, based on the Minimum Quantity for charging (according to the mechanism established in the Amendments), and not based on the quantity actually taken by the Electricity Producers. The Amendments established arrangements for the use of the balance of the Carry Forward, whether for operational purposes or under the Reduction Option. All the Amendments to the agreements have come into effect. Additionally, the Tamar partners signed an agreement with an additional customer who undertook to purchase the gas that would be consumed in its facilities from the Tamar project, preferentially over other sources.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

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

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

The supply agreements establish further provisions, *inter alia*, on the following matters: the right to terminate the agreement in the event of breach of a material undertaking, the right of the Tamar partners to supply gas to the aforesaid purchasers from other natural gas sources, compensation mechanisms in the event of delays in the supply of gas from the Tamar project or in the event of failure to supply the amounts specified in the agreement, limitations on the liability of the parties to the agreement, provisions regarding the parties' right to assign their rights under the agreements, exemption of the parties from liability upon the occurrence of a force majeure event (as defined in the agreements), mechanisms for settling disputes and disagreements between the parties, and with respect to the relations among the sellers themselves in connection with the supply of gas to such purchasers.

- 2) Agreement for natural gas supply to an interested party – Delek, the Israel Fuel Corporation Ltd. ("Delek Israel"):** In December 2013, an agreement for the supply of natural gas was signed with Delek Israel, a company controlled by Delek Group. Under the supply agreement, the sellers undertook to supply to the purchaser natural gas in a total quantity of up to 0.46 BCM (the "**Total Contractual Quantity**") according to the terms specified in the supply agreement. The supply agreement commenced in the first half of 2015 and will expire at the end of seven years or when the purchaser shall have consumed the Total Contractual Quantity, whichever is earlier.
- 3) Agreement for natural gas supply to an interested party – I.P.P. Delek Sorek Ltd. ("Delek Sorek"):** In May 2015 the natural gas supply agreement signed in March 2014 with Delek Sorek, a company indirectly controlled by Delek Group, was amended. The sellers undertook to supply to the purchaser natural gas in a total quantity of up to 3.3 BCM, according to the terms specified in the supply agreement. In November 2019 Delek Sorek notified the sellers of the termination of the agreement, with effect from February 2020.

C. Further details on the gas supply agreement between the Tamar partners and the IEC:

- 1) A gas supply agreement was signed between the Tamar partners and the IEC in March 2012 and amended in July 2012, May 2015 and September 2016 (in this section: the "**Agreement**"), *inter alia*, in connection with the exercise of options for increasing the gas quantities to be consumed by the IEC.
- 2) As part of the Agreement, IEC exercised the options to increase the total contractual quantity from 78 BCM to 87 BCM.

Note 11 – Contingent Liabilities and Commitments (cont.)

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

- 3) Starting from January 1, 2019 until the end of the Agreement period, the Minimum Quantity will be 3 BCM per year. The Agreement contains provisions regarding the calculation and adjustment of the Minimum Quantity, including under circumstances of force majeure, of sellers' failure to supply, or in accordance with the Carry Forward mechanism (the quantity accrued to the credit of the IEC in the framework of the Carry Forward mechanism as of December 31, 2019 amounts to 3.1 BCM (for 100% of the reservoir), and the maximum utilizable quantity in a calendar year is 1.25 BCM).
- 4) The gas price is determined according to a formula which includes a base price and linkage based on the U.S. CPI, plus 1% per year until 2019 and less 1% per year from 2020 onwards. The gas price for one unit of MMBTU in 2011 was calculated according to a base price of \$5.042. In respect of the natural gas quantities to be consumed by the IEC under the option for increasing the quantities specified in the Agreement, as of 2014 the gas price is linked to only 30% of the U.S. CPI increase rate, and the aforesaid addition or reduction of 1% per year does not apply.
- 5) The Agreement specifies two dates on which each party may request a price adjustment (according to the mechanism established in the Agreement), if such party believes that the contractual price is no longer suitable for a long-term contract with an anchor buyer for the consumption of natural gas for use in the Israeli market: at the end of 8 years and 11 years from the commercial operation date (as defined in the Agreement) of the Tamar project or at the end of three months from the start of piping from the Tamar project (i.e., June 30, 2013), whichever is earlier. On the first adjustment date (July 1, 2021) the adjustment made to the price will be within a range of up to 25% (addition or reduction), and on the second adjustment date (July 1, 2024), the adjustment made to the price will be within a range of up to 10% (addition or reduction) of the price on that date. If the Tamar partners and the IEC do not agree on the price adjustment rate, each party may submit the matter to arbitration.
- 6) The IEC or any of the Tamar partners may terminate the Agreement, in the event that the other party commits an act of insolvency (as defined in the Agreement) which is likely to have a material adverse effect on the performance of its undertakings under the Agreement, by providing advance written notice of at least 120 days. The IEC and the Tamar partners agreed not to exercise any right to terminate the Agreement which they may have according to any law, other than with respect to significant or continuing breaches of material provisions of the Agreement and only after provision of a 120-day period to the breaching party (unless a shorter period is stipulated in the Agreement) to remedy the breach.
- 7) According to the Agreement, if the Tamar partners fail to supply the gas amounts ordered by the IEC in accordance with the provisions of the Agreement, and the supply failure is in a quantity exceeding the deviation rates permitted by the Agreement, the Tamar partners will compensate the IEC by supplying gas in the subsequent month at a reduced price according to the quantity not supplied. Furthermore, the Agreement lists specific breaches for which compensation at higher rates will be paid. The Agreement sets limits to the liability of each of the parties for breach of some of the provisions of the Agreement at rates specified in the Agreement.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

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

- 8) The assignment of the IEC's rights and obligations under the Agreement is contingent on the assignee being technically and financially able to meet its obligations under the Agreement and on the transfer to the assignee of the same pro rata share of the IEC power plants (meaning that if a pro rata share of the rights and obligations is transferred to any assignee, it must also receive a pro rata share of the IEC power plants).
- 9) In December 2018, the IEC solicited from the Tamar partners and the Leviathan project partners a request for proposals (RFP) for the supply of natural gas in addition to IEC's consumption under its present agreement with the Tamar partners, to be supplied starting from October 2019 or from the date of start of gas production from the Leviathan reservoir, whichever is later, until June 30, 2021 or the date of start of gas production from the Karish reservoir, whichever is earlier ("the Supply Period"). Said RFP stated that during the Supply Period, the IEC would turn only to the RFP winner for the purchase of gas, according to its needs, besides the gas supplied to it under the gas supply agreement between the Tamar partners and the IEC, described above, as amended from time to time. On March 7, 2019, the Tamar partners submitted a proposal in the framework of said RFP. On April 4, 2019, the Tamar partners received from the IEC a notice that their proposal had not been chosen by the IEC.

On April 18, 2019, some of the Tamar partners (the Company, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructure Limited Partnership (jointly in this section: the "**Petitioners**") submitted to the Tel Aviv District Court an administrative petition against the IEC and the Leviathan partners (the IEC and the Leviathan partners are referred to jointly in this section as: the "**Respondents**"), in which the court was requested to declare that the decision of the IEC's Tender Committee (the "**Committee**") of April 4, 2019, awarding the tender to the Leviathan partners, is invalid and contrary to law, harms equality and undermines the basic principles of the tender laws and is therefore void; alternatively, to remand the decision to the Committee and instruct it to consider other options as set forth in the petition; and in the further alternative, to order the cancellation of the tender due to the serious defect that occurred in the tender process. On July 7, 2019, the Tel Aviv District Court handed down a decision rejecting said administrative petition (in this section: the "**Judgment**").

On August 19, 2019, the Petitioners filed an appeal against the Judgment with the Supreme Court, in which the court was requested to set aside the Judgment and rule as requested in the petition. The Petitioners submitted their closing arguments on December 4, 2019, the Respondents are required to submit their closing arguments by April 5, 2020, and the Petitioners are required to submit their closing arguments in reply by May 14, 2020. Additionally, a hearing in the appeal has been set for May 14, 2020.

Note 11 – Contingent Liabilities and Commitments (cont.)

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

- 10)** In talks conducted by the Tamar partners who have no holdings in the Leviathan project (the Company, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructure Limited Partnership) with the IEC management, consideration was given to the possibility to amend the Agreement with the IEC (in this section: the "**Amendment to the Agreement**"), according to the following principles:

In the period between January 1, 2020 and June 30, 2021 (the "**Period of the Amendment to the Agreement**") the IEC will pay the Tamar partners a price including a discount from the price set in the Agreement with the IEC for the quantities of natural gas purchased by it beyond the minimum annual quantity obligated by the Agreement with the IEC.

Additionally, starting from January 1, 2020, the maximum daily quantity of natural gas the IEC is permitted to order under the Agreement with the IEC will be reduced from 655,200 MMBTU to 500,000 MMBTU, without reducing the hourly quantity and without reducing the minimum annual quantity for which the IEC gave a Take or Pay commitment, as determined in the Agreement with the IEC, in exchange for which the IEC will be entitled to a bonus of up to \$70 million, with \$10 million out of this amount to be paid shortly after the signing of the Amendment to the Agreement and the balance to be paid throughout the Period of the Amendment to the Agreement, subject to the IEC's compliance with consumption milestones.

Since the talks with the IEC were conducted without Noble and Delek Drilling (inter alia since they have a higher holding percentage in the Leviathan project than in the Tamar project), in September 2019 said Tamar partners approached Noble and Delek Drilling and presented to them the Amendment to the Agreement. In light of disagreements between Noble and Delek Drilling, on the one hand, and the rest of the Tamar partners, on the other, including as regards the ability of Noble and Delek Drilling to prevent the transaction underlying the Amendment to the Agreement, on November 20, 2019 the partners in the Tamar project who have no holdings in the Leviathan project submitted to the Competition Commissioner (in this section: the "**Commissioner**"), as the function in charge of compliance with the conditions for the exemption granted in the context of the adoption of the "Gas Framework," in accordance with Section 52 of the Economic Competition Law, 5748-1988 (the "**Gas Framework**") and the conditions for the exemption from approval of a restrictive arrangement granted by the Commissioner on August 22, 2006 with respect to the agreement under which Delek Drilling acquired its rights in the Tamar project (the "**2006 Decision**"), an urgent application concerning the Tamar reservoir's ability to compete with the Leviathan reservoir being frustrated by Noble and Delek Drilling, who are violating veto bans imposed on them by the Gas Framework and the 2006 Decision, to which they are subject connection with joint marketing of natural gas from the Tamar lease, inter alia due to their cross- holdings in the Tamar lease and the Leviathan leases.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

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

In the aforesaid application, the Commissioner was requested inter alia to clarify that in accordance with the clear language and purpose of the 2006 Decision and the Gas Framework, Noble and Delek Drilling may not exercise a veto (together or separately), thereby preventing the joint marketing of gas from the Tamar lease to a new customer or the amendment of an agreement for joint marketing of gas from the Tamar lease to a preexisting customer (including the Amendment to the IEC Agreement), given that the other partners in the Tamar project support the joint marketing or such amendment to the agreement.

As of the date of approval of the financial statements, to the best of the Company's knowledge, said application is being considered by the Commissioner and other government functions, and therefore the Amendment to the Agreement has still not been signed. It should be noted that the Amendment to the Agreement, if signed, will be subject to receipt of all the required regulatory approvals, and there is no certainty that the Amendment to the Agreement will be signed in the format that was presented and/or any other format.

D. Estimates regarding gas quantities and supply dates:

The above estimates regarding the natural gas quantities which will be purchased, and the supply start dates according to the supply agreements, constitute information whose materialization, in whole or in part, is uncertain, and which may materialize in a materially different manner, due to various factors including non-fulfillment of the conditions precedent in each of the supply agreements (insofar as these are not yet fulfilled), changes in the scope, rate and timing of consumption of the natural gas by each of the aforesaid purchasers, construction and operation of the power plants and/or other facilities of the purchasers (insofar as relevant to the supply agreement), exercise of the options granted in each of the supply agreements and the date of exercise thereof, etc.

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

From May 2013 up to and including September 2017, as well as from May 2019, the Tamar reservoir supplies natural gas to customers of the Yam Tethys project (in accordance with the sale agreements of the project). The consideration for said sales is divided among the Tamar partners such that the partners in the Tamar project who are not partners in the Yam Tethys project (including the Company) receive a price equal to the monthly average price of natural gas supplied during the month to customers of the Tamar project, and the remaining monetary balance is divided among the Yam Tethys partners having rights in the Tamar project, according to their share in the Tamar project. This division enables balancing the gas quantities among the partners in the Tamar project according to their share. Starting from October 2017 until April 2019, with the expiration of some of the agreements for the sale of natural gas from the Yam Tethys reservoir, the Yam Tethys partners supplied natural gas both to customers of Yam Tethys and to customers of the Tamar project, in accordance with a spot agreement for the sale of production surpluses (which are insignificant) from the Yam Tethys reservoir to the Tamar partners, for selling to customers of the Tamar project.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

F. Additional details on commitments regarding the export of natural gas to Egypt:

On February 19, 2018, an agreement was signed between Delek Drilling and Noble (jointly referred to in this section as: the "**Sellers**"), on the one hand, and Dolfinus Holdings Limited ("**Dolfinus**" or the "**Purchaser**"), on the other, for the sale of natural gas from the Tamar project to Dolfinus ("**the Original Export Agreement**"). On September 26, 2018, the Sellers assigned the Original Export Agreement to the other Tamar partners.

On September 26, 2019, the execution was completed of an agreement to amend the Original Export Agreement between the Tamar partners and Dolfinus (the "**Amended Export Agreement**"), and an agreement was signed regarding the allocation of the available capacity in the transmission system from Israel to Egypt between Delek Drilling and Noble and the partners in the Leviathan project (the "**Leviathan partners**") and the Tamar partners (the "**Capacity Allocation Agreement**"), as described below. It should be noted that concurrently with the signing of the Amended Export Agreement and the signing of the Capacity Allocation Agreement, an agreement was signed to amend the export agreement signed between the Leviathan partners and Dolfinus concurrently with the signing of the Original Export Agreement (the "**Amended Leviathan Agreement**").

The following is a summary of the terms of the Amended Export Agreement:

- (1) The gas supply to Dolfinus under the Amended Export Agreement is on a firm basis (as opposed to supply under the Original Export Agreement which was on an interruptible basis with an option for the Tamar partners to change it to a firm basis).
- (2) The overall contractual quantity of gas which the Tamar partners undertook to supply to the Purchaser under the Amended Export Agreement is 25.3 BCM (in this section: "**the Overall Contractual Quantity**") (compared to 32 BCM under the Original Export Agreement which was, as noted, on an interruptible basis).
- (3) The price of the gas to be supplied to Dolfinus will be determined according to a formula based on the price of a Brent barrel which includes a "floor price." The Amended Export Agreement includes a mechanism for adjusting the price at a rate of up to 10% (addition or reduction) after the fifth year (in this section: "**the First Adjustment Date**") and after the tenth year (in this section: "**the Second Adjustment Date**") of the agreement, upon the fulfillment of certain conditions stipulated in the agreement. In case of disagreement over the price adjustment rate, the Purchaser will be able to reduce the contractual quantity by up to 50% on the First Adjustment Date and by up to 30% on the Second Adjustment Date. It should be noted that the agreement includes a quantity-dependent incentive mechanism, subject to the price of a barrel of oil.
- (4) Supply under the Amended Export Agreement is to begin on June 30, 2020 and continue up to December 31, 2034 or up to the supply of the entire Overall Contractual Quantity, whichever is earlier (in this section: "**the Agreement Termination Date**"). If the Purchaser does not purchase the Overall Contractual Quantity by December 31, 2034, each party will be entitled to extend the supply period by up to an additional two years.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

F. Additional details on commitments regarding the export of natural gas to Egypt: (cont.)

- (5) Under the Amended Export Agreement the Tamar partners undertook to supply to Dolfinus annual quantities of gas as follows: (i) in the period beginning on June 30, 2020 and ending on June 30, 2022 – 1 BCM per year; and (ii) in the period beginning on July 1 2022 and ending on the Agreement Termination Date – 2 BCM per year.
- (6) The Purchaser undertook to take or pay for minimum quarterly and annual quantities according to the mechanism established in the Amended Export Agreement, which also includes a reduction in the minimum annual quantity to 50% for a calendar year in which the average price of a Brent barrel is lower than \$50. It should be noted that if the contractual quantity is reduced in the event of disagreement over the price adjustment rate as stated in Subsection (3) above, the Purchaser's right to reduce the minimum annual quantity as stated in this subsection above will be canceled.
- (7) The Amended Export Agreement includes customary provisions with respect to the termination of the agreement, as well as a provision for the termination of the Amended Export Agreement in the event of the termination of the Amended Leviathan Agreement due to a breach thereof, and the refusal of the Tamar partners to supply also the quantities specified in the Amended Leviathan Agreement as set forth in the agreement, and it also includes compensation mechanisms in such an event. To the best of the Company's knowledge, the Amended Leviathan Agreement includes similar provisions with respect to the Amended Export Agreement.

Simultaneously with the signing of the Amended Export Agreement, the Capacity Allocation Agreement was signed, the principles of which are as follows:

- (1) The capacity in the transmission system from Israel to Egypt (the EMG pipeline and the transmission pipeline in Israel) will be divided on a daily basis according to the following prioritization:
 - (a) First layer – up to 350,000 MMBTU per day will be allocated to the Leviathan partners.
 - (b) Second layer – the capacity beyond the first layer, up to 150,000 MMBTU per day, until June 30, 2022 (the "**Capacity Increase Date**"), and 200,000 MMBTU per day after the Capacity Increase Date – will be allocated to the Tamar partners.
 - (c) Third layer – any additional capacity beyond the second layer will be allocated to the Leviathan partners.
- (2) On the closing date of the EMG Transaction (as defined in Subsection (6) below), the Tamar partners paid a sum of \$50 million (the "**Tamar Participation Fee**") and the Leviathan partners paid a sum of \$200 million (the "**Leviathan Participation Fee**") to EMED (an interested party) (which was used by Delek Drilling and Noble as part of the consideration paid by them in the EMG transaction), against an undertaking to allow the piping of natural gas from the Tamar and Leviathan reservoirs and to guarantee capacity in the EMG pipeline, all for the purpose of realizing the Amended Export Agreement and the Amended Leviathan Agreement. It should be noted that the final Tamar Participation Fee and Leviathan Participation Fee will be determined by June 30, 2022, according to the ratio of the gas quantities actually supplied until then by the Tamar partners and the Leviathan partners through the EMG pipeline and the transmission pipeline in Israel (including gas quantities not yet supplied for which payment was made by virtue of a Take or Pay undertaking).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

F. Additional details on commitments regarding the export of natural gas to Egypt: (cont.)

It should be noted that the Company's share in the Tamar Participation Fee in the amount of \$8.4 million is included in the statement of financial position as of December 31, 2019 under the other long-term assets item and in the statement of cash flows under cash flows used for investing activities.

- (3) Additionally, the Capacity Allocation Agreement prescribes arrangements for participation in the EMG transaction costs, other costs related to the piping of gas as well as investments that will be required for the maximum usage of the EMG pipeline capacity, the payment of which will be split between the Leviathan partners and the Tamar partners.
- (4) The Capacity Allocation Agreement likewise establishes principles for a "backstop" arrangement between the Tamar partners and the Leviathan partners, whereby starting from June 30, 2020 until the Capacity Increase Date, if the Tamar partners are unable to supply the quantities they undertook to supply to Dolfinus, the Leviathan partners will supply the required quantities to the Tamar partners.
- (5) The term of the Capacity Allocation Agreement is up to the termination of the Amended Export Agreement, unless it terminates previously in the following cases: breach of a payment undertaking that was not remedied by the breaching party; if the Competition Authority does not approve the extension of the Capacity Lease and Operatorship Agreement signed between EMED (a company under the joint ownership of subsidiaries of Noble, Delek Drilling and an Egyptian partner) and EMG, beyond a period of ten years from the date of signing thereof according to the decision of the Competition Commissioner, as set out in Subsection (6) below. Additionally, each party will be entitled to terminate its part in the Capacity Allocation Agreement if its export agreement has been cancelled.

