



Tamar Petroleum Ltd.

Annual Report 2020

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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.

- 1.6 On August 30, 2020, the Company published a Shelf Prospectus. For details, see the Company's immediate report dated August 30, 2020 (Reference No. 2020-01-095814).

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 in the domestic economy primarily to the Israel Electric Corporation Ltd. ("**IEC**"), private electricity producers, industrial customers, and natural gas marketing firms, and exports gas to Egypt and Jordan. 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.

The operator of the Tamar project is Noble, which holds 25% of the rights in the reservoir⁶, and the other rights holders in the Tamar project, as of the date of approval of the report,

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.

⁶ On October 5, 2020, Chevron Corporation (hereinafter: "Chevron") announced the completion of a merger transaction between it and Noble Energy Inc. (hereinafter: "Noble Inc."), the parent company of the operator. As of the date of approval of the report, Noble Inc. is a wholly owned company of Chevron. To the best of the Company's knowledge, Chevron is a foreign public corporation whose shares are traded on the NYSE, and no single shareholder holds more than 10% of its issued share capital.

are Delek Drilling (22%)⁷, Isramco Negev 2, Limited Partnership (28.75%) (hereinafter: "**Isramco**") Dor Gas Exploration, Limited Partnership (4%) (hereinafter: "**Dor Gas**") and Everest Infrastructures - Limited Partnership (3.5%) (hereinafter: "**Everest**").

- 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 3(c)(2) below.

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: To the best of the Company's knowledge, during the past two years, no investments in the Company's capital and / or significant off-exchange transactions in the Company's shares have been made by stakeholders in the Company.

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
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

⁷ In addition, Delek Drilling holds approximately 22.6% of the issued and paid-up share capital and approximately 13.42% of the voting rights in the Company.

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, 2020, the Company has distributable profits amounting to USD 233.4 million. For details see the decision of the Company's Board of Directors of March 29, 2020, not to distribute profits to shareholders on the basis of the financial statements as of December 31, 2019 and the decision of the Company's Board of Directors of August 26, 2020, not to distribute profits to shareholders on the basis of the financial statements as of June 30, 2020, see immediate reports dated March 30, 2020 (Ref. No. 2020-01-028819) and August 26, 2020 (Ref. No. 2020-01-094161), respectively, details of which brought therein are included herein by way of reference. .

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 as of December 31, 2020 attached below (hereinafter: "**the Financial Statements**") .

5.2 For details regarding all of the Company's assets and liabilities as of December 31, 2020 and December 31, 2019, 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**").

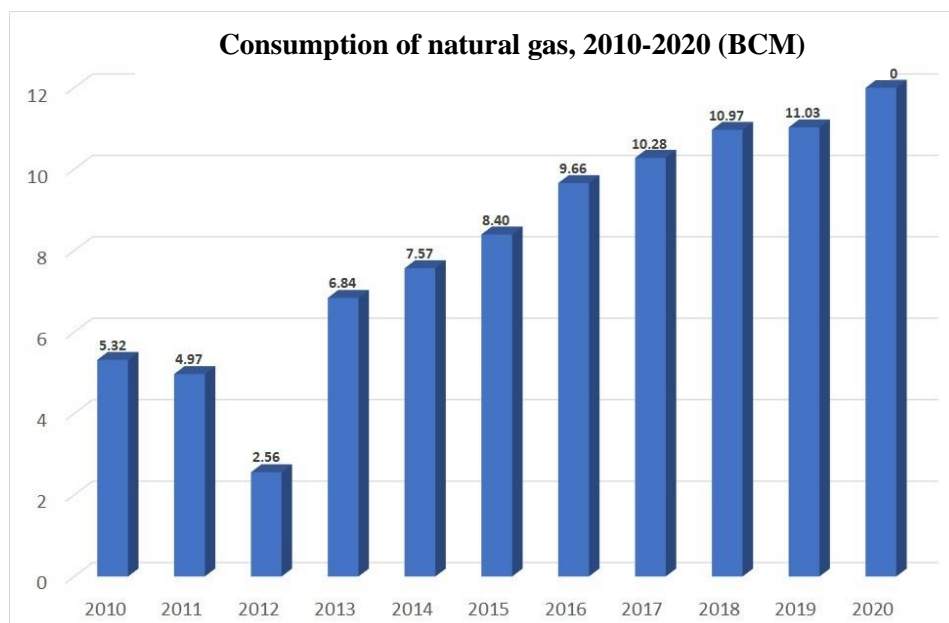
6. **General Environment and the Effect of External Factors**

6.1 As described above, the field of activity of the Company is 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. 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. In addition, the Taxation of Profits from Natural Resources Law regulates, among other things, tax and gas profits levy issues. For further details regarding the Petroleum Law and the Natural Gas Sector Law, see Sections 7.16.5(a)0 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, including LNG prices, 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 infrastructures. In addition, the scope of royalty payments, levies and income taxes for the State have a material effect on the economic viability of investments in oil and gas projects.
- 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 the last two decades, the natural gas sector in Israel has undergone significant changes (including, inter alia, regulatory, economic, commercial 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 reduce the dependence of the State of Israel on foreign energy sources, and allow the export of natural gas to countries in the area, led by Egypt and Jordan.

- 6.5 According to figures from the Ministry of Energy,⁸ 2020 saw a continued increase in the consumption of natural gas in Israel. Overall consumption of natural gas in Israel in 2020 amounted to about 12 BCM, an increase of about 9% compared with consumption of about 11 BCM in 2019. Below is a graph showing the development of natural gas consumption in Israel in the last ten years:



- 6.6 As of April 2013, the Tamar reservoir began to supply gas to customers in the local market and from that date is the main gas supplier to the local market. On December 31, 2019, gas began to flow from the Leviathan reservoir to customers in the local market.
- 6.7 In 2017, exports began of natural gas from the Tamar reservoir to customers in Jordan on a scale of 0.07 BCM, increasing to 0.14 BCM in 2018 about 0.22 BCM in 2019, and about 0.23 BCM in 2020. In January 2020, exports of natural gas from the Leviathan reservoir to Jordan and Egypt began for the first time, and in July 2020, exports of natural gas from the Tamar reservoir to Egypt began for the first time (which in 2020 amounted to about 0.25 BCM). To the best of the Company's knowledge, the total volume of natural gas exports from Israel to Jordan and Egypt in 2020 amounted to approximately 4.3 BCM.
- 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 grow by about 60% by the end of the decade compared with consumption in 2020, inter alia, given, on the one hand, the natural increase in demand for natural gas and electricity in the Israeli economy

⁸ Inter alia, based on **Review of Developments in the Natural Gas Sector - Summary for 2020**, on the website https://www.gov.il/BlobFolder/reports/ng_2019/he/ng_2019.pdf and on **the Report on Revenues of the Natural Resource Administration for the year 2020** on the website https://www.gov.il/BlobFolder/reports/income_report/he/revenue_report_2020.pdf.

⁹ BDO Consulting Group Ltd.

due to an increase in the population and an increase in the standard of living, and given the impact of the Corona pandemic, government policy to increase the use of natural gas for the generation 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 Sections 7.16.6(1) and 7.16.9(g) below); 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 connecting of more gas suppliers to the national transmission system; the making of natural gas accessible to additional industrial enterprises throughout Israel and to agriculture and the small and domestic consumer segments; the introduction of electric cars and electrification of trains; the construction of additional seawater desalination plants; the construction of additional seawater desalination plants; and on the other hand, the increase in the use of renewable energies, among other things, in light of the government's decision on "Promoting Renewable Energy in the Electricity Sector and Amending Government Decisions" of October 25, 2020 for details see Section 7.16.9(h) 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**"). Following the spread of the corona pandemic, many countries, including Israel, have taken, and are still taking, as of the date of approval of the report, extreme measures in an attempt to prevent further spreading of the virus, such as restrictions on civilian traffic and gatherings, transport restrictions on passengers and goods, closing borders between countries, and the like.

As a result, the corona pandemic has slowed down global economic activity and impacted various industries, including the energy industry in which the Company operates. Accordingly, in the first half of the year 2020, oil and natural gas prices on international markets recorded very sharp declines, which, in the Company's estimation, is attributable, among other things, to the coronavirus, and to other causes and factors influencing the supply and demand of energy products around the world.

In addition, during the first half of 2020, and mainly in the second quarter of 2020, in the local economy and the export markets, a decline was recorded in natural gas demand compared with the corresponding period in the previous year, mainly as a result of the impacts of the coronavirus on demand for electricity in these markets due to lockdowns and restrictions on economic activity.

Towards the end of 2020 and during the first quarter of 2021, there was a recovery in the prices of energy products worldwide, and in the second half of 2020, there was an increase in demand for natural gas compared with the same period last year.

It should be noted that in recent months, countries around the world have begun the process of vaccinating their citizens against the corona virus. However, the extent of vaccine efficacy is still being tested, and depends, among other things, on the rate and mode of spread of various mutations in the virus.