As the Tamar partners were informed by Delek Drilling and Noble, EMED entered on September 26, 2018 into agreements for the acquisition of some of the shares of EMG (above and below: "**the EMG Transaction**"), the closing of the EMG Transaction having been contingent, inter alia, on the signing of an agreement between EMED and EMG under which EMG granted EMED an exclusive right to lease and operate the EMG pipeline for the purpose of piping natural gas from Israel to Egypt. On November 6, 2019, the condition precedent in the Amended Export Agreement regarding the closing of the transaction for the acquisition of shares of EMG and for the acquisition of rights in the EMG pipeline by EMED Pipeline BV (above and below: "**EMED**"), a company jointly owned by subsidiaries of Noble, Delek Drilling and an Egyptian partner, was completed, and on November 16, 2019, the conditions precedent regarding the receipt of the Israel Tax Authority's approval and the Petroleum Commissioner's approval for the export of natural gas, in accordance with the conditions stipulated in the Petroleum Commissioner's approval, were fulfilled. The Amended Export Agreement became effective on December 24, 2019.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

F. Additional details on commitments regarding the export of natural gas to Egypt: (cont.)

In the framework of a tax ruling regarding the Amended Export Agreement, issued to the Tamar partners by the Israel Tax Authority on December 9, 2019, and in accordance with the terms of the Gas Framework, the Tamar partners undertook to propose to new customers (as defined in the Gas Framework) and/or customers with whom they entered or will enter into an agreement or with whom they have conducted negotiations for entering into an agreement from February 19, 2018 until the end of three full years from the day of signing of the tax ruling, i.e. December 9, 2022, to enter into agreements for the sale of natural gas at a price to be computed according to the formula of the Amended Export Agreement less the cost of transmission of the gas to the delivery point, which is based on the Brent price set in the Amended Export Agreement that is paid by the Tamar partners, as set forth in the Gas Framework and in the terms stipulated therein for such agreements in this context, including a period of at least five years, a TOP undertaking, etc., subject to various adjustment principles contained in the tax ruling.

G. Dependence on a customer:

The Company has a principal customer with whom a firm agreement was signed for the supply of gas by the Tamar project – the IEC. The Company's share of sales to the IEC in 2019 totaled \$159.3 million (2018 – \$155.1 million; 2017 – \$91.7 million). The balance of the IEC's debt to the Company as of December 31, 2019, which is included in trade receivables, amounts to \$13 million (December 31, 2018 – \$13 million) (see also Note 14B).

H. Undertakings and commitments for payment of royalties:

1. Royalties to the State:

The Petroleum Law and the Petroleum Regulations, 5713-1953 prescribe that a lease holder shall pay royalties to the State at the rate of one eighth of the quantity of petroleum produced from the area of the lease and exploited, excluding the amount of petroleum used by the lease holder for operating the area of the lease, but in any event no less than the minimum royalty provided for by law. The sum of royalties is calculated according to the market value of the royalties at the wellhead. Regarding the discussion with the Commissioner on the manner of calculation of the market value of the royalty at the wellhead, see Note 15B.

2. Royalties to interested and third parties:

- a) Additionally, according to the sale agreement with Delek Drilling, the rights in the leases that were transferred to the Company are subject to undertakings that applied to Delek Drilling to pay royalties before the transfer of the rights to the Company. Below are details regarding the royalties applying to the rights of the Company in the leases that were transferred from Delek Drilling (9.25% from the Tamar and Dalit leases, accounting for 55% of the Company's overall stake in the leases) to interested parties and to third parties:

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

H. Undertakings and commitments for payment of royalties: (cont.)

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

Under a rights transfer agreement signed in 1993, the rights transferred to the Company from Delek Drilling are subject to a liability to pay royalties to Delek Group (25%) and to Delek Energy (75%) from any share the Company has in the oil and/or gas and/ or other valuable substances, produced and exploited from said rights (before deduction of royalties of any type, but after deduction of the oil used for purposes of the production itself); the royalty rate is 1.5% until the ROI date, and 6.5% after the ROI date (ROI – as defined in the agreement for the transfer of rights to Delek Drilling from 1993). As regards the dispute concerning the ROI, see Note 15D.

In June 2018 Delek Energy notified the Company that the right to receive said royalties from the Company had been assigned by it to Delek Royalties (2012) Ltd. (an interested party), and in December 2019 Delek Group notified the Company that the right to receive said royalties from the Company had been assigned by it to third parties (Delek Energy and Delek Group are hereinafter referred to as: "**the Transferors**"; Delek Royalties and the third parties are hereinafter referred to jointly as: "**the Transferees**"). It should be noted that in the framework of said assignments the Transferors and the Transferees confirmed that the assignment of the royalty rights to the Transferees does not change their terms or harm any right and/or relief the Company has or would have against the Transferors and/or the Transferees if not for the assignment of the royalty right, including the Company's right to a reimbursement of royalties that were and/or may be overpaid by it from the Transferors and/or the Transferees also by way of deduction from future royalty payments.

2) Royalties to Cohen Development Oil & Gas Ltd. (interested party) and to other third parties:

The rights transferred to the Company from Delek Drilling are subject to an obligation of payment of royalties to Cohen Oil and Gas Development Ltd. and to third parties at an overall rate of 3% from any share the Company has in the oil and/or gas and/ or other valuable substances, produced and exploited from the oil assets (of which the interested party's share is 1.438%) (before deduction of royalties of any type, but after deduction of the oil used for purposes of the production itself).

3) Royalties to Dor Chemicals Ltd.:

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

H. Undertakings and commitments for payment of royalties: (cont.)

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

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

I. Dependence on an agreement with the Operator:

The major part of the Company's activity in the joint venture of the Tamar and Dalit leases is carried out by Noble. Under the Joint Operating Agreement of the Joint Venture, it was agreed that Noble shall serve as an operator and shall be exclusively responsible for the management of the joint operations. According to the accounting rules, Noble is entitled to reimbursement of all the expenses incurred by it in connection with the fulfillment of its function as operator, as well as to an operator fee at 1% of total direct expenses, except with respect to marketing activities. The Company's share in the operator fee paid to the Tamar partners and to Noble for the years 2019, 2018 and 2017 amounted to \$0.37 million, \$0.25 million and \$0.2 million, respectively.

J. Legal proceedings:

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

J. Legal proceedings: (cont.)

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

On January 6, 2019, the applicant submitted its closing arguments, on August 20, 2019, the Company submitted its closing arguments, on September 5, 2019, closing arguments were submitted on behalf of the Attorney General, and on December 25, 2019, the applicant submitted its closing arguments in reply. On February 18, 2020 (after the date of the statement of financial position), the Tamar partners submitted a motion to hold a hearing to focus on, refine and clarify various issues arising from the closing arguments that were submitted by the parties. On February 19, 2020, the court granted the motion and scheduled an additional hearing for June 1, 2020.

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

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

- 2) On December 9, 2018, an application under Section 198A of the Companies Law, 5759-1999 was submitted against the Company in the Tel Aviv-Yafo District Court (Economic Department) for the disclosure and inspection of documents, aimed, according to its contents, at requiring the Company to provide the applicant with documents to help him examine the possibility of filing a motion to certify a derivative action, in which the requested relief would be the reimbursement to the Company of royalty amounts it overpaid (insofar as the documents provided would reveal the overpayment of royalties) to Delek Group, to Delek Energy and to Delek Royalties (2012) Ltd. (jointly: "**the Royalty Holders**"). On January 6, 2020 (after the date of the statement of financial position), the court handed down its decision, summarily rejecting the application, *inter alia* due to the absence of a previous application by the applicant to the Company which would have obviated the proceeding, and in light of the conduct of a legal proceeding against the Royalty Holders in matters forming the subject matter of the application.

Regarding a mediation and arbitration agreement signed between the Company and the Royalty Holders, see Note 15D.

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

J. Legal proceedings: (cont.)

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

The damage alleged by the Applicants is the difference between the amount of the dividend the Company is expected to distribute for the period, as specified in the offering document for institutional investors, and the amount of the dividend which, according to an expert opinion that was attached to the Certification Motion, the Company is expected to distribute for the Period, totaling at least \$53 million (in a supplementary economic opinion of said expert, that was attached to the Applicants' response to the Respondents' replies, the amount of the alleged damage was revised to \$48.4 million). The requested relief includes restitution of the full damages of the class members and a mandatory injunction directing the Company to distribute the full amount of the dividends which it guaranteed to the buyers of its shares.

On August 12, 2019, the Company and the other Respondents submitted their response to the certification motion, and on February 2, 2020, the Applicants submitted their response to the Respondents' replies. On March 19, 2020, the Respondents submitted a motion to strike out the Applicants' response to the Respondents' replies. In the Company's estimation, based on the opinion of counsel, at this stage the chances of acceptance of the certification motion are less than 50%.

- 4) On July 9, 2019, an application was submitted in the Tel Aviv District Court (Economic Department) against the Company, Isramco Negev 2 Limited Partnership, Alon Natural Gas Exploration Ltd. and Dor Gas Exploration Limited Partnership (in this section: the "**Respondents**") for the disclosure and inspection of documents under Section 198A of the Companies Law, 5759-1999 (the "**Application**"), aimed, according to its contents, at requiring the Respondents to deliver to the Applicant various documents, as listed in the Application, relating to the competitive process (see Note 11C9 above), that would enable the Applicant to consider whether to file a derivative action against officers and role holders who by their illegal and noncompetitive actions, as alleged by him, had caused the Respondents damage due to the Tamar partners' failure to win the competitive process. On December 31, 2019, the court granted a consensual motion to approve a procedural arrangement and to stay the proceedings that had been filed by the parties (the "**Motion to Stay the Proceeding**"), according to which, inter alia, the hearing in the application for disclosure would be stayed until a judgment was issued in the appeal against the judgment discussed in Note 11C9 above and/or during six months, whichever the earlier, and the deadline for submitting the Respondents' reply to the application for disclosure would be extended, such that it would be submitted 60 days after the end of the stay of the proceeding (insofar as the Applicant would not petition to amend the application for disclosure). It should be noted that in the court's decision granting the Motion to Stay the Proceeding it was stated that "if the proceeding in the Supreme Court is prolonged, there will be room for reconsidering the manner in which the present proceeding will be conducted."

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities and Commitments (cont.)

J. Legal proceedings: (cont.)

In the Company's opinion, in reliance on counsel, the chances of the Application being accepted cannot be assessed at this preliminary stage.

- 5) On February 27, 2020 (after the date of the statement of financial position), the Company learned about a class action and motion for class certification (in this section: the "**Certification Motion**") that had been submitted in the Tel Aviv District Court by an electricity consumer (in this section: the "**Applicant**"), requesting the court to rule that Delek Drilling and Noble, who hold the Tamar and Leviathan reservoirs under cross-ownership, may not prevent the partners in the Tamar reservoir from entering into an agreement with the IEC that reduces the cost of the natural gas supplied by it to the IEC, in any way, including by exercising the right of veto which, according to the Applicant, is conferred on them in their agreements with the corporations holding ownership in Tamar only. The Certification Motion was submitted against Delek Drilling and Noble, and all the other corporationis holding the Tamar project and the Leviathan project were joined to it as respondents, including the Company, with the Applicant noting that they are parties against whom no relief was being sought but they were a necessary party in light of their close connection to the events forming the subject matter of the Certification Motion.

The Applicant's main arguments are, in brief, as follows: the proposals submitted by the holders of Tamar and the holders of Leviathan in the framework of the competitive process for the supply of natural gas that was held by the IEC (in this section: the "**Competitive Process**") amount to a restrictive arrangement and abuse of the monopolistic power of Delek Drilling and Noble, within the meaning of these terms in the Economic Competition Law, 5748-1988; Delek Drilling and Noble's failure to sign a potential amendment to the agreement for the supply of gas from the Tamar project to the IEC, which was discussed by the Tamar partners who are not holders of the Leviathan project with the IEC management also amounts to abuse of their monopolistic power; the price set in the agreement for the supply of gas from the Leviathan project to the IEC, further to the Competitive Process, is an unfair price; and the enrichment which Delek Drilling and Noble have gained and will gain under said agreement, while harming competition, amounts to unjust enrichment. According to the Applicant, these actions of Delek Drilling and Noble have caused and will cause damage to the classes he seeks to represent, amounting to NIS 1.16 billion, based on which the court is requested to award remuneration and fees.

At the same time, the Certification Motion does not include a request for monetary relief, and the main relief sought is, as stated, the determination by the court that Delek Drilling and Noble may not prevent the partners in the Tamar reservoir from entering into an agreement with the IEC that reduces the cost of the natural gas supplied by it to the IEC, in any way.

K. Guarantees:

In September 2014, pursuant to Section 57 of the Petroleum Law, the Commissioner issued directives on the provision of collateral in connection with petroleum rights. In accordance with said directives, the Company provided bank guarantees for the Tamar and Dalit leases, which as of December 31, 2019, total \$5.9 million and \$1.3 million, respectively. The Company provided deposits in the overall amount of \$2.2 million as security for said guarantees.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

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

The Taxation of Profits from Natural Resources Law 2011 (the "Law"), which applies to the Company's holdings in the Tamar and Dalit leases, prescribes, inter alia, the application of a petroleum and gas profit levy according to a mechanism specified in the Law. The Law includes transition provisions with respect to producing ventures or ones that began production by 2014 (including the Tamar reservoir):

1. The application of a petroleum and gas profit levy at a rate to be determined as stated below. The rate of the levy will be calculated according to an R-factor mechanism, according to the ratio between the net aggregate revenues from the project and the aggregate investments as defined in the Law. A minimum levy of 20% will be collected commencing from the point when the R-factor ratio reaches 2, and as the ratio rises, the levy progressively increases up to a maximum rate of 50%, when the ratio reaches 2.8, which is calculated at 50% less the product of 0.64 multiplied by the difference between the corporate tax rate specified in Section 126 of the Income Tax Ordinance in respect of each tax year and a tax rate of 18%. In light of the reduction of the corporate tax rate from 2018 and onwards to 23%, the maximum levy rate will be 46.8%.
2. Additional provisions were also determined regarding the levy. Among other things, the levy will be recognized as an expense for the purpose of calculating income tax; the levy limits shall not include export plants; the levy shall be calculated and imposed in relation to each reservoir separately (ring fencing); in the case of payment by a holder of a petroleum right which is calculated as a percentage of the petroleum produced, the payment recipient will be charged with a levy payment in accordance with the amount of the payment received by it and the applicable levy rate, which amount will be deducted from the levy amount owed by the holder of the petroleum right.

In addition, the Law prescribes rules for consolidation or separation of petroleum ventures for purposes of the Law.

3. Accelerated depreciation will be given in respect of investments in deductible assets, with an option to choose between a fixed depreciation rate (up to 10%) and depreciation at a variable rate up to the amount of the taxable income in that year.

It should be noted that there is disagreement between the tax authorities and the holders of rights in Tamar regarding the levy reports of the Tamar project for the years 2013-2017, which pertain mostly to the manner of classification and quantification of some data in the levy reports for those years. It should be noted that the disagreements regarding the levy reports for the years 2013-2016 are currently being deliberated by the parties in the framework of an appeal being heard at the Tel Aviv District Court, while the disagreements regarding the levy reports for 2017 are being deliberated in the framework of objection proceedings before the Assessing Officer for Large Enterprises. It is noted that these disagreements have no effect on the financial statements, as the liability to pay the levy has not yet arisen.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 13 – Capital, Reserves and Retained Earnings:

A. Share capital:

	December 31			
	2019		2018	
	Registered	Issued and paid up	Registered	Issued and paid up
Ordinary shares of NIS 0.1 par value each	200,000,000	88,495,576	200,000,000	88,495,576

B. Prospectus and shelf offering report for an initial public offering:

Pursuant to the Prospectus and a shelf offering report dated July 18, 2017, the Company allotted to institutional investors that are incorporated in and outside Israel 30,000,000 ordinary shares of the Company of NIS 0.1 par value each, constituting 60% of the Company's issued and paid-up share capital after their allocation at the time, at a price of NIS 23.20 per share (and in the total amount of NIS 696 million; \$195 million). Furthermore, in accordance with the Sale Agreement with Delek Drilling (described in Note 4A above), an additional 19,990,000 ordinary shares of the Company of NIS 0.1 par value each were allotted to Delek Drilling, which shares, together with the shares held by Delek Drilling prior to the aforesaid allotment, constituted 40% of the Company's issued and paid-up share capital after their allocation at the time.

C. Private placement

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

D. Voting rights

Under an irrevocable waiver provided by Delek Drilling to the Company immediately prior to the Prospectus, which took effect upon the completion of the share offering to Delek Drilling, Delek Drilling unilaterally and irrevocably waived all the voting rights attached to all the shares held by it, other than shares in an amount equal to up to 12% of the issued and paid-up share capital of the Company after the completion of the offering (the "**Surplus Shares**"). For the avoidance of doubt it was clarified that all the equity rights attached to the shares held by Delek Drilling would remain in full force and effect, including: the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon dissolution of the Company. In addition, Delek Drilling undertook to first sell the Surplus Shares (which after the sale thereof will confer on the purchaser all the rights attached thereto including voting and equity rights as aforesaid), and also undertook that for as long as it does not sell the Surplus Shares it shall not purchase additional shares of the Company.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 13 – Capital, Reserves and Retained Earnings:

E. Share-based payment:

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

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

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

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

The warrants will be exercised against payment in cash of the exercise price as specified above or according to a net exercise mechanism (based on the difference between the exercise price of the warrants and the price of the shares on the TASE), according to the Offeree's choice.

The average theoretical economic value of the warrants as of their Grant Date, calculated using the Black and Scholes formula, amounts to NIS 4.47 per warrant, based on the following assumptions: dividend yield – since the exercise price of the warrants is fully adjusted for the distribution of dividends, the dividend yield was not taken into account; expected standard deviation – 33%; risk-free interest rate – 0.5%; expected life to expiration of the warrants – 4 years.

The grant of the warrants was approved by the Company's general meeting of shareholders on March 8, 2018.

F. Capital reserves:

The capital reserves presented in the statements of financial position include a negative capital reserve of \$707,206 thousand, arising from the registration of the assets and liabilities that are being transferred in the transaction with Delek Drilling according to their book value – see also Note 2A, and the balance as of December 31, 2019 of \$195,000 in respect of a share-based payment (see Section E above).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 13 – Capital, Reserves and Retained Earnings:

G. Dividends

In accordance with its articles, the Company is to distribute profits twice a year, based on semi-annual financial statements for the period ended June 30 of each year and on annual financial statements for the period ended December 31 of each year. The sum of the profits to be distributed shall be equal to 100% of the distributable profits, within the meaning of this term in the Companies Law 1999 (the "Companies Law"), based on said financial statements, subject to compliance with the distribution tests, as defined in the Companies Law, and net of sums which in the judgment of the board of directors are required by the Company for all the following purposes:

1. The Company's compliance with the restrictions applicable to it under financing agreements to which it is a party at the time of the declaration (see also Note 9D(4));
2. The Company's compliance with its undertakings in respect of the petroleum assets held by it at that time;
3. Financing of the Company's ongoing business including its investment plans for the petroleum assets held by it; and
4. Sums required, in the opinion of the board of directors, for meeting unforeseen expenses, in an amount not exceeding \$5,000,000.

The board of directors may, prior to resolving to distribute any dividend, allocate out of the Company's profits certain sums, as it shall deem fit, as a reserve fund for any purpose or for the equalization of dividends or for special dividends or for the repair, improvement, maintenance or replacement of the Company's assets or for any other purpose according to the board of directors' discretion.

Regarding restrictions on dividend distributions see Note 9D(4) above.

On March 20, 2018, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$32,023 thousand (\$0.36 per share), which was carried out on April 11, 2018.

On August 30, 2018, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$39,324 thousand (\$0.44 per share), which was carried out on October 10, 2018.

On April 7, 2019, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$ 30,000 thousand (\$0.34 per share), which was carried out on May 2, 2019.

On October 10, 2019, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$ 10,000 thousand (\$0.113 per share), which was carried out on November 7, 2019.

On March 29, 2020, the board of directors resolved not to distribute a dividend to the Company's shareholders, based on these financial statements.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 14 – Revenues from Gas and Condensate Sales:

- A. The Company's revenues derive from the sale of natural gas and condensate to its various customers, all in accordance with agreements signed with said customers as set out in Note 11 above.

	Year ended December 31		
	2019	2018	2017
Sale of natural gas	345,379	306,630	170,338
Sale of condensate	4,558	4,643	1,996
	<u>349,937</u>	<u>311,273</u>	<u>172,334</u>

- B. The volume of sales in 2019 (as a percentage of the total turnover) to the IEC was 46% and to Dalia 10% (2018: IEC – 50%, Dalia – 10%; 2017: IEC – 53%, Dalia – 11%).
- C. The total quantity of natural gas (for all the Tamar partners) sold in 2019 amounted to 10.4 BCM (2018: 10.3 BCM, 2017: 9.7 BCM). The total quantity of condensate (for all the Tamar partners) sold in 2019 amounted to 482.3 thousand barrels (2018: 477.1 thousand barrels; 2017: 454.7 thousand barrels).