The restrictions and actions that Israel and other countries will take to deal with the corona pandemic could have a material negative impact on the Company's work plans. As a result of these measures, delays may occur in the entry of foreign workers and experts, as well as in the supply of special-purpose equipment into the State of Israel, due to restrictions on the movement of citizens between sites and countries and restrictions on production or transportation in the various countries, which may, among other things, disrupt regular production activity and the operator's work plans and even incur additional unforeseen costs. In this regard, it should be noted that in the Tamar project, the operator, in coordination with the Commissioner of Petroleum Affairs and the Ministry of Health, formulated an action plan to deal with the corona crisis, among other things, to ensure, as far as possible, that the required labor force (employees and contractors) can reach the project facilities at sea and on land, and to continue performing essential operations at the said facilities. As of the date of approval of the report, the corona pandemic did not materially impact the operating system of the Tamar project. However, since there is uncertainty about how the corona pandemic will continue to develop, there is a risk that despite the preventive measures taken by the operator in the project, the operation of the reservoir will be harmed.

As part of the strategy to deal with the corona pandemic, the Tamar Partnership worked to streamline and reduce the operating budget for 2020 and to postpone planned investment budgets for later years. As of the date of approval of the

report, it is difficult to assess how the corona pandemic will continue to develop in 2021 and beyond, what its impact will be on the global and local economy, and what impact it will have on demand and sales from the Tamar reservoir and / or the financial strength of the Company's customers and as a result on the Company's business. Under these circumstances, the corona pandemic poses a global macroeconomic risk that creates uncertainty regarding future economic activity in the world and the expected effects on financial markets, interest rates, currency exchange rates, and demand levels and commodity prices in the energy sector, which could harm many industries including the energy industry in which the Company operates.

For further details, see Section 7.1.3 (b) below.

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, an impact on the Company's customers and damage to the financial resilience of customers, as well as to the extent there are changes in the spread of the coronavirus pandemic, in the efficacy of the vaccines developed and rate of vaccination of the population in Israel and worldwide, in the directives and guidelines of the relevant authorities, and in the economic situation around the world and in Israel.

6.9.2 Fluctuations in linkage components in the price formulas of natural gas

The gas prices set in most of 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.

It should be noted that in some of the gas agreements a floor price is set and in some a fixed price, and therefore, in these agreements the exposure to fluctuations

in the linkage components is defined at a lower threshold. In this context, it should be noted that the export agreement entered into by Tamar Partners there is detailed in Section 7.4.5 (b) (5) below a mechanism whereby the quantities sold under the agreement may fluctuate as a result of a decrease in the price of a barrel of Brent oil below the minimum threshold set in the agreement.

A change in each one of the above linkage components 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 (U.S. CPI) the tariff for the production of electricity and a barrel of the Brent type, see the Reserves Report prepared in accordance with the rules of the Petroleum Resource Management System (SPE-PRMS), as of December 31, 2020, which was published by the Company in an immediate report dated March 7, 2021 (Reference No.: 2021-01 -027573) (hereinafter: "**Reserves and Cash Report**"), the information contained therein is hereby incorporated by way of reference.

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 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

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

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 in the matter of the Gas Framework, as specified in Section 7.16.1 below;; 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 Terms of supply and demand

For details regarding the demand and supply in the international markets and the domestic market and their impact on the field of activity, see Sections 7.1.9 and 7.5.2 below.

7. Description of the Company's Operating Segment

7.1 General information about the operating segment

7.1.1 Structure of the operating segment and changes occurring therein

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

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.

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 (hereinafter: "**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) General

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, in a non-significant amount.

For details regarding an agreement for the export of natural gas to a customer in Egypt, in the framework of which the throughput of gas from the Tamar project to Egypt began in July 2020, see Section 7.4.5 (b) below.

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) Factors influencing the price and demand for natural gas and other energy products

Demand for natural gas depends on several key factors, including prices of sources of energy (for details see below), GDP (Gross Domestic Product) growth rate, the standard of living, weather conditions and energy efficiency level of electricity and gas consumers.

The scope of natural gas sales will be affected, inter alia, by the rate of development and penetration of alternative energy sources, such as renewable energies; by the means for storing energy; by the rate of connecting factories to the natural gas system; the rate of introduction of electric vehicles; the rate of establishing new natural gas driven power stations 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, may affect the market share of natural gas in the mix of electricity production sources in the economy. For details of the decision of the Energy Minister regarding the advancement of the date for terminating the use of coal in Israel to 2025 instead of 2030, see Section 7.16.9(f) below.

The prices of world energy sources, including the prices of natural gas and LNG, oil, coal and renewable energies, may affect the volume of sales and the price at which natural gas will be sold by Tamar Partners. Thus, a decrease in LNG prices in international markets may increase the volume of LNG imports to Israel and / or the regional markets (including the Egyptian market), and to reduce the demand for natural gas produced in Israel, including natural gas from the Tamar reservoir and vice versa.

To the best of the Company's knowledge, in 2020, global LNG supply exceeded demand, which led to a significant drop in LNG and natural gas prices in Asian and European markets.

In addition, oil and natural gas prices in international markets in 2020 were affected by global macroeconomic changes and experienced significant volatility, in the Company's estimation, inter alia, as a result of declining demand due to the spread of the corona pandemic (see Section 6.8.1 above), lack of consensus among member states in OPEC (Organization of

the Petroleum Exporting Countries) and other oil-producing countries (such as the US and Russia) in connection with the rate of oil production, the US-China trade war and technological changes that have led to a significant drop in oil shale production costs and falling prices of oil worldwide.

It should be noted that against the backdrop of the decline in natural gas prices and the excess supply of LNG worldwide, as detailed above, in 2020 the IEC purchased a number of LNG cargoes instead of purchasing natural gas.

From the second half of 2020 until the date of the report, there was a gradual recovery in the prices of energy products in the international markets and they returned to price levels similar to those that existed before the outbreak of the corona pandemic.

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 while taking greater risks. The Tamar Project operator and partnership are 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 data 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, wind energy and the like, including renewable energy that can and will be produced beyond market demand and will be stored in energy storage facilities, for the benefit of future use. 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 the termination of coal use, and government decisions on promoting renewable energy in the electricity industry, see Sections 7.16.9(f) and 7.16.9(h) 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, efficient and available solutions are developed 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.

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 the report, are the only producing reservoirs within the economic waters of the State of Israel. In addition, certain quantities of natural and liquid have been imported from time to time via the regasification vessel and the offshore buoy built off the Hadera shore by INGL . For further details see paragraph (c) below.

As publicized by the holders of rights in the Leviathan reservoir, as of December 31, 2020, the aforesaid Leviathan reservoir contains 22.7 TCF of natural gas resources (P2 reserves and C2 contingent resources). In addition, to the best of the Company's knowledge, during the coming years, the reservoirs discovered in the area of the Karish I/17 and Tanin I/16 leases are expected to be a substantial supplier of natural gas. According to an updated resource estimate published on February 11, 2021 by Energean Oil & Gas plc, which, to the best of the Company's knowledge, is the controlling shareholder in Energean Israel Limited, the owner of the Karish and Tanin leases (hereinafter: "**Energean**" and "**Energean Israel**," respectively),, and conducted by DeGolyer and MacNaughton, an independent resource assessor, the Shark, Shark North and Tanin reservoirs discovered in the area of the leases include reserves (P2) amounting to about 98.4 BCM natural gas as well as hydrocarbon liquids amounting to about 99.6 million barrels. According to Energean's publications, the throughput of gas from Karish reservoir to the local economy is expected to begin in December 2021 or in the first quarter of 2022. In addition, Energean published a Low Case 2P profile of 3.9 BCM

in 2022, 6.5 BCM 6.5 in 2023, and a gradual increase up to 7.8 BCM in 2027. 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 commercial production from the Leviathan reservoir in December 2019 increases the supply of natural gas and competition to the domestic economy. The start of throughput from the Karish reservoir in the near future is expected to accentuate surplus supply and so also competition in the industry.

On February 23, 2021, all the Tamar Partners signed a balancing agreement regarding the separate marketing of the natural gas, which improves the competitive position of Tamar Partners. For further details, see Section 7.5.1 below.

(B) Tenders for granting oil and natural gas exploration licenses

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.¹⁴ To the best of the Company's knowledge, the consortium of Indian companies informed the Ministry of Energy that it was waiving the exploration license, and Energean Israel announced that it was waiving the exploration license "Block 22" and therefore had four remaining exploration licenses granted to it under the tender.

On November 4, 2018, the Minister of Energy announced a second competitive process for natural gas and oil explorations in Israel's economic waters (in this section: the "**Second 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 in the 2P +2C categories 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 batch¹⁵.

On June 23, 2020, the Minister of Energy announced the launch of a third competitive procedure for the exploration of natural gas and oil in Israel's economic waters (hereinafter in this section: "**the Third Competitive Procedure**"), under which a single license was offered called "Block 72". As of the date of approval of the report, the Ministry of Energy has not announced a winner in the third competitive procedure. It should be noted that Block 72 borders the unregulated maritime border between Israel and Lebanon.

On January 7, 2021, the Ministry of Energy announced that another competitive procedure is expected to take place during 2021 (hereinafter:

¹⁴ Following is the link to the publication regarding the grant of the license on the Ministry of Energy's website: https://www.gov.il/he/departments/news/spokesperson_india

¹⁵ 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>

"**the Fourth Competitive Procedure**") as part of which 25 search licenses (blocks) were mapped which will be combined into six groups with a maximum size of up to 1,600 square kilometers each¹⁶. 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 of Tamar Partners in the domestic market and in export markets.

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 and in the future this reservoir may possibly be developed and natural gas marketed to the domestic market and to the Palestinian Authority.

(C) LNG imports

As stated above, LNG imports to Israel have been made from time to time in recent years, by means of a regasification vessel and the maritime buoy erected off the coast of Hadera by INGL (hereinafter: "**the Maritime Buoy for the Import of LNG**"). 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. To the best of the Company's knowledge, following the fall in LNG prices, the IEC purchased a number of LNG shipments from third parties during 2020. On May 31, 2020, the Natural Gas Authority in the Ministry of Energy issued a call for proposal for the selection of a body that will purchase approximately 25% of the quantities of LNG purchased by the IEC, totaling approximately NIS 40 million, following which the Director of the Natural Gas Authority approved the IEC to sell and to market natural gas to a company that has won the said competitive proceeding.

It should be noted that according to the Ministry of Energy's announcement dated December 29, 2020¹⁷, the regasification vessel, which has been used since 2013 as a backup for the energy industry in Israel in the event of shortage of natural gas during peak hours or malfunction, will end its

¹⁶ For the publication of the Ministry of Energy regarding the fourth competitive procedure, see: https://www.gov.il/he/departments/news/press_070121.

¹⁷ https://www.gov.il/he/departments/news/press_291220

activity in 2022, when the three natural gas reservoirs, Leviathan, Tamar and Karish, will be connected to the shore and will operate regularly. The said announcement stated that the existing infrastructure used for the regasification would remain ready for operation, and would be used by the economy if necessary.

(D) Coal and other energy sources

Coal and other alternative energy products also compete with natural gas suppliers.

The volume of consumption of coal by the IEC is derived, inter alia, from environmental, operational regulation as well as from differences in the direct costs of the IEC stemming from the price of natural gas and the price of coal. Therefore, the level of consumption of the IEC may be affected by regulation conditions, operational constraints, global prices of natural gas and coal, as well as the coal taxation policy in Israel.¹⁸

Furthermore, the natural gas supplied by the Company to industrial customers replaces the use of petroleum distillates, such as diesel oil, liquefied petroleum gas and fuel oil. The price of petroleum distillates 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. For additional details on alternatives to natural gas, see Section 7.1.8 above.

(E) Sources of renewable energy

In 2020, electricity generation from renewable energy accounted for about 6% of the total electricity production in the State of Israel. According to the Government's decision on "Promoting renewable energy in the electricity sector and amending government decisions" of October 25, 2020 (for details see Section 7.16.9 (h) below), a target has been set, according to which the rate of electricity production from renewable energy based

¹⁸ For details regarding the decision of the Minister of Energy to stop coal use, see Section 7.16.9(f) below.

mainly on solar energy will be approximately 30% of total electricity production in 2030.

(F) 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, inter alia, with the entry and expansion of the presence of significant international players (such as Exxon Mobil, Shell, Chevron and Eni). As a result, several natural gas reservoirs were discovered in recent years with a volume of tens of TCF, the most significant among them being the "Zohr" natural gas reservoir, which was discovered in 2015. According to data published by independent consulting companies, as of the date of approval of the report, contingent reserves and resources attributed to the Zohr reservoir are about 850 BCM (i.e. about 30 TCF (2P)). To the best of the Company's knowledge, based on Eni reports, the Zohr reservoir commenced production of natural gas in December 2017, and it was earmarked for the supply of natural gas mainly to the Egyptian domestic market., In July 2020, ENI announced another discovery on the al-Hamed North's Nile Delta waters, the "Ashrush" drilling. No official volume of reserves of this discovery has been reported, but foreign publications indicate that this discovery joins other discoveries that have been made in an area whose total size is estimated at more than about 4 TCF. Last February, Egypt announced a tender for 24 oil and gas exploration blocks. The tender, which is due to end in August this year, includes nine blocks in the Mediterranean, twelve blocks in the Western Desert and three blocks in the Gulf of Suez. For further details regarding the Egyptian market, see Section 7.5.2(c) below.

(2) Cyprus

In December 2011, the first gas field was discovered in the economic waters of Cyprus, said discovery being located in Block 12 and called Aphrodite. 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 Egypt.

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.¹⁹

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). The aforementioned discovery, if developed, may increase competition in the export markets, and especially in Egypt.

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 8²⁰. Verification and evaluation drillings are planned this year in Glaucus and Calypso. It should also 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

¹⁹ Based on public reports by ExxonMobil.

²⁰ Based on the public publications by Eni.

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

On April 26, 2020, Total announced that it had completed a search drilling in Block 4 of Lebanon's economic waters, without significant findings. It should be noted that since September 2020, there have been indirect discussions between Israel and Lebanon, mediated by the United States, in order to regulate economic water rights in the Block 9 area, which borders Block 72 proposed in the tender for Israel's gas and oil exploration.

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 I/12 Lease ²¹
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 (28.75%).²² • Noble (25%). • Delek Drilling²³ (22%). • The Company (16.75%). • Dor Gas²⁴ (4%). • Everest²⁵ (3.5%).

²¹ The Tamar and Tamar SW natural gas fields were discovered in the area of the Tamar Lease in 2009 and 2013, respectively.

²² 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.

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., a privately owned company wholly owned by Delek Group Ltd. (hereinafter: "Delek Energy"), the controlling owner of which (indirectly) is Mr. Yitzhak Sharon (Teshuva)). To the best of the Company's knowledge, as of the date of approval of the report, the Delek Group directly and indirectly holds approximately 55.14% of the number of participation units issued by the Limited Partner in Delek Drilling. It should be noted that according to the provisions of the gas layout, Delek Drilling must sell all its rights in the Tamar and Dalit holdings to a third party who is not a related party within 72 months from the date of entry into force of the Gas Outline (i.e. by December 2021). For further details see section 7.16.1 (b) (1) below.

²⁴ 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. (hereinafter: "**Alon**"), a public company in which the controlling party is Alon Israel Oil Company Ltd., which is a private company.

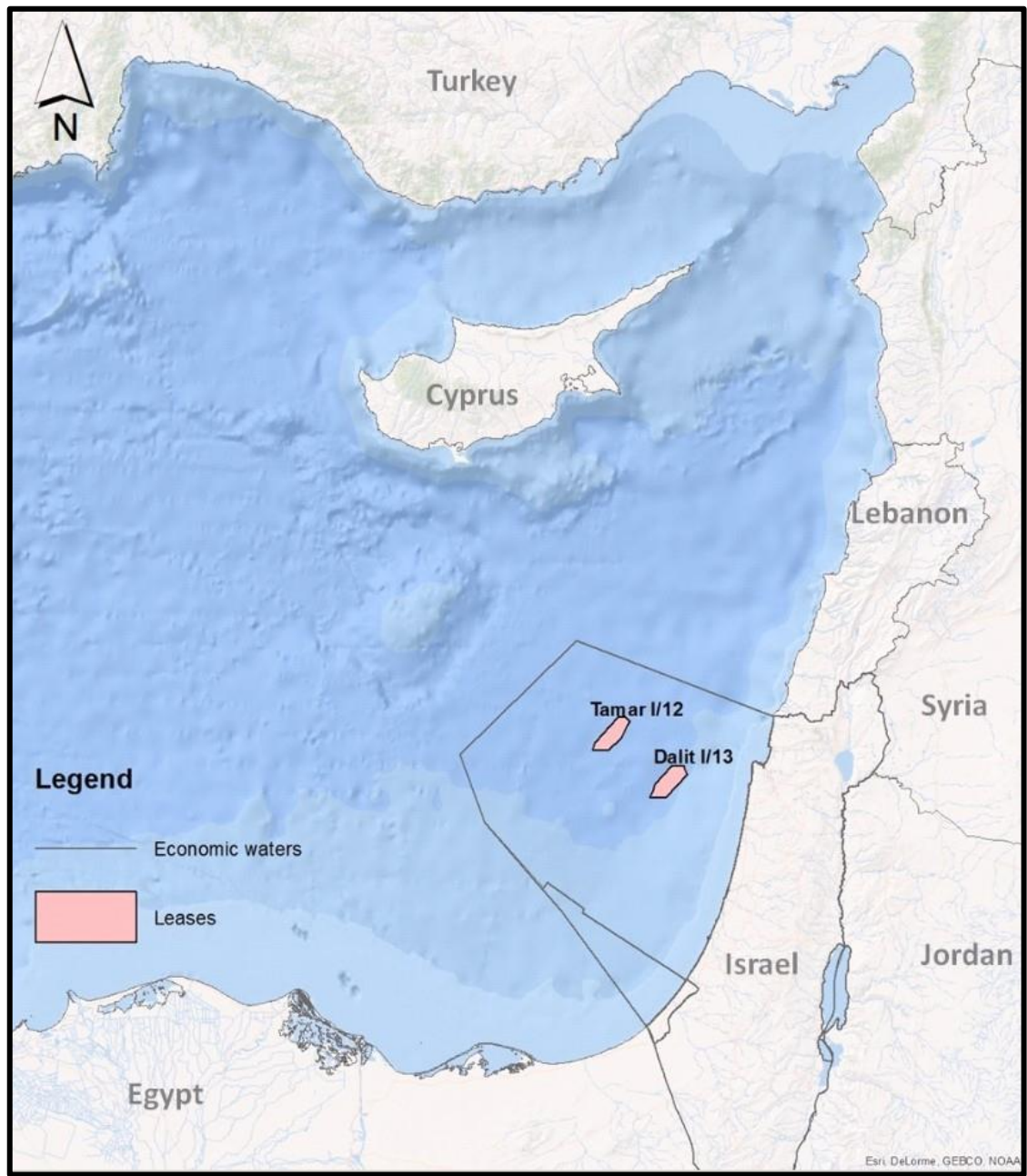
²⁵ To the best of the Company's knowledge, Everest is a limited partnership in which the partners are Harel Insurance Company Ltd. and other institutional bodies owned by it, as well as a partnership from the Israel Infrastructure Fund Group.