Note 15 – Royalties:

A. Composition:

	Year ended December 31		
	2019	2018	2017
Royalties to the State (see B below)	40,342	34,737	19,262
Royalties to interested parties (see C and D below)	13,711	11,624	4,918
Royalties to third parties (see C below)	3,800	3,330	3,066
	<u>57,853</u>	<u>49,691</u>	<u>27,246</u>

- B. In accordance with the Petroleum Law, the State is entitled to royalties on the quantity of produced gas (see Note 11H1). As of the date of approval of the financial statements, the partners in the Tamar project, including the Company, are in discussions with the Commissioner regarding the manner of calculating the market value of the royalties at the wellhead in the Tamar project. Pending the completion of such discussions, the Tamar partners paid the State, under protest, advance payments on account of royalties which were set by the Ministry of Energy as follows: for 2017 and 2018 – at a rate of 11.65% on the revenues from the Tamar project; for 2019 – at a rate of 11.3% on the revenues from the Tamar project.

The position of the Tamar partners is that the calculation of the actual rate of State royalties in respect of the revenues from the Tamar project should reflect the complexity of the project, the risks involved in it and the amount of investment in the project compared to the Yam Tethys project.

In previous reporting periods the Company recognized royalty expenses according to a calculation based on the principles of the "English formula," which constituted the best estimate for the agreement signed with the State in the Yam Tethys project. Based on this estimate, the actual rate of the royalties at the wellhead to the State in the Tamar project, which the Company applied in its financial statements in 2017 and 2018, is 11.22% and 11.16%, respectively.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 15 – Royalties: (cont.)

In February 2020 the Ministry of Energy issued guidelines for a hearing (in this section: the "**Guidelines**") that include general instructions on the manner of calculating the value of the royalty at the wellhead on maritime oil rights. Based on the Company's assessments and estimates, the manner of calculating the royalty rate to the State from the date of acquisition of the leases by the Company (July 2017) and its rate for 2019 based on the revised calculation is 11.3%.

The differences between the royalties actually paid to the State and the effective royalty rate which the Company applied in its financial statements, for the periods commencing on the effective dates for the transfers of the rights to the Company (see Notes 4A and 4B), amounted, as of December 31, 2019, to \$1,100 thousand (December 31, 2018 - \$1,899 thousand), which are presented in the statement of financial position in the "other long-term assets" item (see Note 7).

- C. The manner of calculation of the royalties determined in B above is also used to calculate the market value at the wellhead of the overriding royalties paid by the Company to interested parties and to third parties, as set out in Note 11H2 above. The effective overriding royalty rate to interested parties and to third parties on total Company sales of natural gas and condensate in 2019, based on the Company's revised assessments and estimates as described in B above, is 4.9% (out of which the royalty rate paid to interested parties is 3.8%). The actual royalty rate at the wellhead to interested parties and to third parties in the Tamar project, applied by the Company in the financial statements for 2017-2018, was based on the principles of the "English formula" as described in B above, and it ranged between 4.6% and 4.8% (out of which the royalty rate paid to interested parties in those years ranged between 2.9% and 3.8%) of gross sales for each of the years.

The differences between the royalties actually paid to interested parties and to third parties and the effective royalty rate which the Company applied in its financial statements, for the period from the effective date for the transfer of the rights to the Company from Delek Drilling, amounted, as of December 31, 2019, to \$345 thousand and \$120 thousand, respectively (December 31, 2018: \$614 thousand and \$200 thousand, respectively), which are presented in the statement of financial position in the "other long-term assets" item (see Note 7).

- D. Further to that stated in Note 11H2a(1) above regarding the Company's commitment to pay royalties on the rights in the leases that were transferred to the Company from Delek Drilling, it is noted that in April 2018, the Company started to pay royalties at a rate of 6.5%, according to the rate applicable after the ROI date. The royalties in 2018 were paid according to draft computations prepared by Delek Drilling, it being made clear that said payment constitutes only advance payment, given that, at the time, the Company had not yet carried out all the examinations and calculations for calculating the ROI date.

In February 2019, upon completion of all the examinations and calculations carried out by the Company, the Audit Committee and Board of Directors approved the report on the interim calculation determining that the ROI date falls on February 25, 2018, based on Delek Drilling's figures up to June 30, 2017 with adjustments made by the Company and based on the Company's figures starting from July 1, 2017, subject to the adjustments, assumptions and qualifications set out in said report (the "**ROI Date Report**"). This is an interim calculation, as it does not include the effect of the oil profits levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Sheshinski Levy**") on the determination of the ROI date.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 15 – Royalties: (cont.)

The ROI Date Report was furnished to the Royalty Holders on February 19, 2019 along with a special report by the independent auditors plus a letter in which the Company requests reimbursement of \$0.85 million in royalty payments. The letter also states that as the Company has legitimate arguments for including the Sheshinski Levy in the final calculation, it requests to determine with the Royalty Holders an agreed mechanism for examining the Sheshinski Levy and its inclusion in the calculation of the ROI date. As the Company's request for the aforesaid reimbursement was not accepted, the Company deducted said payment from the royalty payments made to the Royalty Holders at the end of February 2019.

The Company has legitimate arguments for the inclusion of the Sheshinski Levy in the ROI calculation, which would result in the deferral of the ROI. As against this, the Royalty Holders have notified the Company that they have weighty arguments for setting the "ROI date" much earlier than the date set by the Company.

On August 4, 2019, the Company and the Royalty Holders signed a mediation and arbitration agreement (the "**Mediation and Arbitration Agreement**"), whereby they agreed to try settling the disagreement between them regarding the determination of the "ROI date" as this term is defined in the agreement for the transfer of rights in a mediation process before the Honorable Supreme Court Justice (emeritus) Yoram Danziger. The parties agreed that if the mediation process would be discontinued before a settlement agreement was signed between them, they would submit to an arbitration proceeding according to the mechanism established in the agreement. It should be noted that simultaneously with the signing of said agreement, Delek Energy signed a letter of undertaking in which it committed to pay the Company any amount held in an arbitration decision that Delek Royalties (2012) Ltd. or its successor must reimburse to the Company as a result of the arbitrator's determination that the ROI date should have taken into account the payments due to the State in respect of the Sheshinski Levy. Likewise, if the Company chooses to exercise its right of offset against the Royalty Holders in respect of the Sheshinski Levy, said letter of undertaking will be invalid and will lapse as of the date of the offset.

In September 2019 the parties began the mediation process and as of the date of approval of the financial statements they have not come to any agreements.

In the Company's opinion, in reliance on counsel, the chances of the Royalty Holders' arguments for advancing the ROI date being accepted are lower than 50%. A change in the determination of the ROI date is likely to materially affect the results of operations and the financial position of the Company.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 16 – Cost of Production of Natural Gas and Condensate*:

	Year ended December 31		
	2019	2018	2017
Salaries and related payments	4,993	4,279	2,520
Guarding and security	1,507	1,357	831
Insurance	3,568	3,367	1,838
Transportation and shipping costs	3,903	2,921	1,978
Operator and operation management fee	4,119	3,667	1,924
Maintenance and other	10,360	6,306	3,143
Total	28,450	21,897	12,234

*Mostly through the operator of the Joint Venture, Noble.

Note 17 – General and Administrative Expenses:

Composition of general and administrative expenses for 2019 (total – \$3,207 thousand): salaries and related payments – \$1,327 thousand, professional services – \$1,047 thousand, and other expenses – \$833 thousand.

Composition of general and administrative expenses for 2018 (total – \$2,661 thousand): salaries and related payments – \$1,230 thousand, professional services – \$626 thousand, and other expenses – \$805 thousand.

Composition of general and administrative expenses for 2017 (total – \$1,698 thousand):

For the six-month period ended June 30, 2017 – the share attributable to the Tamar project out of the Partnership's total general and administrative expenses – \$600 thousand;

For the six-month period ended December 31, 2017: salaries and related payments – \$486 thousand, professional services – \$254 thousand, and other expenses – \$358 thousand.

Note 18 – Finance Expenses and Income:

	Year ended December 31		
	2019	2018	2017
Expenses:			
For bonds	(59,055)	(56,853)	(15,234)
Interest on short-term loan from Delek Drilling	-	-	(106)
Exchange rate differences for monetary items, net	-	(294)	-
For changes in asset retirement obligations due to the passage of time	(763)	(868)	(446)
Other	(329)	(278)	(73)
Total expenses	(60,147)	(58,293)	(15,859)
Income:			
Exchange rate differences for monetary items, net	460	-	263
Interest income	2,819	1,832	69
Total income	3,279	1,832	332
Total finance expenses, net	(56,868)	(56,461)	(15,527)

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 19 – Income Taxes:

A. Corporate tax:

The Company's revenues in Israel are liable to corporate tax at the regular rate, and are measured for tax purposes in shekels. The corporate tax rate in 2017 was 24% and the corporate tax rate from 2018 and onwards is 23%.

Since the tax liability for the profits of Delek Drilling is imposed on the holders of participation units in Delek Drilling, and not on Delek Drilling(see also Note 2B), tax expenses in respect of profits for periods before July 1, 2017 (the date of transfer of Delek Drilling's rights to the Company) are not reflected in these financial statements.

B. Deferred income taxes:

The deferred tax asset relates mainly to the difference between the amount of the acquisitions of oil and gas assets for tax purposes and the book value of the assets as recognized in the books.

Following is the movement in deferred taxes for the years 2018 and 2019:

Balance as of January 1, 2018	134,698
<u>Movement in 2018:</u>	
Addition for the sale agreement with Noble	778
Carried to statement of comprehensive income	(37,087)
Balance as of December 31, 2018	98,389
<u>Movement in 2019:</u>	
Carried to statement of comprehensive income	14,347
Balance as of December 31, 2019	112,736

Deferred taxes as of the dates of the statements of financial position are calculated at a tax rate of 23%. The amount of deferred taxes expected to be recovered within 12 months from the date of the statement of financial position as of December 31, 2019 is \$13.2 million (December 31, 2018 – \$12 million).

C. ITA tax rulings by agreement:

On June 29, 2017, a tax ruling by agreement was received from the Israel Tax Authority regarding the manner of amortization of the acquisition cost of the rights acquired from Delek Drilling. On February 8, 2018, a tax ruling by agreement was received from the Israel Tax Authority regarding the manner of amortization of the acquisition cost of the rights acquired from Noble. Said tax rulings determined that with respect to the consideration for the acquired rights attributable to deductible assets, amortization at an annual rate of 10% will be permitted, and the balance of the consideration will be attributed to the reservoirs and amortized according to the reservoirs' depletion rate.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 19 – Income Taxes:(cont.)

D. Income taxes included in the statements of comprehensive income for the presented periods:

	Year ended December 31		
	2019	2018	2017
Current taxes:			
Current taxes for income of the reporting year	13,524	-	7,074
Adjustments for previous years	-	192	-
	<u>13,524</u>	<u>192</u>	<u>7,074</u>
Deferred taxes	<u>14,347</u>	<u>37,087</u>	<u>3,395</u>
Income tax expenses	<u>27,871</u>	<u>37,279</u>	<u>10,469</u>

E. Theoretical tax reconciliation:

Below is a reconciliation between the amount of the "theoretical" tax that would have applied had all the income been liable to tax at the regular rates applicable to companies in Israel (see A above) and the amount of tax recognized in the statement of comprehensive income:

	Year ended December 31		
	2019	2018	2017
Income before income taxes, as reported in the statements of comprehensive income	153,522	136,097	98,695
Less – earnings prior to the transfer of the Tamar and Dalit operations to the Company (relating to activity within Delek Drilling and attributed to the holders of participation units in Delek Drilling, see also Note 2B)	-	-	(56,203)
Income before income taxes, as attributed to the Company	153,522	136,097	42,492
Theoretical tax on this income (2019 and 2018 – 23%; 2017 – 24%)	35,310	31,302	10,198
Difference between the income measurement basis as reported for tax purposes (NIS) and the income measurement basis as reported in the financial statements (dollar)*	(8,230)	7,508	180
Effect of the change in the tax rate on the deferred tax balances (see B above)	-	-	148
Adjustment of deferred taxes in connection with asset retirement	-	(2,167)	-
Taxes for previous years	1,061	-	-
Nondeductible expenses (income)	61	50	(110)
Other	(331)	586	53
Income taxes	<u>27,871</u>	<u>37,279</u>	<u>10,469</u>

* The different basis of measurement causes fluctuations in the Company's tax liability, arising mainly from changes in the shekel-dollar exchange rate.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

F. Tax assessments:

The Company has not been issued any final tax assessments. Regarding Delek Drilling's and Noble's commitment to bear tax differences relating to periods prior to the transfer of the rights to the Company – see Notes 4A(4) and 4B(3).

Note 20 – Financial Instruments:

A. Groups of financial instruments:

The Company's financial instruments include receivables and loans as well as financial liabilities stated at amortized cost, as follows:

	December 31	
	2019	2018
Financial assets:		
Cash and cash equivalents (1)	79,167	86,928
Restricted deposits (2)	20,283	-
Trade receivables	34,588	33,429
Other accounts receivable	4,779	987
Long-term restricted deposits (3)	43,258	42,228
Other long-term assets	2,190	3,480
Total financial assets	184,265	167,052
Financial liabilities:		
Other accounts payable	25,986	25,893
Bonds (Note 9)	1,032,324	1,127,569
Other long-term liabilities	287	-
Total financial liabilities	1,058,597	1,153,462

- (1) The amount as of December 31, 2019 includes bank deposits with a maturity of less than three months totaling \$69.2 million, at a weighted annual interest rate of 1.9% (December 31, 2018: the deposits totaled \$77.8 million, at an annual interest rate of 2.69%).
- (2) In April 2019 the Board of Directors decided to set aside funds that would be required for construction or operation costs in the Tamar project as an "expense reserve account" as this term is defined in Section 5.10.2 of the trust deeds of the Series A and B bonds, in an amount of \$20 million, and to deposit these funds in a special bank account that would be opened for this purpose. As of December 31, 2019, the amount on deposit in the bank totals \$20.2 million at a weighted annual interest rate of 1.8%.
- (3) Includes: bank deposits encumbered as security for the payment of principal and interest to the Series A bondholders and Series B bondholders, totaling \$41,055 thousand as of December 31, 2019 (December 31, 2018 – \$40,009 thousand) (see Note 9D(4)), and bearing as of December 31, 2019 a weighted annual interest rate of 2.2% (December 31, 2018: 2.8%); and deposits as security for bank guarantees (see Note 11K) totaling \$2,202 thousand as of December 31, 2019 (December 2018: \$2,219 thousand), and bearing as of December 31, 2019 a weighted annual interest rate of 2.4% (December 31, 2018: 2.6%).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 20 – Financial Instruments: (cont.)

B. Fair value of financial instruments:

The fair value of the financial instruments presented in the financial statements matches or approximates their book value, except for Series A and B bonds, which are traded on the Tel Aviv Stock Exchange. These series, which bear fixed interest, have a fair value as of December 31, 2019, based on a quoted price on the TASE (Level 1), of \$965 million (in 2018 – \$1,084 million), and a book value, including accrued interest payable as of that date, of \$1,049 million (in 2018 – \$1,146 million). Subsequent to the date of the statement of financial position, there was a significant decrease in the quoted price on the TASE of the Company's Series A and B bonds, and their market value around the date of signing of the financial statements amounted to \$679 million (it should be noted that said market price of the bonds is after principal and interest repayments at the end of February 2020 totaling \$77 million).

C. Risk management policy:

The Company's operations expose it to various financial risks, such as market risk (including currency risk, fair value risk due to interest rate, linkage to the U.S. CPI and price risk), credit risk and liquidity risk. The Company's risk management focuses on actions to minimize possible negative effects on the Company's financial performance.

D. Market risks:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, price risks and fair value risk due to interest rate as follows:

1. Exchange rate risk:

Exchange rate risk, as it relates to the Company, is the risk that changes in foreign currency exchange rates will affect the fair value of future cash flows of financial instruments denominated in currencies other than the U.S. dollar. As of the date of the statement of financial position, the Company has insignificant balances in currencies other than the dollar. However, given that the Company is assessed for tax in shekels, and given the existence of an excess of liabilities over financial assets stated in U.S. dollars, fluctuations in the exchange rate of the shekel against the dollar expose the Company to fluctuations in income taxes (see Note 19D).

2. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company's existing financial instruments bear interest at fixed rates, exposing the Company to fair value risk due to changes in market interest rates (see also B above).

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 20 – Financial Instruments: (cont.)**3. Price risk:**

As described in Note 11A, the gas prices stated in the agreements for the sale of natural gas from the Tamar project are based on different price formulas which include, inter alia, linkage to the U.S. CPI, to the Electricity Production Tariff and to the Brent price. A change in one of the above linkage components and/or in the prices of the alternative fuels would affect the price at which the Company sells the natural gas to its customers. The Company's exposure to fluctuations in the Electricity Production Tariff and in the Brent prices is hedged by a bottom limit, since all the agreements for the sale of natural gas that are linked to such components include a "floor price."

Additionally, as described in Note 11F above, in accordance with the Amended Export Agreement, if the average price of a Brent barrel in a certain calendar year is less than \$50, the minimum annual quantity in that year will be reduced to 50%. It should be noted that subsequent to the date of the statement of financial position, the price of a Brent barrel decreased to less than \$50.

E. Credit risks:

Credit risk is the risk of financial loss to a party to a financial instrument if the counterparty fails to meet its contractual obligations. The Company's credit risk derives mainly from cash and cash equivalents and deposits in banks and from trade receivables. As explained in Note 3L, as of January 1, 2018, the Company applies IFRS 9 and determines the allowance for impairment of trade receivables, using the expected credit loss model. However, owing to the nature of the Company's customers and its entry into long-term contracts, in the Company's estimation, no significant credit losses are expected in respect of the Company's customers.

1. The Company's principal customer is the IEC (see also Note 11G). The Company estimates that the credit risk presented by the IEC is very low.
2. The balance of trade receivables at December 31, 2019 is \$34,588 thousand (at December 31, 2018: \$33,429 thousand), and as of that date there are no customer debt arrears.
3. The Company has cash and cash equivalents that are held with large banks in Israel. Accordingly, the Company expects no losses due to credit risks for said balances.
4. The balance of financial assets in the statement of financial position as presented in Section A above reflects the maximum exposure to credit risk as of the date of the statement of financial position.

F. Liquidity risk:

Liquidity risks result from the management of the Company's working capital, from financing expenses and from principal repayments of the Company's bonds. Liquidity risk is the risk that the Company will have difficulties in meeting obligations related to financial liabilities, including compliance with financial covenants (see Note 9E).

The Company's policy is to ensure that the cash and the held deposits will always be sufficient to cover liabilities at their maturity. The foregoing does not take into account the effect of extreme scenarios that cannot be foreseen.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 20 – Financial Instruments: (cont.)

F. Liquidity risk: (cont.)

Below are the contractual maturities of the financial liabilities subsequent to the dates of the statements of financial position (according to stated payment values that differ from their value in the books), based, where relevant, on the exchange rates at the dates of the statements of financial position:

As of December 31, 2019	Up to			More than	Total
	1 year	2-3 years	4-5 years	5 years	
Other accounts payable*	8,958	-	-	-	8,958
Bonds (Series A and B)	143,096	224,085	193,127	845,756	1,406,064
Total	152,054	224,085	193,127	845,756	1,415,022

As of December 31, 2018	Up to			More than	Total
	1 year	2-3 years	4-5 years	5 years	
Other accounts payable*	7,257	-	-	-	7,257
Bonds (Series A and B)	155,908	267,627	197,220	941,216	1,561,971
Total	163,165	267,627	197,220	941,216	1,569,228

* Interest payable on the bonds that is recorded in the statements of financial position under the "other accounts payable" item is included in this table in the bonds item.

Note 21 – Interested and Related Parties

Regarding Delek Drilling's holdings in the Company's shares and the voting rights by virtue thereof, see also Notes 13B and 13D above.

Yossi Abu, CEO of the general partner in Delek Drilling, served as a Company director until March 6, 2019, and as Chairman of the Board until January 17, 2019.

Regarding the issue of shares to Noble, following which Noble became an interested party in the Company, in the period from March 2018 until October 2018, at which time these shares were sold by Noble, see Note 4B.

To the best of the Company's knowledge, as of the date of approval of the statements of financial position, there is no entity or group of holders of shares of the Company that meets the definition of a controlling party.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 21 – Interested and Related Parties (cont.)