<u>The Tamar Lease</u>	
<u>General Details Regarding the Company's Share in the Petroleum Asset</u>	
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 four 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 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 98,137 thousand.

<u>The Dalit Lease</u>	
<u>General Details Regarding the Petroleum Asset</u>	
Name of the petroleum asset:	Dalit I/13 Lease ²⁶
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%)

²⁶ The Dalit gas reservoir was discovered in the area of the Dalit Lease in 2009.

<u>The Dalit Lease</u>	
<u>General Details Regarding the Company's Share in the Petroleum Asset</u>	
For a holding in a purchased petroleum asset –the purchase date:	<p>A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling.</p> <p>A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.</p>
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:	<p>Before return on investment – 14.21%.</p> <p>After return on investment – 13.74%.</p>
The total share of the holders of the equity interests of the Company in the aggregate investment in the petroleum asset during the four 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 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 terminal²⁷.
- (3) If economically justifiable, the Lease holder is entitled, subject to receipt of approval from the Petroleum Commissioner and

²⁷ Production is conducted by means of a platform setup off the shores of Ashdod and by means of the Terminal.

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.

(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**").²⁸
- (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

²⁸ On September 30, 2015, the General Abandonment Plan was submitted for the approval of the Petroleum Commissioner.

to seal the well and the sealing plan. Sealing of the well requires prior approval by the Petroleum Commissioner.

(K) Guarantees

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

(L) Miscellaneous

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

7.2.4 Compliance with the conditions of the work plan for the Tamar Project and Dalit Lease³⁰

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 and the Dalit Lease.

7.2.5 Work executed and work planned in the Tamar Project and Dalit Lease³¹

The following is a brief description of the main operations performed in the Tamar project from January 1, 2018 until the report approval date, as well as a summary of planned operations:

²⁹ 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.

³⁰ As of the report approval date, a detailed work plan was submitted only in respect of the Tamar Lease.

³¹ The costs specified for the years 2018-2020 in the work plan below do not include ongoing operating and maintenance costs of the Tamar Project, which were included in Section 7.2.12 below, and insurance costs. The table also does not include operations involved in the abandonment of the reservoir including expenses in respect thereof. The amounts for the years 2018-2020 are amounts that were actually spent and audited in framework of the financial statements.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u>
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. 	<p>About 28,894</p> <p>About 24,845³²</p>	<p>About 4,840</p> <p>About 4,161</p>
2019 ³³	<ul style="list-style-type: none"> Continued production from the Tamar Project, ongoing operation and maintenance. Completion of project for the installation of emission reduction systems on the Tamar Platform and their monitoring. 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. 	<p>About 12,479</p> <p>About 19,501³⁴</p>	<p>About 2,090</p> <p>About 3,266</p>

³² The specified costs do not include a decrease in investments amounting to about 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.

³³ The specified costs do 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.

³⁴ The specified costs do not include a decrease in investments totaling about USD 4.9 million (100%) (the Company's share – about USD 0.8 million), due, inter alia, to the sale of drilling equipment and reduction of pipelines.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u>
2020 ³⁵	<ul style="list-style-type: none"> Continued production from the Tamar Project, ongoing operation and maintenance. 	About 31,833	About 5,332
	<ul style="list-style-type: none"> 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. 		
	<ul style="list-style-type: none"> Continued updating of the geological model and the flow model, inter alia, based on data from drilling and production data. Continued upgrading and improvement of the production system at the Tamar Platform and Terminal, including acquisition of land rights in the Terminal, improvement of the operating systems, 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. Actions related to compliance with regulatory requirements in connection with emissions, discharge and toxins permits, monitoring of the marine and air environment. 	About 8,940 ³⁶ About 2,440	About 1,497 About 409
2021 ³⁷	<ul style="list-style-type: none"> Continued production from the Tamar Project, ongoing operation and maintenance³⁸. Updating the geological model and flow model, among other things, based on the operator's work procedures and professional knowledge, based on seismic data, as well as in accordance with the drilling and production data and planning and preparations for additional drilling and completion of Tamar wells. Actions related to compliance with emission, discharge and toxins permits, monitoring of the marine environment, disposal of chemicals, worker safety and regulation.³⁹ Upgrading the "torch" system, installing a system for continuous monitoring of air quality and other upgrades required according to the emission and 	About 3,600 ⁴⁰	About 603

³⁵ The specified costs do not include a total of approximately \$ 20 million (100%) (the Company's share is approximately \$3.4 million) in respect of Tamar Partners in the construction of a compressor at the entrance to the EMG system in Ashkelon.

³⁶ The specified costs do not include a decrease in the volume of investments in the amount of approximately \$ 9 million (100%), resulting from the sale of equipment.

³⁷ The amounts specified below are nominal amounts. The table below does not include a total of approximately \$ 45 million (100%) in respect of the Tamar Partners' share in the installation of an additional compressor at the entrance to the EMG system in Ashkelon and in the construction of the Ashdod-Ashkelon marine transmission system section.

³⁸ For details of the operating 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, as detailed in the Reserves and Cash Flow Statement.

³⁹ The costs for these operations are included in the operating budget.

⁴⁰ Of the amount, a total of about \$ 2 million (100%) has not yet been approved.

The Tamar Lease			
Period	Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan	Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)	Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)
	<p>discharge permits.</p> <ul style="list-style-type: none"> Continue upgrading and improving the production system on the Tamar platform and onshore terminal, including improving operating systems, adding buildings, upgrading stainless piping to prevent corrosion, painting equipment and piping, upgrading underwater systems, and covering a section of submarine service piping from the platform to the onshore terminal. In addition, examining options for expanding the reservoir's production capacity. Detailed engineering design of the MEG restoration system and treatment of configuration water salts. 	<p>About 15,000⁴¹</p> <p>About 5,500</p>	<p>About 2,512</p> <p>About 921</p>
2022 ^{42 43}	<ul style="list-style-type: none"> Continued production from the Tamar project, ongoing operation and maintenance⁴⁴. Continued updating of the geological model and flow model, among other things, based on Chevron's work procedures and professional knowledge, in accordance with the drilling and production data, planning and preparations for drilling and further completion of Tamar wells. Continuing to upgrade and improve the production system on the Tamar platform and at the onshore terminal. Also, examining options for expanding the reservoir's production capacity. Actions related to compliance with emission and discharge permits, which include, among other things, upgrading emergency systems for marine leaks. Establishment of the MEG restoration system and treatment of configuration water salts. 	<p>About 2,000</p> <p>About 22,000</p>	<p>About 340</p> <p>About 3,700</p>
2023 and beyond ^{45 46}	<ul style="list-style-type: none"> Continued production from the Tamar project, ongoing operation and maintenance⁴⁷. Completion of Tamar SW well, and connection to the underwater production system at Tamar Field. 	<p>About 121,000</p>	<p>About 20,300</p>

⁴¹ Of the amount, a total of about \$ 9 million (100%) has not yet been approved.

⁴² The amounts listed have not yet been approved.

⁴³ The amounts listed below are nominal amounts. The table below does not include a total of approximately \$ 9 million (100%) in respect of Tamar's partners in the installation of an additional compressor at the entrance to the EMG system in Ashkelon and in the construction of the Ashdod-Ashkelon marine transmission system section.

⁴⁴ See footnote 29.

⁴⁵ The amounts listed below are nominal amounts. Also, the table does not include abandonment actions of the database including expenses for them.