A. Transactions and balances with interested and related parties:

Transactions:	Year ended December 31		
	2019	2018	2017
Remuneration and salary of an interested party employed by the Company, see B below	499	477	202
Remuneration of directors not employed by the Company	369	326	174
Number of people to whom the benefit is applicable	8	7	7
Revenues from the sale of natural gas (1)	7,360	7,084	3,907
Royalties to interested parties (see Notes 11H2 and 15)	13,711	11,624	4,918
Gas supply expenses from the Yam Tethys project (see Note 6H)	268	1,307	108
Interest expenses to an interested party (2)	-	-	106

- (1) Including mainly revenues from the sale of natural gas to Delek Sorek, to Delek Israel and to the Yam Tethys partners (2018 – including also sales to NBL in the period when it was an interested party in the Company) – see Notes 11A, 11B and 11E.
- (2) Regarding a short-term loan received from Delek Drilling – see Note 4A(3).

In July 2017, the Company decided to grant letters of exemption and indemnity to officers in the Company in accordance with the provisions of the Companies Law, the Company's articles and the Company's compensation policy.

Regarding a transaction for the acquisition of rights in the Tamar and Dalit leases from Delek Drilling – see Note 4A.

Regarding a transaction for the acquisition of rights in the Tamar and Dalit leases from Noble – see Note 4B.

Regarding an agreement for the grant of usage rights in the Yam Tethys project facilities between the Yam Tethys partners, of the one part, including, inter alia, Noble, Delek Drilling and Delek Group, and the Tamar partners, of the other part, including, inter alia, the Company, Noble and Delek Drilling, see Note 6H.

Balances with interested and related parties:

	December 31	
	2019	2018
Trade receivables	836	575
Other long-term assets	345	614
Other accounts payable	1,051	537
Highest receivable during the year	583	11,997

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)

Note 21 – Interested and Related Parties (cont.)

B. Terms of employment of the Company's CEO:

On June 25, 2017, the Board of Directors approved the appointment of Mr. Liami Vaisman ("Mr. Vaisman") as the Company's CEO. According to the employment agreement, Mr. Vaisman's monthly salary is NIS 80 thousand, gross (100%) (the monthly salary is updated every three months according to the CPI). Mr. Vaisman is entitled to the standard fringe benefits on the market for executives, all in accordance with the Company's compensation policy. The Company may grant Mr. Vaisman an annual bonus every calendar year during the term of the employment agreement, subject to the provisions of the Company's compensation policy and the Companies Law. Furthermore, the Company may grant Mr. Vaisman a one-time bonus as well as equity-based compensation according to the provisions of the Company's compensation policy. In the event of termination of his employment, Mr. Vaisman will be entitled to an adjustment bonus and a retirement bonus, according to the Company's compensation policy.

Regarding 112,770 options exercisable into shares of the Company which were granted to Mr. Vaisman, see Note 13E.

On March 17, 2019, the Company's compensation committee approved, and on March 19, 2019, the Company's board of directors approved the grant of a bonus of \$129 thousand to Mr. Vaisman for 2018.

C. Terms of employment of the Chairman of the Board

On September 2, 2019, the Board of Directors approved the appointment of Mr. Eitan Meir as a Company director, and it likewise approved, after receiving the approval of the Compensation Committee, granting him the same terms of service and employment as those of the Company's other directors.

Additionally, the Board of Directors approved the appointment of Mr. Meir as active Chairman of the Board effective from January 1, 2020, following the approval of the Compensation Committee and subject to the approval of the general meeting of the Company, and the Company signed an agreement with him regarding the terms of his service as active Chairman of the Board (the "**Management Agreement**"), the principles of which are as follows: Mr. Meir will render the Company management services as active Chairman of the Board on basis of a 50% position in consideration of a monthly management fee of NIS 50,000 plus statutory VAT (the "**Management Fee**"). Mr. Meir will be entitled to reimbursement of car expenses in a monthly amount of NIS 6,500. Mr. Meir will also be entitled to reimbursement of reasonable expenses incurred by him in the fulfillment of his duties as Chairman of the Board in accordance with the Company's policy from time to time. Mr. Meir will be entitled to an annual cash bonus of up to six months of management fees, to be determined based on targets and weights set by the Compensation Committee and the Board of Directors in accordance with the Company's compensation policy. Mr. Meir will be entitled to a letter of indemnity and a letter of exemption from liability in the Company's customary wording and to be included in the Company's directors and officers insurance policy. The Management Agreement commences on January 1, 2020 and will remain in force as long as Mr. Meir serves as a Company director. Each party may terminate the Management Agreement by prior written notice of two months. Notwithstanding the foregoing, the Management Agreement provides that the Company may terminate the Management Agreement with immediate effect under certain circumstances, such as an offense involving moral turpitude, breach of a fiduciary duty towards the Company and so forth. Throughout the term of the Management Agreement Mr. Meir will not be entitled to compensation for attendance at Board meetings or to annual compensation for his service as a Company director.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2019 (U.S. dollars in thousands)**

Note 21 – Interested and Related Parties (cont.)**C. Terms of employment of the Chairman of the Board** (cont.)

On November 7, 2019, the general meeting of the Company approved the reappointment of Mr. Meir as a Company director for the period ending at the end of the next annual meeting of the Company, as well as the terms of his service as a Company director and as active Chairman of the Board as aforesaid.

Note 22 – Events after the Date of the Statement of Financial Position:

- A. For details about the court's decision to summarily dismiss an application under Section 198A of the Companies Law for the disclosure and inspection of documents in connection with the ROI date, see Note 11J(2).
- B. For details about the filing of a class action and a motion for class certification against Delek Drilling and Noble, to which the Company was joined as a respondent party against whom no relief is sought, regarding the exploitation of the monopolistic power of Delek and Noble and the exercise of their right of veto, including in connection with the amendment of the IEC Agreement, see Note 11J(5).
- C. For details about the coronavirus pandemic and its spread during the first quarter of 2020, see Note 1E.
- D. For details about the Series A and B bond repurchase program, see Note 9G.



March 29, 2020

To
Board of Directors of Tamar Petroleum Ltd.
(the "Company")
11 Galgalei Haplada St.
Herzliya Pituah 4672211

Dear Sirs/Mesdames,

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

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

1. Independent auditor's report dated March 29, 2020 on the Company's financial statements as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019.

**Kost Forer Gabbay & Kasierer
CPA (Isr.)**



Tamar Petroleum Ltd.

Chapter D

**Additional Details regarding the
Company**

Tamar Petroleum Ltd.

Chapter D

Additional Information on the Company

For the Year Ended December 31, 2019

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

Name of Corporation: Tamar Petroleum Ltd.
Corporation No. in the Companies Register: 515334662
Address: 11 Galgalei Haplada St., Herzliya Pituach 4672211
Telephone: 074-7044779
Fax: 074-7044762
Balance sheet date: December 31, 2019
Report date: March 29, 2020

Regulation 8B: **Very Material Valuation**

Attached to this report is a study on impairment testing of an oil and gas asset as of December 31, 2019, which constitutes a very material valuation (as the term is defined in Section 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970) (hereinafter: "the study") (see more details in Note 2E to the financial statements).

Below are details of the study:

Identification of valuation subject:	Impairment testing of an oil and gas asset
Valuation date:	December 31, 2019
Value of valuation subject immediately before the valuation date, had the generally accepted accounting principles, including depreciation and amortization, not made it necessary to change its value in accordance with the valuation:	N/A
Value of the valuation subject determined according to the valuation:	Not less than US\$ 1,150 million.
Identification of the appraiser and his characteristics, including education, experience in performing accounting valuations in reporting corporations, for amounts similar to or greater than those of the reported valuation, and the customer's dependence on the valuation, referring also to indemnification agreements with the appraiser:	The study was performed by GSE Economic Consulting Ltd. ("the appraising company"), which is a subsidiary of Giza Singer Even Ltd. The study was carried out by a team headed by Eitan Cohen, CPA. For details about the experience of the appraising company and the team that carried out the study, see Section 1.3 of the study. The appraising company has no personal interest in and/or dependence on the Company, other than the fact that it received a fee for the impairment testing, which does not depend on the results of the study. For details about the indemnity undertaking, see Section 1.1 of the valuation.

Valuation model used by the appraiser:	The lower limit of the recoverable amount of an oil and gas asset as of December 31, 2019 is estimated by discounting the expected cash flows from the asset (value in use), the forecast cash flows and the discount rate being based on conservative assumptions. As additional support, the market approach was tested based on the aggregate market value of the Company's securities.
Assumptions used by the appraiser for the valuation, according to the valuation model:	<p>The income approach (value in use):</p> <ul style="list-style-type: none"> • Conservative forecast of cash flows – a 20% reduction in the annual rate of production of natural gas and condensate, and a 10% reduction in prices, compared to the Company's forecasts as included in the report on reserves and discounted cash flows at the Tamar lease, published by it on January 8, 2020 (TASE reference: 2020-01-003469). • Discount rate on the operating cash flow after tax – 8.2%. <p>Market approach: Based on the aggregate value of the Company's shares and bonds (Series A and Series B) plus other equity balances.</p> <p>See more details in Section 5.1.1 of the valuation.</p>

Regulation 9B:

Exemption from Attachment of Independent Auditor's Report on the Effectiveness of Internal Control

In accordance with Regulation 9B(c1) of the Securities Regulations (Immediate and Periodic Reports), 1970, the obligation to attach an opinion of the Company's independent auditor on the effectiveness of the internal control over financial reporting and on significant weaknesses identified by him in said control does not apply to the Company, since it meets the conditions of said Regulation 9B(c1).

Regulation 9D:

Schedule of Liabilities by Maturity Dates

Simultaneously with the issue of this Periodic Report, the Company issues an immediate report on the schedule of its liabilities by maturity dates as an integral part of the Periodic Report.

Regulation 10A: Condensed Quarterly Statements of Comprehensive Income (Loss) of the Company for each quarter in 2019 and for 2019 as a whole (US\$ in thousands)

	1-3/19	4-6/19	7-9/19	10-12/19	2019
Revenues from sale of natural gas and condensate	88,811	81,241	92,407	87,478	349,937
Less - royalties	(14,135)	(12,532)	(14,930)	(16,256)	(57,853)
Net revenues	74,676	68,709	77,477	71,222	292,084
Cost of production of natural gas and condensate	(7,639)	(7,815)	(6,586)	(6,410)	(28,450)
Depreciation, depletion and amortization expenses	(12,415)	(11,555)	(13,238)	(12,829)	(50,037)
General and administrative expenses	(983)	(783)	(675)	(766)	(3,207)
Operating income	53,639	48,556	56,978	51,217	210,390
Finance expenses	(15,397)	(15,239)	(15,152)	(14,359)	(60,147)
Finance income	977	740	891	671	3,279
Finance expenses, net	(14,420)	(14,499)	(14,261)	(13,688)	(56,868)
Income before income taxes	39,219	34,057	42,717	37,529	153,522
Income taxes	(6,498)	(5,840)	(7,596)	(7,937)	(27,871)
Total comprehensive income	32,721	28,217	35,121	29,592	125,651

Regulation 21: Compensation to Interested Parties and Senior Officers¹

- (a) The following table provides details of the compensation paid in the reporting year, as recognized in the financial statements for 2019, as well as compensation paid after the reporting year, which was not recognized in the financial statements for the reporting year, to the Company's senior officers in connection with their service at the Company in the reporting year, and of the compensation paid in 2019 to interested parties in the Company in connection with services provided by them as officers of the Company (US\$ in thousands):

¹See more details on the terms of tenure and employment of senior officers and interested parties in the Company in Section (b) below.

Senior officers in the Company															
Details of compensation recipients				Compensation for services								Other compensation			
Name	Position	Scope of position	Equity rights in the Corporation	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rental fees	Other	Total	
Liami Vaisman	CEO	100%	-	379	- ²	55	-	-	-	-	-	-	-	434	
Yuval Raikin	CFO	100%	-	265	- ³	28	-	-	-	-	-	-	-	293	
Efrat Hozeh-Azrad	General Counsel, VP	100%	-	231	- ⁴	19	-	-	-	-	-	-	-	250	
Yaniv Marig	Director of Geology and Environment	100%	-	130	-	-	-	-	-	-	-	-	-	130	
Bar Zagury	Controller	100%	-	103	-	-	-	-	-	-	-	-	-	103	

Interested parties in the Company															
Details of compensation recipients				Compensation for services								Other compensation			
Name	Position	Scope of position	Equity rights in the Corporation	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rental fees	Other	Total	
Directors ⁵	-	-	-	369	-	-	-	-	-	-	-	-	-	369	

²Excluding a sum of US\$ 65 thousand which was recognized in the financial statements for 2019 and paid for 2018.

³Excluding a sum of US\$ 42 thousand which was recognized in the financial statements for 2019 and paid for 2018.

⁴Excluding a sum of US\$ 35 thousand which was recognized in the financial statements for 2019 and paid for 2018.

⁵Regarding the tenure of directors in the Company, see information in Regulation 26 below.

(b) Following are details of the tenure and service terms of senior officers in the Company:

(1) **Compensation policy**

Regarding the Company's compensation policy for senior officers as adopted by the Company prior to the issue of the Prospectus, and as amended from time to time and currently in force ("**the compensation policy**"), see Section 8.2 of the Prospectus and Section 3.2 of amended immediate report of March 6, 2018 on an extraordinary private placement and on the convening of a special general meeting (TASE reference: 2018-01-018000),⁶ both included herein by reference.

On March 15, 2020 and on March 18, 2020, the Compensation Committee and the Board of Directors resolved, respectively, subject to approval of the general meeting, to amend the cap on the annual premium for the regular directors and officers insurance policy, from two hundred and fifty (250) thousand US dollars to three hundred and fifty (350) thousand US dollars, in light of the Company's assessment that upon the renewal of said policy in June 2020, it will apparently be required to pay a significantly higher premium than the current premium, *inter alia* in light of changes which, to the best of the Company's knowledge, have recently occurred in the market of insurance for officers of public companies.

(2) **Liami Vaisman**

Following is a description of the employment agreement of the Company's CEO, Mr. Liami Vaisman:

Effective from June 25, 2017, Mr. Vaisman has been serving as the Company's CEO based on an employment agreement signed on June 22, 2017 (in this section: "**the employment agreement**"). Under the employment agreement, Mr. Vaisman is entitled to a gross monthly salary of NIS 80 thousand on a full time basis (100%) (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Mr. Vaisman is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Vaisman is also entitled to related benefits such as: a company car at a level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors and officers liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with his functions, as customary in the Company. Mr. Vaisman is also entitled to full reimbursement of reasonable business expenses incurred in performing his duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Mr. Vaisman throughout his service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the CEO an adjustment and/or retirement bonus in the amount of three gross monthly salaries in keeping with the Company's compensation

⁶Said amendment was approved by the general meeting on March 8, 2018.

policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

The employment agreement was approved on July 2, 2017 by the Board of Directors, based on the Company's compensation policy as mentioned in Subsection (1) above.

On March 27, 2018, the Company allocated to the CEO 95,855 unlisted warrants at terms as detailed in Note 13E to the financial statements.

(3) Yuval Raikin

Following is a description of the employment agreement of the Company's CFO, Mr. Yuval Raikin:

Effective from July 1, 2017, Mr. Raikin has been serving as the Company's CFO based on an employment agreement signed on June 18, 2017 (in this section: "**the employment agreement**"). Under the employment agreement, Mr. Raikin is entitled to a gross monthly salary of NIS 52.5 thousand on a full time basis (100%) (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Mr. Raikin is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Raikin is also entitled to related benefits such as: a company car at a level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors and officers liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with his functions, as customary in the Company. Mr. Raikin is also entitled to full reimbursement of reasonable business expenses incurred in performing his duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Mr. Raikin throughout his service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the CFO an adjustment and/or retirement bonus in keeping with the Company's compensation policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

The employment agreement was approved on July 2, 2017 by the Board of Directors, based on the Company's compensation policy as mentioned in Subsection (1) above.

On March 27, 2018, the Company allocated to the CFO 56,385 unlisted warrants at terms as detailed in Note 13E to the financial statements.

(4) Efrat Hozeh-Azrad

Following is a description of the employment agreement of Ms. Efrat Hozeh-Azrad, General Counsel and VP of the Company:

Effective from September 1, 2017, Ms. Hozeh-Azrad has been serving as the Company's General Counsel based on an employment agreement signed on September 1, 2017 (in this section: "**the employment agreement**"). Under the employment agreement, until February 28, 2018, Ms. Hozeh-Azrad's gross monthly salary amounted to NIS 43 thousand, and starting from March 1, 2019 it amounts to NIS 46 thousand, on a full time basis (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Ms. Hozeh-Azrad is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Ms. Hozeh-Azrad is also entitled to related benefits such as: a company car at a level commensurate with her position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors and officers liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with her functions, as customary in the Company. Ms. Hozeh-Azrad is also entitled to full reimbursement of reasonable business expenses incurred in performing her duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Ms. Hozeh-Azrad throughout her service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the General Counsel an adjustment and/or retirement bonus in keeping with the Company's compensation policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

On August 15, 2017 and August 17, 2017, the Compensation Committee and the Board of Directors respectively approved the employment agreement, in keeping with the Company's compensation policy as mentioned in Subsection (1) above. On January 28, 2018, the Compensation Committee and the Board of Directors reaffirmed the General Counsel's employment terms and decided to increase her position to 100% effective from January 1, 2018 at the aforesaid terms.

On March 27, 2018, the Company allocated to the General Counsel 39,471 unlisted warrants at terms as detailed in Note 13E to the financial statements.

(5) Yaniv Marig

Following is a description of the employment agreement of Mr. Yaniv Marig, Director of Geology and Environment:

Effective from January 1, 2019, Mr. Marig has been serving as Director of Geology and Environment based on an employment agreement signed on December 2, 2018 (in this section: "**the employment agreement**"). Under the employment agreement, Mr. Marig is entitled to a gross monthly salary of NIS 26.5 thousand on a full time basis (100%) (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on January 1, 2019). According to the employment agreement, Mr. Marig is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Marig is also entitled to related benefits such as: a company car at a

level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors and officers liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with his functions, as customary in the Company. Mr. Marig is also entitled to full reimbursement of reasonable business expenses incurred in performing his duties (subsistence), including foreign business travel and stay. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of three months from the date of termination of employment.

The employment agreement was approved on November 15, 2018 by the Compensation Committee and the Board of Directors, based on the compensation policy as mentioned in Subsection (1) above.

(6) Bar Zagury

Following is a description of the employment agreement of the Company's Controller, Mr. Bar Zagury:

Effective from April 1, 2019, Mr. Zagury has been serving as Controller⁷ based on an employment agreement signed on November 1, 2018 (in this section: "**the employment agreement**"). Under the employment agreement, until August 31, 2019, Mr. Zagury's gross monthly salary amounted to NIS 20 thousand, and starting from September 1, 2019 it amounts to NIS 22 thousand, on a full time basis (100%) (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on December 1, 2018). According to the employment agreement, Mr. Zagury is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Zagury is also entitled to related benefits such as: a company car at a level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; and additional related benefits associated with his functions, as customary in the Company. Mr. Zagury is also entitled to full reimbursement of subsistence expenses incurred in performing his duties, as customary in the Company. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of three months from the date of termination of employment.

(6) Directors

The directors are entitled to receive fees based on the amounts stipulated in Grade E in the Second and Third Schedules to the Israeli Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

⁷Between December 1, 2018 and March 31, 2019, Mr. Zagury provided services on a regular basis to the Company's Finance Department.

For details about the management agreement the Company signed with Mr. Eitan Meir, Chairman of the Board of Directors serving since January 1, 2020, see Section 3.3 of amended immediate report of October 29, 2019 on the convening of a general meeting (TASE reference: 2019-01-105832), included herein by reference.

The management agreement was approved by the Compensation Committee and the Board of Directors in their meetings on September 2, 2019 and on September 23, 2019, and by the general meeting on November 7, 2019.

Regulation 21A: **The Controlling Shareholder in the Company**

As of the Report publication date, the Company does not have a controlling shareholder.

Regulation 24: **Holdings of Interested Parties and Senior Officers**

See details of the holdings of interested parties and senior officers in the Company as of December 31, 2019 in immediate report issued by the Company on January 7, 2020 (TASE reference: 2020-01-002818), included herein by reference.

Regulation 24A: **Authorized Share Capital, Issued Share Capital and Convertible Securities**

Authorized and issued share capital

Class of shares	No. of authorized shares	No. of issued and paid-up shares at par value	
		Shares conferring voting rights	Shares not conferring voting rights ⁸
Shares of NIS 0.1 par value each	200,000,000	79,115,045	9,380,531

Convertible securities

Class of security	Number of allocated securities
Unlisted warrants	208,626

Regulation 24B: **Register of the Company's Shareholders**

Name of holder	Number of shares held
Israel Discount Bank Nominee Company Ltd.	88,495,576
Total	88,495,576

Regulation 25A: **Registered Domicile**

Address: 11 Galgalei Haplada St., Herzliya Pituach 4672211
Tel.: 074-7044779
Fax: 074-7044762
Email: office@tamarpetroleum.co.il

⁸The above shares do not confer voting rights as long as they are held by Delek Drilling. Once they are sold by Delek Drilling, they will confer the entire voting rights attached thereto.

Regulation 26: The Company's Directors

Name:	Eitan Meir	Ran Efrati	Sigalia Hefetz	Nehama Ronen
Position in the Company:	Chairman of the Board	Director ⁹	Director	Director
ID no.:	050910926	028056919	057248528	057238479
Date of birth:	November 10, 1951	September 26, 1970	August 15, 1961	September 15, 1961
Domicile for service of judicial documents:	12/2 Pinsker St., Tel Aviv 6342102	45 Snir St., Nehalim 4995000	12 Hatzedef St., Tel-Aviv 6803434	37 Harishonim St., Beit Herut 40291
Nationality:	Israeli	Israeli	Israeli	Israeli
Membership on the Board's Committees:	No	No	Balance Sheet Committee	Audit Committee
Independent director:¹⁰	No	Yes	Yes	Yes
External director:	No	No	No	No
1) If so, does he possess accounting and financial expertise or is he professionally competent:	-	-	-	-
2) If so, is he an expert external director:¹¹	-	-	-	-
Is the director employed by the Company, a subsidiary, a related company or an interested party:	No. Serves as active Chairman of the Board.	No	No	No
Date of beginning tenure:	January 1, 2020 ¹²	June 25, 2017	June 25, 2017	June 25, 2017
Education:	BA in Middle Eastern history from Haifa University, and MA in political science – national security program from Haifa University	LL.B from the Hebrew University of Jerusalem, and LL.M from the joint program of the Hebrew University of Jerusalem and Georgetown University; attorney	BA in economics and BA in accounting from Tel Aviv University	BA in education and history from Tel Aviv University and Beit Berl, MA in public policy and public administration from the University of Haifa, and graduate of the London Business School executive program

⁹Served as Chairman of the Board from January 17, 2019 until December 31, 2019.

¹⁰As this term is defined in Section 1 of the Companies Law, 1999.

¹¹As this term is defined in Regulation 1 of the Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

¹²Has served as a Director in the Company since September 2, 2019.

Name:	Eitan Meir	Ran Efrati	Sigalia Hefetz	Nehama Ronen
Occupations in the last five years:	CEO of Dalia Power Energies Ltd.	General counsel and head of investor relations at the store chain Rami Levy Hashikma Marketing 2006 Ltd. and CEO of Rami Levy Hashikma Marketing Communications Ltd.,	Director in Hadera Paper Mills and Beit Shemesh Engines; business consulting and development	Chairman of the Board of Maman Cargo Terminals & Handling Ltd. and ELA, Israel's Recycling Corporation; consulting director at Amal Nursing Care; director in Bank Hapoalim, SHL Telemedicine Ltd. and ADO Group Ltd.; consultant for environmental projects
Corporations in which he/she serves as director (other than the Company):	None	Chairman of the Board of Cofix Group Ltd.	Mashav Initiating and Development Ltd. (private company), Nesher Israel Cement Enterprises Ltd. (private company), Clal Industries Ltd. (private company), Clal Biotechnology Industries Ltd., Golf & Co. Group, Maman Cargo Terminals & Handling Ltd.	Chairman of the Board of Maman Cargo Terminals & Handling Ltd.; consulting director at Amal Nursing Care
Is the director a family relation of another interested party in the Company:	No	No	No	No
Is the director viewed by the Company as possessing accounting and financial expertise for compliance with the minimum number decided by the Board according to Section 92(a)(12) of the Companies Law?	No	Yes	Yes	No

Name:	Giora Inbar	Avi Eini	Alon Cohen
Position in the Company:	External Director	Director	External director
ID no.:	053442505	70879457	004055364
Date of birth:	December 19, 1955	September 27, 1947	June 11, 1946
Domicile for service of judicial documents:	9 Harav Nissim St., Tel Aviv	17 Hamaapilim St., Jerusalem	9 Mazeh St., Tel-Aviv
Nationality:	Israeli	Israeli	Israeli
Membership on the Board's Committees:	Balance Sheet Committee, Compensation Committee, Audit Committee	Compensation Committee	Balance Sheet Committee, Compensation Committee, Audit Committee
Independent director:¹³	No	Yes	No
External director:	Yes	No	Yes
1) If so, does he possess accounting and financial expertise or is he professionally competent:	Possesses accounting and financial expertise	-	Possesses accounting and financial expertise
2) If so, is he an expert external director:¹⁴	No	-	No
Is the director employed by the Company, a subsidiary, a related company or an interested party:	No	No	No
Date of beginning tenure:	June 25, 2017	June 25, 2017	September 10, 2017
Education:	BA in geography and Land of Israel studies, MBA from the University of Haifa, and MA in social science from the University of Haifa, USA War College graduate, graduate of directors' course at the Israel Management Center	LL.B from the Academic Center of Law and Business; attorney; graduate of senior business administration course	BA in social science – economics and political science from the Hebrew University of Jerusalem
Occupations in the last five years:	External director in IDB Development Corporation Ltd., Schnapp Industries Ltd., Aran Dolomit and Golf. Chairman of IDB Tourism. CEO and owner of Ofakei Danish Ltd., Chairman of the Friends of the Emek Hospital (Afula);	Management and financial consulting services to Polipa Beit Shemesh Ltd., independent director in Tadiran Group Ltd.	CEO and chairman of Alon Cohen Economic Consulting Ltd., chairman of Gan Shmuel Foods Ltd., chairman of Ganir (1992) Ltd., chairman of Oxygen & Argon Industries Group Ltd., chairman of Gas Technologies Ltd., chairman of Oxygen Center Ltd., chairman of Gases

¹³As this term is defined in Section 1 of the Companies Law, 1999.

¹⁴As this term is defined in Regulation 1 of the Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

Name:	Giora Inbar	Avi Eini	Alon Cohen
	Chairman of the National Initiative Association		& Liquids Ltd., chairman of Oxygen Warehouses (Trade) Ltd., chairman of S.L.G. Ltd., chairman of Jerusalem Oxygen Center Ltd., director of Industrial Buildings Corp. Ltd., chairman and CEO of SMYC Assets Ltd., independent director and member of balance sheet committee of Jerusalem Economic Corp. Ltd., receiver and liquidator of Kika (in Liquidation and Receivership) Ltd., external director and chairman of the audit committee and balance sheet committee and member of the compensation committee of Fox Wizel Ltd.
Corporations in which he/she serves as director (other than the Company):	External director of Dolomite Holdings Ltd., Aran Research & Development (1982) Ltd., Golf & Co. Group Ltd., IDB Development Corporation Ltd. and Schnapp Industries Ltd.	Tadiran Group Ltd.	External director and chairman of the audit and balance sheet committees and member of the compensation committee of Fox Wizel Ltd., director and member of the balance sheet committee of Jerusalem Economic Corp. Ltd., chairman of SMYC Assets Ltd., receiver and liquidator and effectively director of Kika (in Liquidation and Receivership) Ltd., chairman of Alon Cohen Economic Consulting Ltd.
Is the director a family relation of another interested party in the Company:	No	No	No
Is the director viewed by the Company as possessing accounting and financial expertise for compliance with the minimum number decided by the Board according to Section 92(a)(12) of the Companies Law?	Yes	Yes	Yes

Regulation 26A: The Company's Senior Officers

Name	Liami Vaisman	Yuval Raikin	Efrat Hozeh-Azrad
Position in the Company:	CEO	CFO	General Counsel and VP
ID no.:	038620613	023928266	027234855
Date of birth:	March 10, 1976	September 13, 1968	July 28, 1974
Date of beginning tenure:	June 25, 2017	July 1, 2017	September 1, 2017
Holds any positions in a subsidiary, a related company or an interested party?	No	No	No
Is an interested party in the Company?	Yes, as CEO	No	No
Is a family relation of another senior officer or interested party in the Company?	No	No	No
Education:	CPA, BA and MBA in business administration from the College of Management, Rishon LeZion	CPA, BA in economics and accounting from Bar-Ilan University	LL.B. (business division) and MBA from Bar-Ilan University; attorney
Experience in the last five years:	Partner and head of Project Finance at Giza Singer Even, Ltd	CFO of Alon Natural Gas Exploration Ltd. and corporations under its control, Deputy CFO at Alon Israel Oil Company Ltd., director at Israel Canada Highway Management Ltd. and its subsidiaries and a director of Tamar 10 Inch Ltd.	Partner at Agmon & Co. Rosenberg Hacohen & Co. law firm

Name	Yaniv Marig	Bar Zagury	Alon Amit
Position in the Company:	Director of Geology and Environment	Controller	Internal Auditor
ID no.:	037350741	300028099	025670647
Date of birth:	February 4, 1980	August 20, 1986	August 5, 1973
Date of beginning tenure:	January 1, 2019	April 1, 2019	October 1, 2017
Holds any positions in a subsidiary, a related company or an interested party?	No	No	No
Is an interested party in the Company?	No	No	No
Is a family relation of another senior officer or interested party in the Company?	No	No	No

Name	Yaniv Marig	Bar Zagury	Alon Amit
Education:	BSc and MSc in geology and environmental science from Ben Gurion University	CPA, BA in economics and accounting from Ben Gurion University	MA in internal and public audit from Bar-Ilan University, BA in political science and communications from Bar-Ilan University; CISA, CIA; graduate of a course on quality assurance in internal auditing held in conjunction with the international IIA, the Institute of Certified Public Accountants in Israel, and the IIA – Israel – Institute of Internal Auditors in Israel; accredited internal audit quality assurance reviewer (QAR).
Experience in the last five years:	Geologist at Delek Drilling	Controller at Israel Natural Gas Lines; audit manager at Kost Forer Gabbay & Kasierer, CPA	Head of Internal Audit Department at Raveh –Ravid & Co.

Regulation 26B:**Independent Signatories**

As of December 31, 2019 and as of the Report approval date, the Company has no independent signatories.

Regulation 27:**The Company's Auditors**

Kost Forer Gabbay & Kasierer (EY), CPA, of 144 Menachem Begin Road, Tel-Aviv.

Regulation 28:**Changes in the Company's Articles of Association**

See details of changes in the Company's articles of association in immediate report of November 10, 2019 (TASE reference: 2019-01-109471), included herein by reference.

Regulation 29:**Directors' Recommendations and Resolutions****Regulation 29(a)(1):****Distributions, as defined in the Companies Law**

See details of the Company's Board's resolutions of April 7, 2019 and October 10, 2019 to distribute a dividend in Section 4.4 in Chapter A of this Report.

Regulation 29(a)(6):**Non-arm's length transaction**

See details on agreement for the allocation of the available capacity in the transmission system from Israel to Egypt, which was signed between the Tamar partners, the Leviathan partners, and Delek Drilling – Limited Partnership and Noble Energy Mediterranean Ltd., in Section 7.4.5(c) in Chapter A (Description of the Company's Business), included herein by reference.

Regulation 29(c):**Resolutions of special general meeting**

On November 7, 2019, the special meeting of the Company's shareholders passed the following resolutions:

- a. Approving the re-appointment of Eitan Meir as a director in the Company for the period ending at the end of the Company's next annual meeting, and determining that his terms of service and employment as a director and as active Chairman of the Board will be as specified in Section 3.3 of amended immediate report of October 7, 2019 on the convening of a meeting (TASE reference: 2019-01-102136).
- b. Amending Section 86 of the Company's articles of association, such that it is deleted and replaced by the following Section 86:
"86. The number of directors in the Company may not be less than five and not more than seven."

Regulation 29A:**Company's Resolutions****Regulation 29A(1):****Approval of actions pursuant to Section 255 of the Companies Law**

On January 30, 2019 and February 3, 2019, the Audit Committee and the Board of Directors, respectively, approved a report re interim calculation of the return on investment date, in connection with the payment of overriding royalties to the Delek Group Ltd. and to Delek Energy Systems Ltd./Delek Royalties (2012) Ltd., in light of the service of Mr. Yossi Abu, the Chairman of the Board at the time, as CEO of Delek

Energy Systems Ltd. See more details in Section 7.19.2 in Chapter A of the Periodic Report.

Regulation
29A(4):

Quittance, Insurance or Liability for Indemnity Granted to Officers

- (a) See details of the grant of letters of liability for indemnity and quittance from liability to officers and directors in the Company, as they are and as they will be from time to time, in Section 8.4.2 of the Prospectus, included herein by reference.
- (b) See details of the Company's directors and officers liability insurance policy in Section 8.4.1(a) of the Prospectus, included herein by reference. See also details of changes in said policy in immediate report of January 30, 2018 (TASE reference: 2018-01-008826), included herein by reference. See details regarding the renewal of said policy in immediate report of June 12, 2019 (TASE reference: 2019-01-049992), included herein by reference. See details of the resolutions of the Compensation Committee and the Board of Directors, subject to approval of the general meeting, to approve an increase in the cap on the annual premium for the regular directors and officers insurance policy in Section (b)(1) in Regulation 21 above,
- (c) See details of a public offering of securities insurance (POSI) in connection with the Company's Prospectus in Section 8.4.1(b) of the Prospectus, included herein by reference. See also details of changes in said policy in Section 3.2 of an immediate report of January 30, 2018 on a private placement and on the convening of a meeting of the Company's shareholders (TASE reference: 2018-01-016890), included herein by reference. The above changes were approved by the Company's general meeting on March 8, 2018.

March 29, 2020

Date

Tamar Petroleum Ltd.

Name and position of signatories
Eitan Meir, Chairman of the Board
Liami Vaisman, CEO

Tamar Petroleum Ltd.

Test for Impairment of Oil and Gas Asset as of December 31, 2019

March 2020

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

Giza Singer Even Ltd.

Aviv Tower, Jabotinsky 7, Ramat Gan 5252007 Tel. 03-5213000
www.gse.co.il

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1. Introduction and Limitation of Liability

1.1. General

This paper was prepared by GSE Economic Consulting Ltd. ("GSE") on behalf of Tamar Petroleum Ltd. ("Tamar Petroleum" or the "Company") for the purpose of testing for impairment of the oil and gas assets owned by the Company (the "Asset" or the "Oil and Gas Asset") as part of the application of IAS 36: Impairment of Assets (the "Opinion") as of December 31, 2019 (the "Opinion Date"), at the request of the Company's management.

We are aware that the Opinion is intended for the Company's use, among other things, in preparing its financial statements, and accordingly we agree to have the Opinion mentioned and/or included (including by reference) in any report published by it, in accordance with the Securities Law, 5728-1968 (the "Securities Law") and its regulations, as well as in any shelf prospectus and/or shelf offering published by the Company (including by reference).

In preparing the Opinion we relied on information as detailed in Section 1.2 below. GSE assumes that this information is reliable and does not examine it independently, and consequently the Opinion does not verify the correctness, completeness and accuracy thereof. However, nothing has come to our attention that could indicate that the information is unreasonable.

This Opinion includes a description of the methodology and the main points of the assumptions and the analyses used to determine the recoverable amount of the Oil and Gas Asset. However, it does not purport to describe fully and in detail all the procedures applied by us in formulating the Opinion.

This Opinion does not constitute and is not a substitute for due diligence. Furthermore, **the Opinion is not intended to determine the value of the Asset** for a specific investor and does not constitute advice or a legal opinion.

The Opinion does not include an accounting audit with respect to compliance with the accounting principles. GSE is not responsible for manner of the accounting presentation of the Company's financial statements, in terms of accuracy and completeness of the data and the implications of such accounting presentation, should there be any.

If the information and data on which GSE relied are incomplete, inaccurate or unreliable, this could change the results of the Opinion. We reserve the right to revise the Opinion in light of new data that was not presented to us. For the avoidance of doubt, this Opinion is valid solely as of its signing date.

An economic valuation is meant to reflect reasonably and fairly a given situation at a particular time, based on known data and taking into consideration basic assumptions, estimates and forecasts. **It is emphasized that the information detailed in this Opinion as to assumptions relating to quantities, production rate, price forecasts, investments and production costs of natural gas and condensate is forward-looking information within the meaning of the Securities Law, 5728-1968, which is not certain to materialize, wholly or partly, in the stated manner or in any other manner. Said information may materialize in**



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a materially different manner due to various factors, including a change in estimates of quantities and costs, increased competition, regulation, operational malfunctions, etc.

We hereby confirm that we have no personal interest in and/or dependence on the Company, other than the fact that we are receiving a fee for this Opinion. Likewise, we confirm that our fee is not contingent on the results of the Opinion.

GSE and any company controlled by it directly or indirectly and any controlling person, officer and employee of any of them is not liable for any damage, loss, detriment or expense of any kind whatsoever, whether direct or indirect, that may be caused to anyone relying on the contents of this Opinion, wholly or partly, subject to our not having acted willfully or with negligence that is not exempt by law and may not be contracted out of or in bad faith.

The Company will not be entitled to receive from us, by contract or in tort, by law or otherwise, any amount for loss of profits, data or goodwill, or for any consequential, incidental or indirect loss, or as punitive or special damages, in connection with claims arising from services that were provided as part of the Opinion or otherwise related to the services provided by us as part of this Opinion, whether the likelihood of such loss or damage was foreseen or not, subject to our not having acted negligently and/or willfully.

Additionally and without limiting the generality of the foregoing, if we are ordered in a peremptory judgment to pay any amount to a third party in connection with the performance of the services detailed in this Opinion, in a legal or other binding proceeding, the Company undertakes to indemnify us for any amount that will be paid by us in excess of the payable fee multiplied by three, immediately upon our first written demand and in any case no later than 14 days from the date of receipt of a letter of demand by registered mail. Said indemnity undertaking will not apply if it is determined that we acted in the performance of the Opinion in a willful or negligent manner, and it is subject to and in accordance with the letter of engagement dated January 14, 2020.

1.2. Information Sources

The main information sources used in preparing the Opinion are listed below:

- Periodic and quarterly reports of the Company published in 2018 and 2019.
- Draft of the Company's annual report for 2019.
- Report on Reserves and Updated Discounted Cash Flow Figures for the Company's Tamar Lease, published on January 8, 2020.
- Public information published on websites, press reports or other public sources.
- Internal sources and databases of GSE.
- Meetings and/or telephone conversations with role holders in the Company.

1.3. Details of the Appraising Company

GSE Economic Consulting Ltd. is a subsidiary of Giza Singer Even Ltd., a leading financial and investment banking consulting firm in Israel. The firm has extensive experience in consulting to Israel's largest



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companies and in major privatization deals and other important transactions in the Israeli market, accumulated over the twenty-five years of its activity. Giza Singer Even operates in three areas, by means of independent and autonomous business divisions: economic consulting; investment banking; analytical research and corporate governance.

The Opinion was prepared by a team headed by Eitan Cohen, CPA, a partner in Giza Singer Even and head of its Economic Department, with more than ten years' experience in economic and business consulting and in company and financial instrument valuations. He was formerly head of the economic department of an entrepreneurial company in the field of infrastructure as well as head of the economic department at KPMG (Somekh Chaikin). Eitan is a Certified Public Accountant and holds a BA in Economics and Business Administration from Ben Gurion University and an MSc in Financial Mathematics from Bar Ilan University.

Sincerely,

GSE Economic Consulting Ltd.

March 29, 2020

2. Description of the Company

2.1. Background

Tamar Petroleum Ltd. ("Tamar Petroleum" or the "Company") is a public company listed on the Tel Aviv Stock Exchange Ltd. The Company engages in the production of natural gas from the Tamar reservoir in the area of the I/12 Tamar lease (the "Tamar Project" and the "Tamar Lease," respectively) and marketing thereof to various customers, among them the Israel Electric Corporation Ltd. ("IEC"), private electricity producers, industrial customers and natural gas marketing companies. The Company also engages in the sale of condensate produced from the Tamar Project and in the advancement and expansion of the Tamar Project's production system.

As an outcome of government decisions taken as part of the "Framework for Increasing the Quantity of Natural Gas Produced from the Tamar Natural Gas Field and for the Rapid Development of the Leviathan, Karish and Tanin Natural Gas Fields and Other Natural Gas Fields" (the "Framework" or the "Gas Framework"), Delek Drilling¹ – Limited Partnership ("Delek Drilling") and Noble Energy Ltd. ("Noble") are required to dispose of their holdings in the Tamar Lease and in the I/13 Dalit lease (together, the "Holdings" or the "Tamar and Dalit Leases").