46 (Footnote deleted)

47 See footnote 29.

<u>The Tamar Lease</u>			
<u>Period</u>	<u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u>	<u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u>	<u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u>
	<p>For further details, see Section 7.2.8. below.</p> <ul style="list-style-type: none"> Continued updating of the geological model and flow model, among other things, based on Chevron's work procedures and professional knowledge, in accordance with the drilling and production data, planning and preparations for drilling and further completion of Tamar wells. Mapping and defining additional prospects, including a deep-water prospect in the Lease area. Drilling and completion of drilling, as required, in accordance with actual production data and market demand. Completion of the establishment of the MEG restoration system and treatment of configuration water salts. Laying a third pipeline from Tamar Field to the platform, and upgrading the platform as required. Additional development and upgrade operations as may be required, inter alia, in connection with increasing the production capacity of the reservoir. 	<p>About 688,000</p> <p>About 30,000</p>	<p>About 115,200</p> <p>About 5,075</p> <p>About 62,000</p>

<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>
2018-2020	<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. 	-	-
2021 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 	-	-

<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>
	<p>reservoirs, including production data from the Tamar reservoir.</p> <ul style="list-style-type: none"> • 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 Project⁴⁸

The Tamar project's production system includes 6 subsea production wells, an underwater production system that connects the production wells and the treatment and production platform (hereinafter: "**the Tamar⁴⁹ platform**"), the Tamar platform where most natural gas treatment takes place, a gas transmission system and condensate from the platform to the shore, and an onshore terminal in Ashdod (AOT – the Ashdod Onshore Terminal) (above and hereinafter: "**the Onshore Terminal**"), where the final treatment of the natural gas is done, from which the natural gas is fed to the INGL national transmission system of INGL and the condensate is fed to a nearby Ashdod refinery.

On August 29, 2016, the Minister of Energy granted the Tamar Partners⁵⁰ 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 maximum flow rate of gas from the Tamar project to the INGL transmission system is approximately 1.1 BCF per day. For details regarding the production data in the Tamar project, see Section 7.2.15 below.

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

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

The total cost invested in the Tamar Project, as described above, as of December 31, 2020 is approximately USD 4.6 billion (100%)(including exploration costs, and excluding retirement and abandonment costs, exploration costs in the Dalit Lease, costs of establishing a compressor at the entrance to the EMG system in Ashkelon and a Tamar Participation Fee (as this term is defined in Section 7.4.5(c)(2)).

7.2.7 Examining possibility of maintaining or increasing the Tamar project's production capacity

⁴⁸ 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.

⁴⁹ 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.

⁵⁰ 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.

Overall supply capacity of the Tamar facilities is currently limited to the flow capacity of the Double Pipeline (as defined in Section 7.9 below).

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, as well as laying a third additional supply pipeline from the Tamar field to the Tamar platform, depending on the volume of demand in the local market and for export.

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 below, the Tamar SW reservoir is to be developed by converting the exploratory drilling to a production drilling and connecting it to the underwater facilities of the Tamar project. For further details regarding the work plans and the budget for completing the development of the Tamar SW reservoir, see the table in section 7.2.5 above.

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. Following a mediation process between the Eran Partners and the Petroleum Commissioner, the parties reached agreements anchored in a mediation agreement, which was also given the consent of all Tamar partners, according to which the Tamar SW reservoir will be divided between the Tamar lease area (78%) and the Eran license area (22%) while the rights attributed to the Eran license area will be divided between the State (76%) and the holders of the rights in the Eran license (24%). On April 11, 2019, a judgment was given for the said mediation arrangement. As of the date of approval of the report, the parties have not yet reached the agreements required for the implementation of the mediation arrangement..

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 in light of the effect of various factors including, among other things, the economic slowdown in the local and worldwide energy sector, which may be caused even by the spread of the coronavirus epidemic (see in this regard Section 6.8.1 above) and affect the availability of equipment and professional employees required for purposes of operating and upgrading the production plants and also affect energy prices, resulting in the costs involved as mentioned above, the aforesaid planned work plan is 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 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 Investment⁵¹</u>	<u>Rate Grossed-Up to 100% Before Return on Investment</u>	<u>Rate Grossed-Up to 100% After Return on Investment</u>	<u>Explanations</u>
Actual rate in the petroleum asset attributable to the holders of equity interests of the Company	16.75%	16.75%	100%	100%	See the description of the chain of holdings in Section 7.2 above.
Actual rate in revenues from the petroleum asset attributable to the holders of equity interests of the Company	14.21%	13.74%	84.84%	82.02%	See the calculation in Section 7.2.10 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 7.2.11 below.

⁵¹ 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.

7.2.10 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 Company⁵²

<u>Item</u>	<u>Before Return on Investment</u>	<u>After Return on Investment⁵³</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 regarding the calculation method in connection with marine oil rights and the instructions of the Petroleum Commissioner regarding the calculation of the value royalties at the wellhead in the Tamar lease, 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.

⁵² According to a balancing agreement signed between Tamar partners in connection with the separate marketing of gas from the reservoir, there may be a change in the rate of participation in the annual revenues from the Tamar project depending on sales from the reservoir by a partner above / below its relative share in the reservoir. For further details see Section 7.5.1 below.

⁵³ See footnote 39 above.

<u>Item</u>	<u>Before Return on Investment</u>	<u>After Return on Investment⁵³</u>	<u>Concise Explanation of How Royalties or Payments Are Calculated</u>
	----- --	----- --	
Actual rate in revenues from the petroleum asset attributable to the holders of equity interests of the Company	14.21%	13.74%	

7.2.11 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%	

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

<u>Tamar Lease</u>		
<u>Item</u>	<u>Total rate of holders of equity rights of the Company in investments in this period in the petroleum asset (including costs for which no payments are made to the Operator)</u>	<u>Of which, rate of holders of equity rights of the Company in payments to the Operator (beyond reimbursement of Operator's direct expenses)</u>
Actual budget invested in 2018	29,303	290
Actual budget invested in 2019	39,028	383
Actual budget invested in 2020	About 23,110	About 221

<u>Dalit Lease</u>
<u>In the years 2018-2020 (inclusive) no actual budgets were invested in the Dalit Lease</u>

7.2.13 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**").
- (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,⁵⁴ and any and all the credits to the joint account,⁵⁵ 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.

(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

⁵⁴ 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.

⁵⁵ 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.

Petroleum Commissioner, except for assignment to a related party of the Operator as defined in the JOA.

- (4) The Operator is exclusively responsible for the management of the joint operations. The Operator may employ subcontractors and/or agents (which may be affiliates of the Operator) to execute such joint operations. The Operator will be responsible, inter alia, for preparing the work plans, budgets and payment authorizations, for executing the work plan by authorization of the joint operating committee, for planning and obtaining all the approvals and materials required for execution of same, and providing advisory services and technical services as required for efficient execution of the joint operation.
- (5) In the management of the joint operations the Operator will be required, inter alia, to carry out the joint operations in accordance with the terms and conditions of and the rules applicable to the Petroleum Assets, the JOA and the provisions of the operating committee. The Operator will fulfill its duties with proper diligence and in accordance with standard procedures in the petroleum industry.
- (6) The JOA lays down various provisions regarding the manner of the Operator's entry into contracts with third parties (according to approved budgets) based on the amount of the proposed contract. Under said provisions, depending on the amount of the proposed contract, the Operator must consult with the other parties regarding the criteria by which the candidates for the tender will be chosen, report to the parties about the bids received and obtain the operating committee's approval for selection of the candidate in the tender.
- (7) The Operator must acquire and maintain the insurance policies specified in the JOA in accordance with the provisions included therein. It is further required, that each of the parties to the JOA must arrange for itself, at its own expense, additional insurance to cover the risks related to the joint operations.
- (8) The Operator is further required, after receipt of reasonable prior notice, to permit the representatives of any party, at any

reasonable time and at their own expense and responsibility, access to the joint operations, including the right to observe joint operations, examine any joint property and conduct a financial audit in accordance with the Accounting Rules prescribed by the JOA.

- (9) Subject to the terms and conditions of the Petroleum Assets and the approved budget, the Operator will determine the number of employees and the number of contractors, choose them and determine their work hours and the consideration to be paid to them in connection with the joint operations.
- (10) The Operator will immediately notify the parties of any material and other claims filed as a result of the joint operations and/or related to the joint operations, as instructed by the operating committee. The Operator will represent the parties and defend against such claims. The Operator may, in its sole discretion, settle any claim or series of claims for an amount no greater than USD 75,000 (including legal expenses), and will seek authorization from the operating committee for any amount(s) exceeding such amount. No party will settle in respect of its relative share in any claim without first proving to the operating committee that it is able to do so without compromising the interests of the joint operations.
- (11) Any non-operator party will immediately notify the other parties of any claim made against it by a third party, arising from the joint operations or liable to affect the joint operations, and the non-operator party will defend itself against or settle such claim in accordance with instructions to be given by the operating committee. The costs and damages incurred in connection with the defense or settlement, which may be attributed to the joint operations, will be debited to the joint account.
- (12) The Operator will not be liable toward the other parties to the Agreement for any claim, liability, loss or damage, directly or indirectly, whether under an agreement, tort (including negligence) or otherwise, arising from the joint operation or in connection therewith, unless the claim, liability, loss or damage

arise out of willful misconduct by the Operator or the Operator's failure to obtain the required insurance coverage (unless the Operator took all reasonable means to obtain such insurance coverage and notified the other parties thereof), and in any event will not be liable for consequential damage, including but not limited to inability to produce petroleum, production loss or loss of profits. The foregoing does not exempt the Operator from liability for its share according to its participation rate, in any damage, loss or other liability.

(D) Operating Committee

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

(E) Work plans and budgets

- (1) The JOA sets procedures and processes for the submission and approval of work plans, budgets and authorizations for expenditure (AFE) for the performance of activities in the areas to which the JOA applies. It should be noted that the Operator may deviate from the AFE approved for the work plan by a rate no higher than 10% of the approved sum or by USD 1 million, whichever the lower.
- (2) Exploration plan and budget – The work plan and the budget will be approved by the operating committee. Authorizations for expenditure (AFE) in the framework of the work plan and the budget will be approved in accordance with the provisions prescribed in the JOA, unless at least 20% of the parties to the Joint Operating Agreement deliver a notice to the Operator of their objection to the approval of the AFE. Prior to an expenditure or an undertaking totaling more than USD 250,000 for any item in the approved work plan and budget, the Operator will send all the other parties a request for an AFE. In the event that the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000.
- (3) Development plan and budget – In the event 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.
- (3) 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.
- (4) 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.

- 7.2.14 Balancing agreement for the separate sale of natural gas produced from the Tamar reservoir

For details regarding the balancing agreement signed between Tamar Partners for the separate sale of natural gas produced from the Tamar reservoir signed on February 23, 2021, see section 7.5.1 below.

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 SW⁵⁶ reservoirs), and the discounted cash flow attributed to the Company's share deriving from the Tamar Lease, and regarding a report received from NSAI concerning such reserves and cash flow, as of December 31, 2020, see the Report on Reserves and Cash Flow, the information found therein is brought herein by way of reference. Attached as **Appendix A** to this report is the consent of NSAI to the inclusion of said report herein, including by reference.

(B) Production data

Below are data on production in the Tamar Project attributable to the Company in the years 2018-2020.⁵⁷

Natural Gas ^{58 59}				
		2018	2019	2020
Total output (100%) in the period (in MMCF)		363,951	368,713	291,337
Total output (attributable to the holders of the Company's equity rights) in the period (in MMCF)		55,881	61,759	48,799
Average price per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		5.49	5.59	5.14
Average royalties (any payment derived from the output of the producing asset including from the	State	0.61	0.64	0.58
	Third parties	0.06	0.06	0.13

⁵⁶ The reserves in the Tamar SW reservoir do not include the part that overflows into the area of the Eran License.

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, 2020, natural gas was supplied to customers in a total quantity of about 69 BCM. It should also be noted that the average production volume per day of natural gas in recent years (1.1.2019-31.12.2020) amounted to approximately 903 MMCF (approximately 0.903 BCF).

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 Until March 13, 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%.

Natural Gas ^{58 59}				
		2018	2019	2020
gross income from the oil asset) paid per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)	Interested parties	0.21	0.22	0.12 ⁶⁰
Average production costs per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		0.39	0.46	0.40
Average net receipts per output unit (attributable to the holders of the Company's equity rights) (dollar to MCF)		4.22	4.21	3.91
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)		4.22	4.21	3.91
Depletion rate in the reporting period from total gas quantities in the project (percentage) ⁶¹		3.3	3.3	2.70

⁶⁰ As a result of the sale of Delek Group Ltd.'s holdings in Cohen Gas and Oil Development Ltd. (owner of royalties from the company) (hereinafter: "**Cohen Development**") to third parties carried out in April 2020, Cohen Development ceased to be an interested party in the company from that date. As a result of a special takeover bid for the shares of Delek Royalties (2012) Ltd. (owner of royalties from the company) (hereinafter: "**Delek Royalties**") made in November 2020, Delek Group's holdings in Delek Royalties shares decreased, so as from that date Delek Royalties ceased to be an interested party in the company. The royalties paid to Cohen Development and Delek Royalties after the date on which they ceased to be an interested party in the company are included in royalties paid to third parties.

⁶¹ 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 ^{62, 63}				
		2018	2019	2020
Total output (100%) in the period (in MMCF)		477.09	482.29	383
Total output (attributable to the holders of the Company's equity rights) in the period (in thousands of barrels)		73.2	80.8	64.1
Average price per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)		63.4	56.4	34.9
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	7.1	6.5	3.9
	Third parties	0.7	0.6	0.9
	Interested parties	2.3	2.2	0.8 ⁶⁴
Average production costs per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)		2.1	2.5	2.2
Average net receipts per output unit (attributable to the holders of the Company's equity rights) (dollar to barrel)		51.2	44.6	27.1
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)		51.2	44.6	27.1
Depletion rate in the reporting period from total condensate quantities in the project (percentage) ⁶⁵		3.3	3.3	2.7

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.:

⁶² 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.

⁶³ See footnote 49 above.

⁶⁴ See footnote 50 above.

⁶⁵ The quantity of condensate produced from the Tamar Project is derived directly from the quantity of natural gas produced from the project.

2017-01-056551) (the "**First Prospectus**"). For details regarding a report the Company received from NSAI concerning such resources as of December 31, 2017, see the Shelf Offering Report of March 12, 2018 (Ref. No.: 2018-01-019125) to which the NSAI reports are attached and the contents of which are included herein by reference. As of December 31, 2020, 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 it 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.
- (c) 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 rate of condensate produced in relation to the amount of gas produced, is small and amounts 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 an agreement 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 Tamar Partners export natural gas to Jordan and Egypt under the agreements specified in Section 7.4.5(a) 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 sales of gas to the IEC accounted for approximately 50%, 46% and 34% of its total revenues in 2018, in 2019 and in 2020, respectively. The rest of the revenues in 2020 came from private electricity producers, industrial customers and natural gas marketing companies. It should also be noted, the more the customer base of the Company continues to expand in the domestic and international markets, so will the dependency on the IEC continue to decrease. For details regarding the agreements between the Tamar Partners and the IEC, see Section 7.4.4(c) 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

The following table presents condensed details of the agreements for the supply of natural gas by Tamar Partners, as of the report approval date. 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 2018-2020 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, (if so decided). For further details of the agreements, see below in this Section.

	Supply Commencement Year	Basic Agreement Period⁶⁶	Is there an Extension Option?⁶⁷	Balance of the Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM)⁶⁸	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
IEC ⁶⁹	2013	15 years	The IEC has the option of extending the term of the agreement by another two years, insofar as the full total amount of contract gas has not been supplied in the basic period.	Approx. 54.4	Approx. 32.6	The U.S. CPI. ⁷⁰

⁶⁶ 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.

⁶⁷ In some of the supply agreements in which the purchasers have options to extend the agreement, certain conditions for their implementation are defined in the agreement.

⁶⁸ 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 b.1 below. It should be noted that quantities for which reduction notices were actually given at the date of approval of the financial statements, were reduced from the balance of the overall amount for supply.

⁶⁹ In the Company's estimation, as of December 31, 2020, the balance of the financial amount of the agreement with the IEC stands at USD 2.5 billion (100%), based on terms of the supply agreement with the IEC (including the settlement agreement dated January 30, 2021 as described in Section 7.4.4(e)(3) below, and the Company's estimates regarding the amounts of gas and the price of gas to be purchased by the IEC.

⁷⁰ Except for quantities in the amount of approximately 1.25 BCM that were settled in the framework of a settlement agreement signed between Tamar Partners and the IEC in January 2021, which are not linked. See Section 7.4.4 (e) (2) below.

	Supply Commencement Year	Basic Agreement Period⁶⁶	Is there an Extension Option?⁶⁷	Balance of the Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM)⁶⁸	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
Dalia Power Energies ⁷¹	2015	17 years	Each party has the option to extend the agreement for another two years, provided that the total contractual amount of gas has not been provided in the basic period.	Approx. 17	Approx. 6.3	The linkage formula is mostly based on linkage to the Electricity Production Tariff and includes a "floor price." ⁷²
Other private electricity producers ⁷³	2013-2020	15-18 years except for an eight-year agreement and two agreements for short-term periods	In most of the agreements both parties are granted an option for extension by one to three additional years to the extent that the total contractual amount	Approx. 20.5	Approx. 19.4	The linkage formula in most of the agreements is based on linkage to the Electricity Production Tariff, and it includes a "floor price."

⁷¹ In the Company's estimation, as of December 31, 2020, the balance of the financial amount of the agreement with Dalia Energies stands at up to about USD 1 billion (100%), based on the terms of the supply agreement signed with the purchaser and the Company's estimates of the quantities of gas and the price of the gas to be purchased by the purchaser, as well as the date on which notice of the reduction option will be given..

⁷² The linkage to the electricity generation tariff in the supply contracts for electricity producers is in accordance with the terms of the Alternative set forth in the Gas Outline. For details, see section 7.16.1 3 (c) (1) b below.