Tamar Petroleum carried out two acquisitions of rights in the Tamar and Dalit Leases:

- On July 20, 2017 (effective as of July 1, 2017), Tamar Petroleum acquired from Delek Drilling 9.25% (out of 100%) of the Tamar and Dalit Leases and a pro rata share of the associated rights, obligations and approvals, in consideration of a cash payment of \$845 million (out of which \$650 million was financed by a Series A bond issue and the remaining \$195 million by a public share offering) and the allocation of 19,990,000 ordinary shares of the Company to Delek Drilling.
- On March 14, 2018 (effective as of January 1, 2018), the Company acquired from Noble working interests at a rate of 7.5% (out of 100%) in the Tamar and Dalit Leases and a pro rata share of the associated rights, obligations and approvals, in consideration of a cash payment amounting, after adjustments, to \$475 million (financed by a Series B bond issue), as well as a share payment made via the private placement of 38,495,576 ordinary shares of the Company with Noble, representing 43.5% of the Company's issued share capital after the placement.

¹ The balance of Delek Drilling's direct and indirect holdings in the reservoir (25.785%) will be disposed of by December 17, 2021, 72 months after the Gas Framework came into force (Delek Drilling holds 22% directly and 3.785% indirectly through Tamar Petroleum).



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2.2. The Tamar Project

The Tamar oil asset, consisting of the Tamar and Tamar SW (South West) natural gas fields, is an offshore oil asset located 90 kilometers off the Haifa coast, with an area of 250 square kilometers. The Tamar and Tamar SW gas fields were discovered in 2009 and 2013, respectively. The reservoir is a high-quality reservoir by global standards, containing dry gas consisting 99% of methane, with a high level of porosity and permeability as well as high connectivity between the parts of the reservoir. Piping of natural gas to consumers began on March 31, 2013, with the production capacity standing at 1.1 BCF per day at maximum production.

Below are the estimated quantities of gas and condensate in the Tamar reservoir as of the end of 2019, as published in the Company's reserves report dated January 8, 2020:

Category of Reserves	Total (100%) in the Oil Asset						Total (Tamar and Tamar SW) Amount Attributable to the Holders of the Company's Equity Rights	
	Tamar Reservoir		Tamar SW Reservoir		Total (Tamar + Tamar SW Reservoir)			
	Natural Gas BCF	Condensate Million Barrels	Natural Gas BCF	Condensate Million Barrels	Natural Gas BCF	Condensate Million Barrels	Natural Gas BCF	Condensate Million Barrels
P1 Proved Reserves	6,994.5	9.0	796.4	1.0	7,741.0	10.1	1,063.5	1.4
Probable Reserves	2,871.0	3.7	159.1	0.2	3,030.1	3.9	416.3	0.5
Total P2 Proved + Probable Reserves	9,815.5	12.8	955.6	1.2	10,771.1	14.0	1,479.8	1.9
Possible Reserves	2,366.0	3.1	102.2	0.1	2,468.3	3.2	339.1	0.4
Total P3 Proved + Probable + Possible Reserves	12,181.6	15.8	1,057.8	1.4	13,239.4	17.2	1,818.9	2.4

Below is the structure of holdings in the Tamar Project as of the Opinion Date:

Company	Holding Percentage
Noble Energy Mediterranean Ltd.	25.00%
Isramco Negev 2 – Limited Partnership	28.75%
Delek Drilling – Limited Partnership	22.00%
Tamar Petroleum	16.75%
Dor Gas Exploration – Limited Partnership	4.00%
Everest Infrastructure – Limited Partnership	3.50%



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3. Description of Business Environment

3.1 General

The natural gas sector in Israel began to develop following discoveries of natural gas reservoirs Noa and Mari B in 1999-2000. These discoveries enabled companies in the economy, most notably, the Israel Electricity Corporation (the "IEC"), to shift to more extensive use of natural gas and to reduce the use of polluting and more expensive fuels, such as, coal, diesel fuel and fuel oil. The sector's development was accelerated by the discovery of the Tamar and Leviathan reservoirs in 2009 and 2010, respectively. Such discoveries materially influence the energy independence of Israel as well as the development and expansion of the uses of natural gas in the Israeli economy.

In the wake of the sector's development, the natural gas sector in Israel is undergoing significant changes including regulatory, economic and environmental changes. Within a few years, natural gas has become the central component in the fuels basket for electricity production in the Israeli economy, as well as a significant energy source for industry in Israel. The natural gas resources discovered in Israel can provide for all the gas needs of the domestic market in the coming decades and most of its energy needs, thereby significantly reducing the dependence of the State of Israel on foreign energy sources.

The economic viability of investments in the exploration and development of natural gas reservoirs is greatly influenced by global oil and gas prices, by natural gas demand in the local, regional and global markets, and by the ability to export natural gas, which requires the existence of extensive gas resources and entering into long-term agreements for the sale of natural gas in significant quantities, which would justify the high cost of setting up these infrastructures.

The use of natural gas holds out many benefits for the Israeli economy, including:

- **Reduced energy costs in industry and electricity production** – The low price of natural gas compared to that of currently widespread alternative fuels such as fuel oil and diesel fuel, leads to significant savings in production costs, and in turn, to a decrease in the prices of finished products, whose costs consist mainly of electricity costs. Most of the power plants constructed in recent years in Israel are powered by natural gas turbines and are characterized by low construction costs², shorter construction time, reduced need for land areas³, and many operational advantages. Aside from its relatively low price, natural gas is a more efficient energy source than other fuels, enabling power plants and industrial plants to achieve high energy efficiency, which is ultimately reflected in costs savings⁴. According to Natural Gas Authority estimates⁵, overall savings for the Israeli economy resulting from a shift to natural gas use during 2004-2018 is around NIS 63.7 billion. Most of the savings derive from the electricity sector (NIS 49 billion), with overall electricity consumption in 2018 amounting to 9.1 BCM, which accounts for 83%

² Around half the cost of the coal-fired power station, around a third of the cost of a nuclear power station and around 15% of the cost of a station powered by wind energy.

³ Natural gas is transmitted through a subsea pipeline, and contrary to other fuels, does not require storage areas.

⁴ A combined cycle power plant, that combines a gas turbine and steam turbine, is more efficient, utilizing 55% of the energy. Cogeneration plants that exploit the thermal energy generated in the production process achieve an efficiency level of 80%.

⁵ https://www.gov.il/BlobFolder/reports/energy_sector_2018/he/energy_sector_review_2018.pdf



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of natural gas demand. The remaining savings from a shift to natural gas use is attributed in the main to industrial plants (NIS 14.7 billion), whose overall consumption in 2018 amounted to 2 BCM.

- **Clean energy** – The main substances emitted from the burning of natural gas are carbon dioxide and water vapor. Since coal and oil are more complex fuels, with a higher proportion of carbon and nitrogen- and sulfur-containing compounds, their combustion releases many more pollutants, including ash particles of substances that do not burn, but are found in the atmosphere and add to the air pollution. By contrast, natural gas combustion releases a relatively low amount of pollutants, reducing air pollution and maintaining a cleaner and healthier environment.
- **Energy independence** – Israel's geopolitical characteristics effectively rendered Israel an "energy island," which for years was unable to import fuels from neighboring countries, forcing it to rely on the costly import of fuels from Europe. Israel's energy isolation decreased somewhat during 2008-2012, with the start of the natural gas supply from Egypt; however, the sudden cutting off of this supply demonstrated the importance of developing local energy sources. The development of Israel's natural gas sector provides Israeli industry with long-term energy security, which will reduce its dependence on international energy supply sources.
- **Natural gas as a source of government revenue through taxation** – The Israeli natural gas industry is expected to benefit the local economy directly through government revenues from corporate taxation and from VAT on sales to the end consumer. Moreover, the Israeli economy has several special taxation systems that apply to the natural gas sector, and like all other fuel products, natural gas is also subject to excise tax. In addition, under the Petroleum Law, the state collects royalties at a rate of 12.5% from total natural gas sales at the wellhead. Furthermore, the state will be entitled to oil and gas profit levy receipts under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Levy**" and "**Taxation of Profits Law**," respectively) at a rate of 20%-50% (the maximum rate depends, *inter alia*, on the corporate tax rate) on the revenues of petroleum rights holders, less royalties, operating costs and development costs.

3.2 Customers

The natural gas sector in Israel consists of several customer strata that differ from one another in the nature of activity and natural gas consumption characteristics:

- **Israel Electricity Corporation ("IEC")** – The IEC is a very important anchor customer for the Tamar Project Partners. The IEC is a government company supervised by the Electricity Authority, among other things, in regard to the costs of electricity production inputs, particularly, natural gas costs. In 2018, IEC purchased 4.66 BCM and in 2019 – 4.23 BCM natural gas from the Tamar Partnership. The rate of electricity generated by the IEC using natural gas and liquefied gas was estimated to be 56.5% and 53.1%, in 2018 and 2019, respectively⁶.

⁶ Source: Financial statement of IEC for 2019.



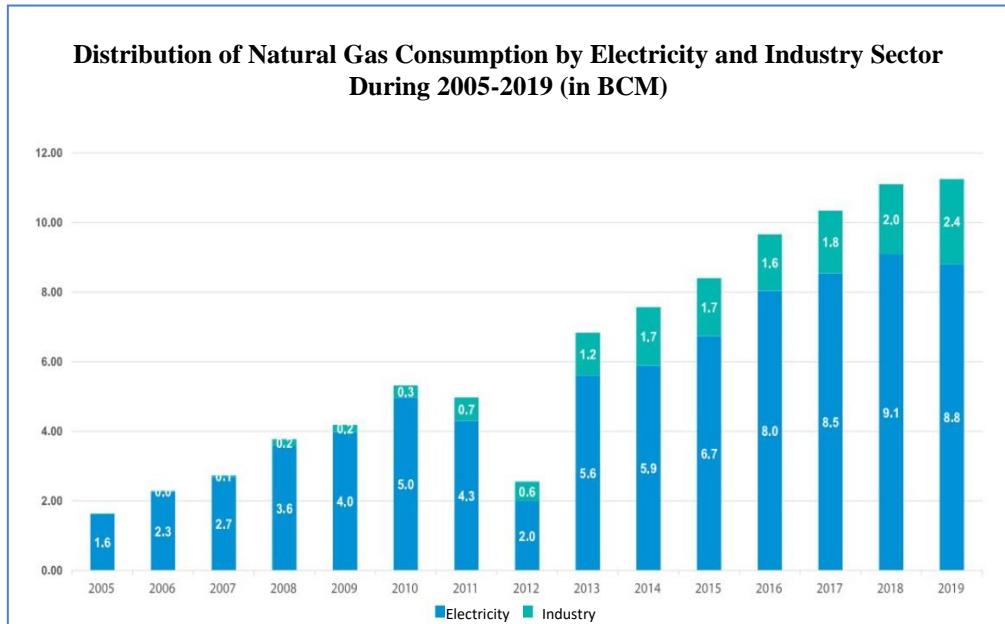
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- **Private electricity producers**—The private electricity producers ("PEP") comprise several types, according to the production technology they use: conventional PEP, cogeneration facilities, pumped storage, renewable energy PEP, and large industrial plants that have built power plants for themselves, and for which they received a license for self-production. Section 93 of the Natural Gas Sector Law defines natural gas sold to a private electricity producer as a price-controlled product under the Control of Prices of Commodities and Services Law, 5756-1996. In 2018, PEP consumption amounted to 4.9 BCM⁷, accounting for 44% of total natural gas consumption in 2018.
- **Large industrial consumers**—This consumer stratum comprises a number of significant consumers, which are essential for the development of the Israeli gas sector. These are consumers with significant power and reputation in the Israeli economy, and with extensive experience and knowledge in Israeli industrial activity, in general, and in Israel's natural gas activity, in particular. Most of the large industrial plants in the economy have signed agreements for the purchase of natural gas in the framework of setting up private power stations on their premises, to provide for their own electricity needs, which accounts for only a part of the power station's production capacity, and for the sale of the electricity produced to outside consumers or to the IEC. Accordingly, also the natural gas purchase agreements signed by most of the large industrial plants, to date, have the characteristics of agreements with private power stations. Total natural gas consumption in the industry sector in 2019 amounted to 2.4 BCM, 20% up from 2018. The major part of this increase is due to the connecting of new consumers to the distribution grid⁸.
- **Medium and small consumers**— The sector of distribution grid consumers, which comprises primarily medium and small industrial plants and businesses such as laundromats and bakeries, is a relatively new sector in the natural gas industry that has started signing purchase and infrastructure conversion agreements only in recent years. These consumers are characterized by low-pressure gas consumption, in relatively small quantities, which is not continuous 24 hours a day. Some of these consumers are still not connected to the overland transmission systems, or to the distribution grid, for which reason they consume condensed natural gas (CNG) – a temporary but not optimal solution, as the cost of consumption can reach twice the cost of natural gas that is transmitted via the distribution system pipeline.

⁷ Source: Ministry of Energy. It should be noted that the classification of customers in the Company's Periodic Report is not identical to the classification in the Energy Ministry's report. Industrial customers that consume gas for electricity production purposes are classified by the Company as private electricity producers, while the Energy Ministry's report classifies them as industrial customers.

⁸ See Footnote 7 above.

Chart 1 – Natural Gas Consumption in Israel, 2005-2019⁹:



3.3 Demand Forecast

Following are the key factors that are expected to drive growth in natural gas demand:

3.3.1 Increased Demand in the Electricity Sector

Recent years have seen a downtrend in the use of oil distillates and coal by the IEC power stations, due to their conversion to production using natural gas. This trend is being led by the Ministry of Energy and government decisions, as set out below:

- In December 2015, the Energy Minister, Dr. Yuval Steinitz, decided on a 15% reduction in the use of coal for electricity production in 2016 compared to 2015. Starting from 2017, there was an additional reduction of 5%, and in all, a 20% reduction compared to the use made in 2015.
- In August 2016, the Energy Minister announced his decision to shut down four IEC coal-fired production units, with the connection of three gas reservoirs to the shore, and the construction of new power stations powered by natural gas within six years. Further thereto, in September 2016, the IEC received emission permits under the Clean Air Law, 5768-2008, with regard to the sites of its coal-fired power stations, mandating continued installation of emission reducing means, and the termination of activity at units 1-4 of the coal-fired power station at the "Orot Rabin" site, no later than June 1, 2022.

⁹ Source: Ministry of Energy <http://online.fliphtml5.com/dldee/idah/>



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- In November 2017, the Energy Minister decided on policy principles regarding minimal operation of coal-fired units, whereby at any time preference will be given to electricity production using natural gas over electricity production using coal, while operating coal-fired units at minimum load, thereby enabling flexible and dependable supply for the economy.
- In March 2018, the Knesset Finance Committee and, subsequently, the Knesset plenum, approved orders providing, inter alia, that as of March 15, 2019, the excise tax on coal would increase by 125%, in view of the government's policy to gross up external costs of fuels and to encourage the expansion of natural gas uses. In addition, it was decided that as of January 1, 2024, the excise tax on CNG would gradually rise, subject to the existence of no fewer than 25 CNG fueling stations, which would receive all the permits required for operation. It was also decided that starting May 1, 2018, excise tax drawback in respect of diesel fuel, used chiefly for transportation needs, would be gradually phased out. On February 20, 2019, the Energy Minister signed an order deferring the scheduled increase in excise tax on coal, from March 2019 to 2021.
- In October 2018, the Energy Minister presented a plan aimed at bringing about a reduction in the use of polluting energy, the principal purpose being to cut down the use of polluting fuel products by 2030. In line with the plan, targets were set in the following sectors:
 - A. Electricity sector – Electricity production using 80% natural gas and 20% renewable energies starting from 2030, and final shutdown of the coal-fired stations in Hadera and Ashkelon in 2028.
 - B. Industry sector – Production of 90% of the energy and steam required for industry, using natural gas, starting from 2030.
 - C. Transportation sector – Gradual shift to electric cars and natural gas trucks, and imposition of an absolute prohibition on the import of cars powered by polluting fuels, starting from 2030.
- In November 2019, the Energy Minister announced that it would be possible to shorten the timetables for converting coal-fired power stations in Hadera and Ashkelon to natural gas by 2025. Consequently, the age of coal in Israel is expected to end that year. This decision shortens the timetables set previously by four years.

3.3.2 The Switch to the Use of Natural Gas in Industry

- Natural gas is a central component in industry's energy consumption (84% of total fuel usage in Israel in 2018). Industrial plants are hooked up to natural gas through transmission and distribution networks, with transmission and distribution fees controlled by the Natural Gas Authority.
- According to the report summarizing the activity of the Ministry of Energy for 2019, to date, 508 km of distribution pipelines have been laid throughout Israel (of which 158 km were laid during 2019), as well as 737 km of transmission pipelines (of which 37 km were laid in 2019). Expansion of the deployment of the natural gas distribution network is likely to enable the connection of hundreds of potential industrial consumers to the network by 2030, whose consumption is expected to amount to 0.72 BCM per year, accounting for 80% of potential light industrial consumption.



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- According to Ministry of Energy assessments, without further policy steps, some 150 consumers are expected to join the distribution grid by 2025, with a total consumption of 0.45 BCM, comprising around half the potential in the hookup of light industry consumers. Additional potential consumption of 0.27 BCM deriving from the connection of another 300 plants, but smaller ones, is expected to materialize following the implementation of further policy steps (such as budgetary support for the deployment of the distribution network, encouragement of consumers to use natural gas, etc.).
- In 2030, natural gas demand in the industry sector is expected to exceed 3 BCM, with 2.25 BCM stemming from natural gas industrial consumption of consumers hooked up to the transmission network and 0.84 BCM from natural gas consumption of consumers linked up to the distribution network.

3.3.3 Export

Recently there has been a perceptible improvement in relations with several neighboring countries, with whom business ties are strategic for the State of Israel, in general, and for gas companies, in particular. Improved relations have led to the signing of agreements for the export of natural gas from Israel to its neighbors, as detailed below:

- The Tamar Partners signed agreements with NBL Eastern Mediterranean Marketing Limited ("NBL") for the export of natural gas to consumers in Jordan. Concurrently, NBL signed an agreement with two Jordanian companies – Arab Potash Company and Jordan Bromine Company – whereby they are to purchase natural gas from NBL to be used in their plants that are located on the eastern bank of the Dead Sea in Jordan. These agreements are for 15-year periods, and the overall quantity of natural gas in these agreements is 3 BCM.
- On September 26, 2016, an agreement was signed between the Leviathan Partners and the Jordanian electricity company NEPCO for the supply of up to 45 BCM of natural gas for a period of 15 years. According to a public report issued by Delek Drilling on December 31, 2019, natural gas started to be piped from the Leviathan reservoir to customers with whom gas agreements were signed, including the Jordanian electricity company.
- On February 19, 2018, Delek Drilling and Noble signed agreements with the Egyptian company Dolphinus, which were assigned on September 26, 2018 to the Tamar Partners and Leviathan Partners. On September 26, 2019, amended export agreements were signed for the export of natural gas from the Tamar reservoir and Leviathan reservoir in quantities of 25.3 BCM and 60 BCM, respectively, for a period of 15 years. On January 15, 2020, the Leviathan Partners reported the start of gas transmission to Egypt.
- On November 6, 2019, a deal was concluded for the acquisition of 39% of the company EMG, which owns a marine pipeline for the transmission of gas between Israel and Egypt, by EMED (a company held by Delek Drilling (25%), Noble Energy (25%) and East Gas (50%)), in which framework, the capacity and operation rights in connection with the EMG pipeline, were transferred to the acquirer (EMED), in order to perform the agreements with Dolphinus as described above.



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According to the forecast of an outside consultant published by Tamar Petroleum, domestic demand for natural gas in 2020 is expected to total 12.9 BCM and increase gradually to 18.9 BCM by 2025. The increase in domestic demand is expected to stem primarily from an addition of 4.7 BCM as a result of the termination of coal use for the production of electricity, from an addition of 1.7 BCM due to natural growth in electricity demand (population growth, improved standard of living, and increased disposable income), and from an addition of 0.7 BCM owing to the connection of small consumers and industrial plants to the natural gas distribution and transmission network. In addition, the export to Egypt and Jordan is expected to increase gradually from 5.9 BCM in 2020 to 7.9 BCM in 2021, 8.9 BCM in 2022, and 10 BCM starting from 2023. According to this forecast, the years 2020-2023 are expected to see average annual surplus supply of 3 BCM, given that the Leviathan reservoir will be in full operation and the Karish reservoir will start to supply gas during 2021. Surplus supply during this period is expected to lead to increasing competition and to a possible decrease in the price of gas sold to the IEC (according to the dates for re-opening prices in the agreement), and in the prices to be set in new agreements. Nevertheless, it should be noted that most of the agreements signed by the Tamar Partners are long-term contracts with take-or-pay mechanisms and a floor price, so that the effect of surplus supply on the quantities and prices of natural gas to be sold from the Tamar reservoir in the coming years is limited.

3.4 Regulatory Environment

The production and sale of natural gas from reservoirs in the territorial and economic waters of the State of Israel are subject to regulatory restrictions on the quantity of gas produced, on the export of gas out of Israel and on gas prices. Additionally, the production and sale of natural gas from the Tamar, Leviathan, Karish and Tanin reservoirs and/or other reservoir are subject to additional regulatory restrictions, as follows:

- **Royalties to the State of Israel** – According to the Petroleum Law, a leaseholder must pay a royalty of 12.5% on the quantity of natural gas or oil produced from the lease, and should pay the state the market value of the royalty at the wellhead. The method of calculating the market value of the royalty at the wellhead in the Tamar reservoir is currently being deliberated between the Petroleum Commissioner and the Tamar reservoir partners and has not yet been finally determined. In 2019, the Tamar Project partners paid advances on account of 11.3% royalties on the Tamar Project's revenues, and in 2017 and 2018 at a rate of 11.65%. In February 2020, the Ministry of Energy issued guidelines for public comment, containing general instructions for the method of calculating royalty value at the wellhead for maritime oil rights.
- **Taxation of Profits Law** – The Taxation of Profits Law sets a levy on oil and gas profits by the R-factor mechanism, which is calculated according to the ratio between net cumulative revenues from the project and cumulative investments as defined in the law ("levy coefficient"). A minimum levy of 20% is collected when the levy coefficient reaches 1.5, and gradually increases up to 50% (the maximum rate changes every tax year according to changes in the corporate tax rate) when the levy coefficient reaches 2.3. The levy will be calculated and imposed on each reservoir, separately.



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The law contains transition provisions for reservoirs that commenced commercial production up to January 1, 2014, determining, inter alia, that the levy coefficient will be between 2 and 2.8 instead of between 1.5 and 2.3. The Tamar reservoir falls within the ambit of the transition provisions.

■ **Restrictive trade practices and exemption from the provisions of the Restrictive Trade Practices Law**—In August 2015, a government decision was passed concerning a framework for the regulation of the natural gas sector in Israel, including in connection with the Partnership's rights in the natural gas reservoirs of Tamar, Leviathan, Karish and Tanin, which went into effect on December 17, 2015, with the grant of an exemption from several provisions of the Restrictive Trade Practices Law, 5748-1988 ("Gas Framework").

The Gas Framework grants an exemption to Delek Drilling, Noble and Ratio Oil Exploration (1992) Limited Partnership (hereinafter referred to jointly as: the "**Parties**") from the restrictive arrangements in connection with the Leviathan reservoir. Likewise, the Gas Framework grants an exemption in relation to certain powers of the Commissioner (power to regulate monopoly actions by directives, power to order a monopoly owner to sell an asset, and power to order the breakup of a monopoly) in connection with Delek Drilling and Noble being monopoly owners by virtue of being declared as such by the Commissioner in 2012 (the "**Exemption**")¹⁰. The grant of the Exemption as described above is conditional on the fulfillment of the following conditions:

- Sale of the rights of Delek Drilling and Noble in the Karish and Tanin reservoirs to a third party that is not affiliated with the Parties or any thereof, within 14 months of the date of grant of the Exemption or the date of publication of the new regulation draft by the Petroleum Commissioner regarding the qualification conditions for the Operator, whichever the later. We would note that on August 16, 2016, an agreement was signed for the sale of all the rights in the Karish and Tanin leases, between Delek Drilling and Energean.
- Sale of all the rights of Delek Drilling in the Tamar reservoir to a third party that is not affiliated with it or with any of the holders of the rights in the Leviathan, Karish and Tanin reservoirs, and restriction of Noble's rights in the Tamar reservoir to 25%, at the most, within 72 months. We note that in March 2018, Noble sold to the Company 7.5% of its rights in the Tamar and Dalit leases for a cash consideration and Company shares. In October 2018, it sold all its shares in the Company, and as of this time its stake in the Tamar reservoir decreased to 25% (directly and indirectly).
- Imposition of restrictions on new agreements signed for the supply of gas from the Tamar and Leviathan reservoirs, such as a prohibition against restrictions on purchasing from other suppliers, in certain cases the granting of the right to consumers to unilaterally determine the period of the agreement and the granting of a unilateral possibility to consumers to change the supply quantity in the agreement.

¹⁰ The declaration of monopoly owners under Section 26(a) of the Restrictive Trade Practices Law, 5748-1988: Delek Drilling – Limited Partnership along with Avner Oil & Gas Exploration – Limited Partnership, Noble Energy Mediterranean Ltd., Isramco Negev 2 – Limited Partnership, and Dor Gas Exploration – Limited Partnership – are owners of a monopoly in the supply of natural gas in Israel, as of the second half of 2013 (November 13, 2012) Restrictive Trade Practices 500249.



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- **Stable regulatory environment**—In the original Gas Framework, the government of Israel committed to maintain "regulatory stability" in connection with natural gas exploration and production for a period of 10 years. Following the filing of a petition to the High Court of Justice against said stability clause, the High Court of Justice ruled that the issue of regulatory stability in the Gas Framework in its present wording is unlawful. In May 2016, the Israeli government readopted its decision on the Gas Framework, establishing an alternative arrangement for a "stable regulatory environment" for the purpose of ensuring a regulatory environment that encourages investments in the segment of natural gas exploration and production.
- **Price control**—During the period extending from the entry into force of the Gas Framework to the date of full satisfaction of the Exemption conditions, price control in the natural gas sector under the Restrictive Trade Practices Law, will be limited to the imposition of reporting requirements on profitability and the gas price, provided that during this period the holders of rights in Tamar and Leviathan offer potential consumers a price based on the weighted average price of the prices in the agreements existing in respect of the reservoirs or on prices in the export agreements, in several price and linkage alternatives publicized in the framework of Government Decision 476 from August 16, 2015. Starting from the third quarter of 2016, the Natural Gas Authority publicizes every quarter, the weighted natural gas price and the natural gas price for private electricity producers.

3.5. Risk Factors

Exploration and development activities in connection with oil and natural gas reservoirs entail substantial financial costs under conditions of uncertainty, resulting in an extremely high financial risk. Below is a description of the risk factors with a major impact on the operations of companies in the industry:

- **Changes in the Electricity Production Tariff, price indices, prices of alternative energy sources** – The prices paid by consumers for natural gas are derived, among other things, from the Electricity Production Tariff, from the U.S. CPI and from prices of fuel alternatives to gas, such as fuel oil, diesel oil and Brent oil. Furthermore, significant developments in alternative energy sources may lead to a change in the IEC's usage model, such that preference will be given to power stations operating by means of energy alternatives to gas.
- **Geopolitical risk** – Israel's security and economic situation, as well as the political situation in the Middle East, could affect the willingness of foreign countries and entities, including in the Middle East, to enter into business relationships with Israeli entities and/or international entities operating in Israel. Therefore, any downturn in the geopolitical situation in the Middle East and/or deterioration in Israel's political relations with its neighbors, for security and/or political and/or economic reasons, could harm the ability of the companies operating in the Israeli oil and gas market to advance their business with such countries and entities and to export gas to neighboring countries.



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- **Competition in the supply of gas** – In recent years, several significant gas reservoirs have been discovered in the waters of Israel, containing reserves on a considerably larger scale than previously estimated in relation to domestic needs. At present, Israel has, apart from the Tamar and Leviathan producing reservoirs, two other reservoirs – Karish and Tanin – which are being developed and are expected to constitute additional significant suppliers of natural gas to the domestic market. Additionally, the Ministry of Energy held two tenders for additional offshore exploration blocks, which may lead to further discoveries (subsequently it also granted licenses in this regard). Furthermore, in 2015 a substantial natural gas reservoir was discovered in Egypt (Zohr), and in 2018 a natural gas reservoir was discovered in Block 6 in Cyprus. These reservoirs could impact negatively on Israel's natural gas export capacity and could also increase competition in Israel's natural gas market by boosting supply (through imports). Additional finds may also be made in the future, both in Israel and in other countries in the eastern Mediterranean basin, the development of which could lead to the entry of new competitors and to increased competition in the supply of natural gas to the domestic market and to neighboring countries.
- **Export restrictions** – Restriction of the quantity of gas that may be exported could drive up excess supply in the domestic market, reducing local gas prices. We note in this connection that in accordance with the recommendations of the Adiri Committee from December 2018, the gas export quantities set in Government Decision 442 are to remain unchanged. However, in accordance with the committee's recommendations, the formula for calculating the export quota will be changed, such that the quota will be higher than under the formula set in Government Decision 442, solely for gas reservoirs that are as yet undiscovered.
- **Dependence on integrity of the national transmission system in Israel, Egypt and Jordan** – The ability to supply the gas produced from the reservoirs to potential consumers is contingent, among other things, on the integrity of the national gas transmission system and the regional distribution networks. Likewise, the ability to supply the gas depends on the integrity of the transmission system to Egypt and Jordan as well as the internal transmission system in those countries.
- **Dependence on contractors and suppliers of equipment and professional services** – As of the date of the Opinion, Israel has no contractors that perform most of the activities necessary for the construction and operation of oil and natural gas reservoirs, and therefore the companies operating in the industry depend on foreign contractors for the performance of such activities. Consequently, these activities involve high costs and/or there may be significant delays in the timetables set for their performance and in the supply of gas to customers.
- **Operational risks and insufficient insurance coverage** – Oil and gas exploration and production activities are exposed to a range of risks, such as uncontrolled eruption of liquids and gas from wells, explosion, collapse of wells and other events that could harm the functioning of the production and transmission system and result in damage to or destruction of the oil or gas wells, the production and transmission facilities, the exploration equipment, etc. Moreover, there is a risk of liability for pollution damage due to explosion and/or leakage of liquids and/or gas. Notwithstanding the insurance policies that are available in the market, not all potential risks are covered or insurable.



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- **Regulatory changes** – The operating sector requires numerous regulatory approvals, mainly from the competent authorities under the Petroleum Law and the Natural Gas Sector Law, as well as incidental approvals of state authorities (including the Energy Ministry, the Defense Ministry, the Environmental Protection Ministry, the tax authorities, the Competition Authority and the different planning authorities). Over the past few years several proposals have been advanced for amendments to the laws and/or regulations and/or directives relevant to the operating segment, and several decisions, laws and directives have been published the implementation of which could impact negatively on the companies operating in the industry.
- **Subordination to environmental regulation** – The companies operating in the natural gas sector are subordinated to a range of environmental laws, regulations and directives pertaining to various issues, such as: leakage of oil, natural gas or other pollutants into the marine environment, discharge into the sea of various pollutants and waste materials (such as sewage, remnants of drilling equipment, drilling sludge, cement, etc.), chemical substances used in the different stages of work, emission of air pollutants, lighting and noise hazards, and construction of pipeline infrastructure on the seabed and related facilities. The companies are also required to obtain through the project operators approvals from the competent authorities under the Oil Law, the Natural Gas Sector Law as well as other laws (such as environmental protection laws) for purposes of their operations.
- **Other risk factors** – There are other risk factors that affect the operating sector, including difficulties in obtaining financing, information security risks, dependence on key customers, dependence on weather and sea conditions, cancellation or expiration of rights and oil assets, etc.

3.6. Market Developments

3.6.1 Leviathan Lease

- On February 19, 2018, the partnership in the Leviathan reservoir reported that an agreement had been signed between Noble and Dolfinus for the supply of natural gas from the Leviathan project. On October 2, 2019, the partnership reported that the agreement had been amended to increase the total quantity of gas the Leviathan partnership had committed to supply to Dolfinus by 60 BCM compared to 32 BCM in the original export agreement. Under the amendment, the expected supply in the first half of 2020 is 2.1 BCM per year. In the following two years, up to June 30, 2022, the annual supply is 3.6 BCM per year. The supply in the period beginning on July 1, 2022 and ending on the end date of the Leviathan agreement is 4.7 BCM per year.
- On April 7, 2019, it was reported that the Leviathan partnership's proposal to the IEC to supply a quantity of natural gas beyond the gas supplied under the IEC-Tamar agreement, from October 1, 2019 or from the start of gas production from the Leviathan reservoir, whichever the later, until June 30, 2021 or the start of gas production from the Karish reservoir, whichever the earlier, had been chosen as the winning bid in a competitive process held by the IEC. The agreement for the sale of gas was signed by the parties on June 12, 2019. The Tamar partners filed an administrative petition with the Tel Aviv District Court against the IEC and the Leviathan partners regarding the decision of the IEC's tender committee, which



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was rejected by the court, following which the Tamar partners filed an appeal with the Supreme Court against the District Court's decision.

- On December 31, 2019, the Leviathan partners reported the start of the transmission of natural gas from the Leviathan reservoir to customers in accordance with agreements signed with them for the supply of natural gas from the reservoir, including the sale of natural gas to Jordan. Subsequently, it was reported that the transmission of gas from the Leviathan reservoir to Egypt had begun on January 15, 2020.

3.6.2 Karish and Tanin Leases

- As part of the implementation of the Gas Framework decisions, on August 16, 2016, an agreement was signed between Delek Drilling and Avner Gas Exploration – Limited Partnership ("Avner"), on the one hand, and Energean Israel Limited ("Energean"), on the other, for the sale of all the rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases.
- On November 27, 2018, Energean reported the start of the manufacture, in China, of an FPSO (floating production storage and offloading) hull that is intended for treatment of the natural gas that will be produced in the Karish-Tanin project in Israel's economic waters. The process of producing and treating the gas will be carried out at the wellhead, at a distance of 90 kilometers from the shore. According to Energean's financial statement for 2019, published on March 19, 2020, the spread of the coronavirus is not expected to affect the project's timetable, and first production of gas is expected to take place in the first half of 2021.
- On March 4, 2019, Energean reported the start of the implementation of its drilling plan in Israel, which includes the drilling of three production wells in the Karish reservoir and an exploratory drill in the Karish North reservoir, which is intended to verify the presence of some 1.3 TCF of natural gas, with a 69% chance of success. On February 20, 2020, Energean reported that drilling of the three production wells in the Karish reservoir had been completed.
- On November 4, 2019, Energean reported that the exploratory drill in the Karish North reservoir had been completed. According to the report, an additional 25 BCM of natural gas and 34 million barrels of liquid hydrocarbons (light oil/condensate) had been discovered in the reservoir, at a best estimate.
- According to reports by Energean, to date, contracts have been signed for the supply of 5 BCM per year on a firm basis, as well as contingent contracts for the supply of an additional 0.6 BCM per year.

4. Methodology

4.1. Impairment of Assets

Section 9 of IAS 36: Impairment of Asset (the "Standard") prescribes: "*An entity is required to assess at the end of each reporting period if there is an indication of impairment of an asset. Where there is an indication of impairment, the entity is required to estimate the recoverable amount of the asset.*"

The purpose of the Standard is to establish procedures which the entity is required to apply in order to ensure that its assets are not presented at a higher amount than their recoverable amount (as detailed below). When the carrying amount of an asset is higher than its recoverable amount, the asset is impaired and the Standard requires the entity to recognize an impairment loss.

4.2. Recoverable Amount

Section 18 of the Standard defines the recoverable amount as "*the higher of the fair value less costs to sell of an asset or cash-generating unit and its value in use,*" where:

- **Fair value less costs of disposal** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs of disposal (incremental costs directly attributable to the disposal of an asset or cash-generating unit, except for finance costs and income tax expenses).
- **Value in use** of an asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. In determining the value in use of an asset, the Standard requires an entity to use, among other things, cash flow forecasts based on reasonable and supportable assumptions that reflect the current condition of the asset and represent management's best estimate of the range of economic conditions that will exist over its remaining useful life.

The estimates of future cash flows may not include cash inflows or outflows that are expected to arise from a future restructuring to which an entity is not yet committed (including a reduction in manpower costs), or from improving or enhancing the asset's performance.

The net present value will be calculated using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset. The discount rate may not reflect risks for which the future cash flows have already been adjusted.¹¹

Under Section 19 of the Standard, it is not necessary to determine both the fair value less costs to sell of the asset and its value in use. If one of these amounts is higher than the asset's carrying amount, there is no impairment of the asset and no need to estimate the other amount.

¹¹ Section 85 of the Basis for Conclusions on IAS 36 states that – "*conceptually, discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate should give the same result, as long as the pre-tax discount rate is the post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows.*"

4.3. Cash-Generating Unit

Under Section 6 of the Standard, a cash-generating unit is defined as "*the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.*" Section 68 of the Standard prescribes that "*identification of the cash-generating unit to which the asset belongs involves judgment. If the recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.*"

Based on the foregoing, the cash generating unit identified by the Company's management is the Oil and Gas Asset as defined above.

4.4. Testing for Impairment Indications

Under Section 12 of the Standard, to assess whether there is any indication of impairment of an asset, an entity must consider external and internal indicators, such as: significant changes in the business environment in which the entity operates or in the market for which the asset is intended; an increase in market interest rates or rates of return used to discount the expected cash flows from the asset; a negative difference between the market capitalization and net carrying amount of the asset; obsolescence of or physical damage to the asset; plans to discontinue or restructure the activity to which the asset belongs, etc.

An examination of the above indicators showed that the Company's market capitalization immediately before the date of the statement of financial position was lower than the carrying amount of its equity. Consequently, at the Company's request, we assessed the recoverable amount of the Oil and Gas Asset as of December 31, 2019, for the purpose of applying the provisions of the Standard in the Company's financial statements.

4.5. Valuation Method

The recoverable amount of the Oil and Gas Asset as of December 31, 2019 was estimated by discounting the expected cash flows from the Asset (value in use), using conservative assumptions as a basis for the cash flow forecast and the discount rate. It should be clarified that the net value obtained reflects the low threshold for the recoverable amount.



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5. Estimate of the Recoverable Amount of Oil and Gas Assets

5.1. Estimate of the Recoverable Amount of Oil and Gas Assets Using the Revenue Approach

As mentioned above, we first estimated the low threshold for the recoverable amount of the Oil and Gas Asset as of December 31, 2019, by discounting the expected cash flows from the Asset, under conservative assumptions set out below:

5.1.1 Cash Flow Forecast

As noted, the Standard prescribes that in determining the value in use of an asset, an entity must use, inter alia, cash flow forecasts based on reasonable and supportable assumptions that reflect the current condition of the asset and represent management's best estimate of the range of economic conditions that will exist over its remaining useful life. On January 8, 2020, the Company reported a discounted cash flow (the "**Company's Forecast**") in its "Report on Reserves and Updated Discounted Cash Flow Figures for the Tamar Lease (the "**Reserves Report**").¹²

To estimate the low threshold of the present value of the cash flows expected to be derived from the Reserves Report in the Proved + Probable category ("2P"), we applied a conservative scenario to the Company's Forecast, combining: (1) a 20% reduction in the annual production rate of natural gas and condensate compared to the Company's forecasts starting from 2020; and (2) a 10% reduction compared to the Company's assumptions for gas and condensate prices starting from 2020 (the "**Low Cash Flow Threshold**"). We note in this connection that the price reduction was applied uniformly over the years of the forecast, even though, in our opinion, there is a low probability that this scenario will materialize in the coming years, in light of the existing contracts that were signed by the partners in the reservoir. Additionally, although, as mentioned, a significant reduction in the production rate was taken into account, the required investments (Capex) were taken in the amount and at the time specified in the cash flow forecast.

As an outcome, the Low Cash Flow Threshold, before levy and tax, in the years 2020-2040, is 28% lower than the Company's Forecast. We note that the reduction in revenues results in a certain slowing in the rate of increase of the levy rate, such that the maximum rate (46.8%) is paid starting from 2028 compared to 2025 in the Company's Forecast (a comparison of the Low Cash Flow Threshold versus the Company's Forecast appears in Appendix A hereto).