⁷³ For further details regarding Tamar Partners' engagement with I.C.L. Group Ltd. (hereinafter: "ICL"), see Immediate Reports from 30.8.2020 (Reference No. 2020-01-095340), 4.10.2020 (Reference No. 2020-01-107763) and 12.11.2020 (reference number 2020-01-122013), of which the information contained therein is presented in the report by way of reference. It should be noted that the Company estimates that the balance of the financial scope of the agreement with ICL will be approximately \$ 107 million (approximately 0.75 BCM) (100%) based on the Company's estimates regarding the quantities of gas purchased by it and the date of commercial operation of the Karish reservoir.

	Supply Commencement Year	Basic Agreement Period⁶⁶	Is there an Extension Option?⁶⁷	Balance of the Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM)⁶⁸	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
			of gas was not consumed in the basic period.			
Industrial customers and natural gas marketing companies ⁷⁴	2013-2020	Up to 7 years	In one agreement, the customer has the option to extend for a period of up to six months.	Approx. 1.6	Approx. 7	Up to the year 2020 - The linkage formula in most of the agreements was based on linkage to the Brent prices and includes a "floor price" (in one agreement, in addition to the aforesaid, the linkage formula was based on the Electricity Production Tariff). As of the year 2020 – Most of the amounts in the agreements are without linkage.
Export agreements						
Export agreements to Jordan (described in Section 7.4.5(a) below	2017 and 2018	13-15 years	Both parties have an option for extension by two additional years, insofar as the contractual amount of gas was not consumed in the basic period.	Approx. 2.3	Approx. 0.65	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."

⁷⁴ For further details regarding Tamar Partners' engagement with Oil Refineries Ltd. (hereinafter: "Bazan"), see Immediate reports, of which the information contained therein is presented in the report by way of reference as stated in footnote 72 above. It should be noted that in the Company's estimate the balance of the financial scope with Bazan will stand at about \$ 155 million (about 1.1 BCM) (100%) based on the Company's estimates of the quantities of gas it will purchase and the date of commercial operation of the Karish Reservoir.

	Supply Commencement Year	Basic Agreement Period ⁶⁶	Is there an Extension Option? ⁶⁷	Balance of the Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM) ⁶⁸	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
Export agreement to Egypt (described in Section 7.4.5(b) below	2020	15 years	In the event that the purchaser does not purchase the total contract quantity in the basic period, the delivery period will be extended by an additional two years.	Approx. 25	Approx. 0.25	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."
Total				Approx. 120.8	Approx. 66.2 ⁷⁵	

⁷⁵ Said quantity does not include the gas quantities sold to customers of the Yam Tethys Project in previous years.

(A) The following table presents a breakdown of the Company's revenues for the years 2018, 2019 and 2020 according to the price linkage basis specified therein⁷⁶:

	2018		2019		2020	
Customer Type	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 (US CPI)	Approx. 154.3	Approx. 50	Approx. 159.3	Approx. 46	Approx. 87	34
Industrial customers and marketing companies (including export)	Approx. 34	Approx. 11	Approx. 42	Approx. 12	Approx. 43	Approx. 17
Private electricity producers						
Dalia Power Energies Ltd.	Approx. 31.5	Approx. 10	Approx. 34.2	Approx. 10	Approx. 31	Approx. 12
Others	Approx. 91.5	Approx. 29	Approx. 114.4	Approx. 32	Approx. 93	Approx. 37

⁷⁶ It should be noted that the following data (up to March 13, 2018) relate to rights in the Tamar Lease at a rate of 9.25%, for which the data starting from March 14, 2018 relate to rights in the Tamar Lease at a rate of 16.75%.

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

- (1) Most of the long-term gas supply 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. In agreements that include a Minimum Gas Quantity Purchase obligation as stated above, provisions and mechanisms have been established, inter alia, allowing 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 (Make Up).
- (2) 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**").
- (3) 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, 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 agreements (in this section, 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.

- (4) In this connection it is noted that during the years 2019-2020 the Tamar Partners signed amendments to the agreements with several private electricity producers, including Dalia Energies, 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 those Electricity Producers will exercise the Reduction Option (in this section, the "**Period**"), if and to the extent they will exercise it, and in some of the agreements up to the date of commercial operation of the Karish reservoir or the end of 2022, whichever is earlier, if they so exercise. 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 to the agreements have entered into force, including the amendment to the agreement with Dalia Energies. It should be noted that up to the date of approval of the report, a number of customers issued notices of the exercise of the said reduction option, including a number of different private electricity producers. These notices

are expected to take effect during the years 2021-2022. For further details, see the table presented in section 7.4.4 (a) above.

- (5) Pursuant to the terms 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 was granted also in agreements signed up to December 13, 2020 for a longer than 8-year period. For details see Section 7.16.1 below. During 2020, two customers announced the exercise of the early termination option and accordingly, the agreements with these customers ended on March 1, 2021.
- (6) 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 a minimum quantity of gas will not apply during the Interim Period.
- (7) 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, commencing on that date the Tamar Partners would supply natural gas to these customers under the agreements on a firm basis starting from October 1, 2020. Furthermore, 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. During 2020, Tamar Partners issued similar notices to additional customers, in relation to which the interim period ended at various dates, between August 2020 and January 2021.

- (8) 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.
- (9) The agreements are subject to Israeli law and are construed in accordance therewith.

(C) 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, inter alia, in connection with the exercise of the options granted to IEC for

increasing the gas quantities that the IEC will consume (hereinafter: "**the IEC-Tamar Agreement**") .

- (2) The period of the IEC-Tamar 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) (3) The total contractual amount stipulated in the IEC-Tamar agreement (as amended) is approximately 87 BCM and the minimum amount to be charged, from 1.1.2019 until the end of the agreement period, will be approximately 3 BCM per year.

The agreement contains provisions regarding the calculation and adjustment of the Minimum Quantity for billing, including under circumstances of *force majeure* or of non-supply by the sellers A mechanism was determined for accumulating a balance in respect of excess quantities consumed by the purchasers in any year and utilized to reduce the purchasers' obligation to purchase the minimum quantity as stated above in a number of years thereafter (Carry Forward), accordingly, the IEC may reduce the quantity purchased, utilizing the said mechanism, to a level of 1.75 BCM per year (so that the maximum quantity that can be utilized in a calendar year is 1.25 BCM). The quantity accumulated to the credit of the IEC under the Carry Forward mechanism as of December 31, 2020 amounts to 1.86 BCM (for 100% of the reservoir),.

- (4) The gas price is determined according to a formula which includes a base price and linkage mechanism which is based on the U.S. CPI, in relation to some of the amounts, and subject to certain adjustments.
- (5) 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.⁷⁷ If the Tamar Partners and the IEC do not reach agreement on the price adjustment rate, each party may refer the matter to arbitration. As part of the discounted cash flow included in the reserve and cash flow statement, the Company assumed that on the first adjustment date the gas price would be reduced by 25%, and that on the second adjustment date the gas price would be reduced by 10%.

- (6) 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.
- (7) Provisions were stipulated, inter alia, in the agreement, pursuant to which 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

⁷⁷ In this regard, see the Company's assumptions in respect of the data for the discounted cash flow attributed to the Company's share included in the reserves and cash flow report.

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.

- (8) 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.
- (9) It was determined in the agreement 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.

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.

- (10) 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.
- (11) 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.
- (12) 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).
- (13) 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.

- (14) 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.

(D) Competitive Procedure of the IEC for the supply of natural gas in the short term

On December 2, 2018, the IEC transferred to Tamar Partners and to the partners in the Leviathan reservoir (hereinafter: "**Leviathan Partners**") a request to receive proposals for the supply of natural gas in a total amount estimated at up to 2 BCM per annum, 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). On March 7, 2019, the IEC submitted bids on behalf of Tamar Partners and Leviathan Partners, and on April 4, 2019, Tamar Partners received a notification from the IEC stating that their offer was not selected by the IEC, and subsequently, to the best of the Company's knowledge, the IEC and Leviathan Partners signed a gas supply agreement (hereinafter: "**IEC-Leviathan Agreement**").

For details regarding an administrative appeal filed by some of the Tamar Partners (the Company; Isramco Negev 2, Limited Partnership; Dor Gas Exploration, Limited Partnership; Everest

Infrastructure, Limited Partnership) (hereinafter: "Tamar Partners who do not own the Leviathan Project"), against the IEC and Leviathan Partners, in connection with the said competitive process, which was dismissed, as well as regarding an appeal against such a judgment, which was filed with the Supreme Court on the matter, which was dismissed; see section 7.21.5 below.