It should be emphasized that the Low Cash Flow Threshold was used solely for impairment testing as of December 31, 2019 and does not reflect the assessments of the Company's management or our assessments as to the cash flows expected to be derived from the Asset as of that date. The assessments of the Company's management as to the cash flow forecast were included, as mentioned, in the Report on Reserves and Updated Discounted Cash Flow Figures published on January 8, 2020,

We note in this connection that subsequent to the Opinion Date there were sharp price drops in the financial markets around the world, including Israel, extreme fluctuations in currency exchange

¹² <https://maya.tase.co.il/reports/details/1273577/2/0>



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rates, as well as a plunge in oil and gas prices on the international markets, due to the spread of the coronavirus as well as other causes and factors affecting the global supply and demand for energy products. As the impairment test was performed as of December 31, 2019, this Opinion does not take into account those changes, because they do not affect the recoverable amount of the Asset as of December 31, 2019.

5.1.2 Discount Rate

The discount rate – the weighted average cost of capital (WACC) used in calculating the present value of the cash flow was estimated at 8.2% based on the CAPM model for estimating the cost of equity capital, as well as the cost of debt and the normative leverage ratio of the Asset, as detailed in the table below:

Parameter	Value	Note
Risk-free interest rate	2.1%	1
Beta	0.71	2
Market premium	5.9%	3
Specific risk premium	4.0%	4
Cost of equity capital of the Company	10.3%	
Cost of debt	8.0%	5
Tax rate	23.0%	6
Leverage ratio	51.9%	7
Weighted cost of equity capital of the Company	8.2%	

Notes to the table:

1. Based on the yield on 15-year U.S. government bonds (one half of the period of the expected cash flow from the Tamar reservoir), as of December 31, 2019.
2. The beta is estimated based on a sample of similar companies, as detailed in the table below:

Company	Unlevered Beta	D/V
Isramco Negev 2 L.P.	0.39	33.6%
Ratio Oil Exploration 1992 L.P.	0.54	43.2%
Tamar Petroleum Ltd.	0.15	84.2%
Delek Drilling L.P.	0.48	46.8%
Average for sample companies	0.39	51.9%

The levered beta is estimated based on the average beta for the above sample companies, the normative leverage ratio and the statutory tax rate in Israel.

3. Market risk premium in Israel (Damodaran, January 2020¹³).
4. The specific risk premium includes the following components:

¹³ <http://pages.stern.nyu.edu/~adamodar>



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- Size premium of 1% (based on a value of \$6 billion for the Tamar reservoir);¹⁴
 - Plus a 3% risk premium for overcoming the competition due to the start of production from the Leviathan project and progress in the development of the Karish reservoir.
5. Based on the yield to maturity of the Company's bonds and its adjustment for a duration of 15 years according to a dollar fair-spread curve for A1-rated bonds.
6. According to the statutory tax rate in Israel.
7. According to the average for the sample companies (see above) and our estimate regarding the long-term normative leverage ratio of the Asset.

5.1.3 Findings

Based on the methodology and assumptions detailed above, the present value of the Low Cash Flow Threshold is estimated at \$1,150 million, which is higher than the carrying amount as of December 31, 2019 (\$993 million – net carrying amount of the Asset after deduction of retirement liabilities and other long-term assets that were included in the cash flow forecast). Accordingly, the Asset was not impaired as of December 31, 2019.

Following is a sensitivity analysis of the net value of the Low Cash Flow Threshold when subjected to a change in the discount rate:

Discount Rate (WACC)						
6.7%	7.2%	7.7%	8.2%	8.7%	9.2%	9.7%
1,347	1,275	1,210	1,150	1,095	1,044	998

We note that the discount rate embodied in the Company's Forecast (Report on Reserves) for the Low Cash Flow Threshold (\$1,150 million) is 11.2%. In our estimation, this rate reflects an adequate confidence interval for the risk level inherent in the Company's Forecast.

5.2. Value Derived from the Company's Marketable Securities as of December 31, 2019

As discussed in Section 4.4 above, the impairment test was performed since the Company's market capitalization immediately before the date of the statement of financial position was lower than the carrying amount of its equity.

We note that under Section 19 of the Standard, it is not necessary to determine both the fair value less costs to sell of the asset and its value in use, since if one of these amounts is higher than the asset's carrying amount, there is no impairment of the asset and no need to estimate the other amount. Nevertheless, below is an analysis of the value of the Oil and Gas Asset as derived from the market value of the Company's marketable securities (shares and bonds) as of December 31, 2019:

¹⁴ Source: Duff & Phelps International Valuation Handbook 2018.



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\$ in Millions		Note
Market value of shares as of December 31, 2019	205	
Total surplus assets and financial debt, net	881	1
Adjustment for market value of bonds	(65)	2
Value of deferred taxes asset	(48)	3
Capitalized general and administrative expenses	<u>31</u>	4
Derived value for Oil Asset	1,005	
Net carrying amount as of December 31, 2019	<u>993</u>	5
<i>Premium (discount)</i>	<i>1.13%</i>	

Notes:

1. Net carrying amount of assets and liabilities excluding investments in oil and gas assets and retirement liability.
2. Difference between market value of bonds at December 31, 2019 and net carrying amount of bonds (including payable interest).
3. The value is estimated by spreading the tax asset according to the depreciation rate and capitalization at 8.2%.
4. According to annual expenses of \$3.5 million, less tax, capitalized at 8.2%.
5. Less retirement liability.

According to the above analysis, the market value of the Asset as derived from the value of the Company's marketable securities as of December 31, 2019 is estimated at \$1,005 million, and less disposal costs is equal approximately to the net carrying amount of the Asset (less retirement liability and other long-term assets) as of December 31, 2019.

However, in our estimation, the market value of the Company's securities does not provide a reliable basis for estimating the recoverable amount of the Asset, since the market value of the Company's securities is affected by its specific leverage and a highly significant excess supply (above NIS 5 billion), stemming from market expectations for the sale of assets associated with the Tamar reservoir by the Delek Group and the companies controlled by it, pursuant to the Gas Framework which requires it to sell all its holdings in those assets by the end of 2021, as detailed in the table below:

Description of Asset	Owner of Asset	Value (as of December 31, 2019)
39.93% of shares of Delek Royalties	Delek Group	NIS 68 million (according to market value)
22.6% of shares of Tamar Petroleum	Delek Drilling	NIS 160 (according to market value)
22% of Tamar reservoir	Delek Drilling	NIS 4.6 billion (according to a value of \$6 billion for the reservoir)
Royalty from Tamar from Dor Gas Exploration	Naphtha Exploration and HANAL Dead Sea (according to an arbitration)	NIS 90 million
Holdings of Delek Group in Cohen Development	Delek Group	NIS 262 million
Total		Above NIS 5.1 billion



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As shown by the above table, the aggregate asset value of assets that include holdings in the Tamar reservoir or benefits involving the receipt of revenues from the Tamar reservoir, which are expected to be sold by the Delek Group and the companies controlled by it, together with the royalty of Dor Gas Exploration, amounts to more than NIS 5 billion. This represents an excess supply over demand in the domestic capital market, which adversely affects the market value of the assets, including the value of the Company's securities.

We note that the fact that the Delek Group is obligated to sell its holdings during a period of less than two years actually allows it only a short period of time for selling each of the assets, given the number of assets and their monetary scope. Considering the excess supply and timeframe, as aforesaid, it is possible that the market expects the assets to be sold "under constraint" and at a discount from their fair value. According to a study on the subject and an analysis of transactions in the Israeli market, the discount rate in transactions under constraint can be even higher than 10% (see Appendix B for elaboration).

Additionally, the expected inclusion of the share of the Delek Group in the Oil and Gas Index (which actually occurred on February 6, 2020), following its reclassification from a holding company to a gas and oil operating company, and the assignment of the highest weight on the index (15%) led to a decline in the share prices of the other companies on the index in light of the excess supply expected as a result of this development.



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6. Appendices

Appendix A – Comparison of Conservative Scenario with Updated Company Forecast (January 2020)

2036	2035	2034	2033	2032	2031	2030	2029	2028	2027	2026	2025	2024	2023	2022	2021	2020	Total/Average	Year
																	Natural gas (BCM) (100% of the Asset)	
11.65	11.65	11.65	11.65	11.65	11.65	11.65	10.74	10.40	10.40	10.40	10.40	10.40	9.75	8.47	9.30	304.9	Company's forecast	
9.32	9.32	9.32	9.32	9.32	9.32	9.32	8.59	8.32	8.32	8.32	8.32	8.32	7.80	6.77	7.44	304.9	Conservative forecast	
(2.33)	(2.33)	(2.33)	(2.33)	(2.33)	(2.33)	(2.33)	(2.15)	(2.08)	(2.08)	(2.08)	(2.08)	(2.08)	(1.95)	(1.69)	(1.86)	304.9	Difference	
-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	Percent difference
																	Revenues attributable to the Company (\$ in thousands)	
442,962	434,125	425,859	417,170	410,127	403,314	396,207	389,241	354,414	339,361	332,867	333,320	326,978	321,893	292,721	253,044	280,951	11,262,190	Company's forecast
318,882	312,520	306,568	300,312	295,242	290,336	285,219	280,203	255,133	244,296	239,621	239,947	235,380	231,719	210,718	182,154	199,900	10,710,884	Conservative forecast
(124,079)	(121,605)	(119,291)	(118,858)	(114,886)	(112,978)	(110,988)	(109,038)	(99,282)	(95,065)	(93,247)	(93,374)	(91,598)	(90,174)	(82,003)	(70,890)	(81,051)	(551,306)	Difference
-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	Percent difference
																	Post-tax cash flow (\$ in thousands)	
147,878	146,876	146,891	144,011	141,616	141,059	138,885	136,504	102,816	107,188	126,897	105,753	127,072	137,802	138,830	110,985	153,425	3,847,318	Company's forecast
104,588	103,152	101,250	99,111	97,389	97,485	95,991	94,277	64,316	70,370	94,465	76,881	102,598	108,108	105,650	84,532	99,243	3,550,232	Conservative forecast
(43,290)	(43,725)	(45,641)	(44,901)	(44,226)	(43,574)	(42,894)	(42,277)	(38,500)	(36,819)	(32,433)	(28,872)	(24,474)	(29,693)	(33,180)	(26,453)	(54,182)	(29,987)	Difference
-29.3%	-29.8%	-31.1%	-31.2%	-31.2%	-30.9%	-30.9%	-30.9%	-37.4%	-34.3%	-25.6%	-27.3%	-19.3%	-21.5%	-23.9%	-23.8%	-35.3%	-7.7%	Percent difference

2054	2053	2052	2051	2050	2049	2048	2047	2046	2045	2044	2043	2042	2041	2040	2039	2038	2037	Year
Natural gas (BCM) (100% of the Asset)																		11.65
				-	3.95	6.35	7.76	8.12	8.27	8.29	9.64	10.99	11.46	11.65	11.65	11.65	11.65	Company's forecast
1.97	7.71	8.79	9.17	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	9.32	Conservative forecast
1.97	7.71	8.79	9.17	9.32	5.37	2.97	1.56	1.20	1.05	1.03	(0.32)	(1.67)	(2.14)	(2.33)	(2.33)	(2.33)	(2.33)	Difference
				135.7%	46.8%	20.1%	14.8%	12.7%	12.4%	-3.3%	-15.2%	-18.7%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	Percent difference
Revenues attributable to the Company (\$ in thousands)																		450,615
90,151	347,898	390,255	400,316	400,419	393,948	387,580	381,312	375,145	369,075	363,101	357,222	351,436	345,743	340,295	334,879	329,566	324,393	Company's forecast
90,151	347,898	390,255	400,316	400,419	208,216	94,220	28,569	12,023	5,206	4,140	(53,375)	(109,121)	(126,656)	(132,406)	(130,300)	(128,234)	(126,222)	Conservative forecast
				112.1%	32.1%	8.1%	3.3%	1.4%	1.2%	-13.0%	-23.7%	-26.8%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	Difference
				112.1%	32.1%	8.1%	3.3%	1.4%	1.2%	-13.0%	-23.7%	-26.8%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	Percent difference
Post-tax cash flow (\$ in thousands)																		128,727
13,001	101,119	115,599	127,609	127,644	124,279	124,346	123,794	121,719	119,679	117,073	115,098	114,140	112,464	110,682	109,653	88,097	84,829	Company's forecast
13,001	101,119	115,599	127,609	127,644	79,841	42,372	20,741	5,414	1,777	245	(19,435)	(37,526)	(43,305)	(45,262)	(43,774)	(44,166)	(43,898)	Conservative forecast
				179.7%	51.7%	20.1%	4.7%	1.5%	0.2%	-14.4%	-24.7%	-27.8%	-29.0%	-28.5%	-33.4%	-34.1%	Difference	
				179.7%	51.7%	20.1%	4.7%	1.5%	0.2%	-14.4%	-24.7%	-27.8%	-29.0%	-28.5%	-33.4%	-34.1%	Percent difference	



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Appendix B – Discount Rate on a Sale under Constraint

According to a study conducted by Serdar, Lsil & Rose¹⁵ (the "Study"), a "sale under constraint" is defined as a transaction that is executed quickly due to restrictions or pressure exerted on the seller. As an outcome, the price of the asset in the transaction does not reflect its full market value. The Study analyzed a sample of 638 transactions involving the sale of minority shares of public companies in the U.S. market by corporations (not private investors) to third parties between the years 2000-2012.

The estimated return on transactions involving a "sale under constraint" was calculated based on the ratio between the price of the share on the day of announcement of the transaction and its price four weeks earlier. In order to exclude a potential effect of information asymmetry between the buyer and the seller at the time of executing the transaction, the researchers also examined the price of the share four weeks after the day of announcement of the transaction. If the share price remained similar to its price in the transaction, the researchers concluded that the seller had benefited from information gaps in relation to the asset sold (since the market incorporated the information that was in the seller's possession into the price of the share), and therefore this observation was excluded from the sample. In contrast, if the share price had "recovered" four weeks after the transaction, the researchers concluded that this was a "sale under constraint."

According to the results of the Study, in a "sale under constraint" the price of the asset sold on the day of the transaction is lower by an average of 8% than its price four weeks before the transaction. Additionally, when 5% or more of the share capital of the company is sold ("block sale"), the discount rate reflected in the transaction is 13% on average.

As a further indication, we examined a sample of transactions in the Israeli capital market, which, in our estimation, reflect a situation of "sale under constraint," as detailed in the table below:

¹⁵ Serdar Dinc, Lsil Erel & Rose Liao, "Fire sale discount: Evidence from the Sale of Minority Equity Stakes."



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Company Sold	Seller	Description	Transaction Date	Share Price Embodied in the Transaction	Closing Price at the Transaction Date	Discount				
						Relative to Closing Price at the Transaction Date	Relative to Closing Price 4 Weeks Before the Transaction	Relative to Average Price in the 4 Weeks Before	Relative to Closing Price 4 Weeks After the Transaction	Relative to Average Price in the 4 Weeks After
Megureit	Megureit	Share allocation	14/11/2019	0.8	0.8	-10.5%	-11.0%	-11.1%	2.0%	-0.7%
Generation Capital	Generation Capital	Share allocation	12/09/2019	0.9	1.0	-8.5%	-0.8%	-5.1%	-3.6%	4.8%
Bayside Land Corp.	Property & Building Corp.	Sale under the Concentration Law	30/06/2019	1,830.0	1,897.0	-3.5%	-2.3%	-1.8%	-3.4%	-2.4%
Clal Insurance	IDB Development	Sale under the Concentration Law	02/05/2019	47.7	54.4	-12.3%	-5.1%	-6.3%	-16.9%	-20.6%
Fattal	David & Hadassah Fattal	Increase in amount of floating capital under reform	28/03/2019	400.00	406.5	-1.6%	-2.2%	-4.5%	-5.7%	-2.5%
Danel	Danel	Allocation of shares to finance an investment	03/12/2018	172.9	187.0	-7.6%	-3.9%	-4.5%	-7.9%	-2.8%
Shikun & Binui	Arison Investments	No information	06/08/2018	5.8	7.1	-18.7%	-7.1%	-12.8%	-21.1%	-21.4%
Aora	Aora	Allocation of shares to strengthen the capital structure	27/09/2017	2.5	3.0	-17.4%	-3.3%	-8.1%	-19.5%	-16.6%
Bram Industries	Bram Industries	Share allocation (no information)	10/01/2017	8.1	8.6	-5.4%	-2.5%	-3.6%	-5.0%	-5.3%
IDE	Israel Chemicals	*	07/06/2017	335.4	412.0	-18.6%	-18.6%	-18.6%	-18.6%	-18.6%
Maximum						-18.7%	-18.6%	-18.6%	-21.1%	-21.4%
Minimum						-1.6%	-0.8%	-1.8%	2.0%	4.8%
Average						-10.4%	-5.7%	-7.6%	-10.0%	-8.6%

* In June 2017, ICL sold 50% of IDE to the Alpha Fund for \$177.7 million, a price reflecting a value of \$355.4 million. In December 2017 the Delek Group sold 30% of its holdings in IDE in a transaction reflecting a value of \$412 million.

The discount rates in the above transactions were calculated based on the ratio between the share price in the transaction and: (1) the closing price at the transaction date; (2) the closing price four weeks before the transaction date; (3) the average price in the four weeks before the transaction date; (4) the closing price four weeks after the transaction date; (5) the average price in the four weeks after the transaction date. The results of the above analysis show that the average discount rate in each of the alternatives is within a range of 5.7% to 10.4%.



Tamar Petroleum Ltd.

Chapter E

Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure

Tamar Petroleum Ltd.

Chapter E

**Annual Report Concerning the Effectiveness of the Internal
Control over Financial Reporting and Disclosure under
Section 9B(a) of the Securities Regulations (Periodic and
Immediate Reports),
5730-1970**

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

Annual Report Concerning the Effectiveness of the Internal Control over Financial Reporting and Disclosure:

The management of Tamar Petroleum Ltd. (hereinafter – the Company), under the supervision of its board of directors, is responsible for designing and maintaining proper internal controls over financial reporting and disclosure within the Company.

For this purpose, the members of management are:

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

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

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

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

The management, under the supervision of the board of directors, has reviewed and evaluated the internal control over financial reporting and disclosure within the Company, and its effectiveness.

The evaluation of the effectiveness of internal control over financial reporting and disclosure, performed by the management under the supervision of the board of directors, included mapping and documentation of overall processes (financial statement closing processes, entity level controls (ELC) and IT general controls (ITGC), as well as key processes involving net revenue, cash and bond management and accounting with the joint venture operator.

Based on the evaluation of effectiveness performed by the management under the supervision of the board of directors, as detailed above, the board of directors and the management of the Company have concluded that the internal control over financial reporting and disclosure within the Company, as of December 31, 2019, is effective.

Certification of Principal Executive Officer pursuant to Regulation 9B(d)(1):

**Officers' Certification
Certification of Principal Executive Officer**

I, Liami Vaisman, hereby certify that:

- (1) I have reviewed the periodic report of Tamar Petroleum Ltd. (hereinafter – the Company) for 2019 (hereinafter – the Reports).
- (2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
- (4) I have disclosed to the Company's independent auditor, board of directors, audit committee and financial statement review committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –
 - (b) Any fraud, whether or not material, that involves the principal executive or anyone directly or indirectly subordinate to him, or other employees who have a significant role in the internal control over financial reporting and disclosure.
- (5) I, alone or together with others in the Company:
 - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and –
 - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, and presented in these Reports the conclusions of the board of directors and the management about the effectiveness of said internal control as of the date of the Reports.

That stated above does not derogate from my responsibility or the responsibility of any other person in law.

March 29, 2020

Liami Vaisman
CEO

Certification of Principal Financial Officer pursuant to Regulation 9B(d)(2):

**Officers' Certification
Certification of Principal Financial Officer**

I, Yuval Raikin, hereby certify that:

- (1) I have reviewed the financial statements of Tamar Petroleum Ltd. (hereinafter – the Company) and other financial information included in its reports for 2019 (hereinafter – the Reports).
- (2) Based on my knowledge, the financial statements and other financial information included in the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
- (4) I have disclosed to the Company's independent auditor, board of directors, audit committee and financial statement review committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, as relevant to the financial statements and other financial information included in the Reports, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –
 - (b) Any fraud, whether or not material, that involves the principal executive or anyone directly or indirectly subordinate to him, or other employees who have a significant role in the internal control over financial reporting and disclosure.
- (5) I, alone or together with others in the Company:
 - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company, as relevant to the financial statements and other financial information include in the Reports, is made known to me by others within the Company, particularly during the period of preparation of the Reports; and –
 - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, as relevant to the financial statements and other financial information included in the Reports, as of the date of the Reports. My conclusions pursuant to my said evaluation were presented to the board of directors and the management and are included in the Reports.

That stated above does not derogate from my responsibility or the responsibility of any other person in law.

March 29, 2020

Yuval Raikin
CFO