(E) Addendum to the IEC-Tamar agreement and settlement agreement

- (1) In 2019, contacts were conducted between Tamar partners who do not own the Levitan project and the IEC for a possible amendment to the HHI-Tamar agreement. Following these contacts, disputes arose between the said Tamar partners and Delek Drilling and Noble, including the ability of Delek Drilling and Noble to prevent the aforesaid amendment, following which the Tamar Partners who do not own the Leviathan project asked the Competition Commissioner to clarify that Delek Drilling and Noble are not allowed to exercise a veto right (separately or together) and thus prevent joint marketing of gas from the Tamar lease. For further details, see section 7.16.4 (D) below.
- (2) On October 4, 2020, the Company and the other Tamar Partners who do not own the Levitan project (hereinafter together: the "Sellers") signed with the IEC an Addendum to the IEC-Tamar agreement (hereinafter: the "Addendum"), according to which the price will be updated of natural gas quantities that will be supplied to the IEC, insofar as they are supplied, above the minimum amount to be charged according to the IEC-Tamar agreement. The sellers informed the other Tamar Partners - Noble and Delek Drilling, that they are given an option to join as parties to the Addendum within 60 days from the date of its signing, and if they choose not to do so, the sellers will supply the IEC the quantities ordered under the Addendum from their share in the Tamar reservoir reserves. Subsequently, Delek Drilling and Noble informed the sellers that they would not join the Addendum. In addition, when the IEC ordered quantities of gas under the Addendum, Noble refused to supply the

quantities ordered under the Addendum on the grounds of its claim that the Addendum was not valid.

Following this, the sellers and the IEC approached the Competition Commissioner, asking for her intervention. During the fourth quarter of 2020, the IEC was supplied with gas quantities of approximately 0.81 BCM at various prices by either Tamar Partners who do not own the Leviathan project, or Delek Drilling and Noble, in light of an indemnity arrangement agreed between the sellers and the IEC.

For further details, see Note 3C to the Interim Condensed Financial Statements as of September 30, 2020, which are included in the third quarter report for 2020, published on November 15, 2020 (Reference No. 2020-01-122466).

- (3) On January 30, 2011, Tamar Partners and the IEC signed a settlement agreement regarding disputes that arose in connection with the Addendum to the IEC-Tamar agreement described above (hereinafter in this section: "Settlement Agreement" and "Disputes", respectively).

The settlement agreement stipulates, *inter alia*, that (1) the Addendum to the IEC-Tamar agreement will be canceled; (2) quantities of gas in the amount of 0.81 BCM 0.81 from the Tamar reservoir by virtue of the Addendum during the fourth quarter of 2020 will be charged relative to all the Tamar Partners a fixed price that varies according to the quantity purchased, which is lower than the price of gas according to the IEC-Tamar agreement; (3) the quantities supplied as aforesaid in the fourth quarter of 2020 shall be deducted from the balance of the quantity accrued to the credit of the IEC at the end of 2020 under the Carry Forward mechanism ⁷⁸; (4) The IEC will purchase additional quantities of gas during the first half of 2021, in addition to the minimum amount to be charged under the IEC-Tamar agreement, under the same price terms, to an extent not less than 0.44 BCM and, under certain conditions, additional quantities if these are not provided by Leviathan Partners. These

⁷⁸ It should be noted that the amount accumulated to the credit of the IEC under the Carry Forward mechanism as of December 31, 2020, as stated in section 7.4.4 (c) (3) above, is after such reduction.

quantities will not be taken into account in calculating the minimum amount to be charged and in calculating the Carry Forward balance for 2021 under the IEC-Tamar Agreement.

The settlement agreement also stipulates that the maximum daily contractual amount that Tamar Partners will be obligated to supply to the IEC by virtue of the IEC-Tamar agreement in the first half of 2021 will be limited to 500,000 MMBTU (compared with 655,000 MMBTU as stipulated in the IEC-Tamar agreement).

Under the settlement agreement, the parties waived their claims in connection with the disputes.

The settlement agreement is subject to the existence of conditions precedent and regulatory approvals, including, inter alia, approval by the Competition Authority, approval by the Electricity Authority (as required), and approval by the Competition Tribunal of an Agreed Order under Section 50B of the Economic Competition Law, 1988, according to which the Competition Commissioner will not continue dealing with and will not take enforcement action against Noble for the complaints filed against it in connection with the Addendum, mutual waiver of claims against Ratio in connection with the disputes. Insofar as the conditions precedent are not met within 30 days of signing the settlement agreement, 60 days, each party shall have the right to cancel the agreement. As of the date of approval of the report, all the aforesaid conditions have not yet been met.

Simultaneously with the aforesaid settlement agreement, a Memorandum of Principles was signed for the separate marketing of the gas produced from the Tamar reservoir, following which a balancing agreement was signed for the sale separately from the Tamar reservoir, as specified in section 7.5.1 below.

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 and the total revenues likely to derive from the sale of gas to the IEC under

the above settlement agreement, constitute forward-looking information as defined in the Securities Law, in respect of which there is no certainty it will materialize, in whole or in part, and which might materialize in a significantly different manner, due to different factors, including the non-fulfillment of the conditions precedent in each of the supply agreements (to the extent such have not been fulfilled yet), non-receipt of regulatory approvals, changes in scope, rate and timing of the natural gas consumption by each of such purchasers, the gas prices which will be determined according to the formulas prescribed in the supply agreements, the Electricity Production Tariff, the dollar-shekel exchange rate (to the extent relevant to the supply agreement), the Brent prices (to the extent relevant to the supply agreement), the U.S. CPI (to the extent relevant to the supply agreement), 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, changes in the volume and timing of natural gas consumption by the IEC due to restrictions on the production capacity of the Leviathan and / or Tamar reservoirs or as a result of changes in demand or non-fulfillment of conditions beyond the Company's control 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 Chevron, which is the controlling shareholder in Noble, the operator of the Tamar Project.

Concurrently with the signing of the First 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 First 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 consumers in 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, as detailed below.

On February 19, 2018, Delek Drilling and Noble (jointly in this section: the "**Sellers**") signed an agreement with Dolphinus Holdings Limited ("**Dolphinus**" or the "**Purchaser**") for the sale of natural gas from the Tamar Project to Dolphinus (in this section: 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 Dolphinus (the "**Amended Export Agreement**"), as described below.

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 will conduct 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 signing 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-Dolphinus Agreement**").

In June 2020, Dolphinus assigned the export agreement to an affiliate of Blue Ocean Energy.

In July 2020, after a discharge permit was obtained from the Natural Gas Authority and the running in of the compressor installed at the EPA site in Ashkelon was completed, the flow of gas began from the Tamar reservoir to Egypt.

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) 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.

- (4) Under the Amended Export Agreement the Tamar Partners undertook to supply to Dolphinus 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. It should be noted that the date of the increase in the flow of natural gas to Egypt as stated above depends, among other things, on the completion of the section of the Ashdod-Ashkelon Marine Transmission System by INGL (see section 7.5.2 (c) (2) below).
- (5) 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 \$50⁷⁹. 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 (6) below, the Purchaser's right to reduce the minimum annual quantity as stated in this subsection above will be canceled. It should be noted that during the second half of 2020 the average daily price of Brent (as defined in the amended Tamar-Dolphinus agreement) was below \$ 50 per barrel.
- (6) 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

⁷⁹ The calculation is based on the average Brent price in a "contract year", with the first period beginning on June 30, 2020 and ending on December 31, 2020. Thereafter, the examination is made in relation to the year beginning on January 1 and ending on December 31.

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 on the price update rate, the buyer will be able to reduce the quantity it undertook to purchase 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. As part of the discounted cash flow included in the reserves and cash flow statement, the Company assumed that on the first adjustment date, the price of gas will be reduced by 10%.

- (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-Dolphin Agreement due to a breach thereof, and the refusal of the Tamar Partners to supply also the quantities specified in the Amended Leviathan-Dolphin 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-Dolphin Agreement includes similar provisions with respect to the Amended Export Agreement.

Simultaneously with the signing of the amended export agreement, a Capacity Allocation Agreement was signed on September 26, 2019 regarding the allocation of capacity available in the transmission system from Israel to Egypt, between Delek Drilling and Noble, Leviathan Partners and Tamar Partners (hereinafter: the "Capacity Allocation Agreement"), 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 million⁸⁰ (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 Amended Leviathan-Dolphinus 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.

⁸⁰ Company's share – approx. \$8.4 million.

- (4) The Capacity Allocation Agreement likewise establishes principles for a "backstop" arrangement between the Leviathan Partners and the Tamar 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.

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. In July 2020, with the conclusion of the running in of the compressor at the entrance to the system in Ashkelon, the supply of natural gas from the Tamar reservoir under the Amended Export Agreement began. To the best of the Company's knowledge, the supply of natural gas to Egypt from the Leviathan reservoir under the Amended Leviathan-Dolphinus Agreement began on January 15, 2020.

During 2020, Tamar Partners provided the purchaser with approx. 0.25 BCM in accordance with the terms of the amended Tamar-Dolphinus agreement.

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.

In February 2021, the parties signed an amendment to the condensate agreement. As part of the amendment, the engagement period was extended until December 31, 2030, and it was agreed to update the margin to be deducted from the Brent price.

7.5 Marketing and distribution

7.5.1 Supply to the domestic market

The Tamar Partners are working to market natural gas and condensate to existing consumers, and to potential consumers, 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)(3) and 3(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.

Until recently, the gas produced from the Tamar reservoir was marketed jointly, so that all the Tamar partners entered into the supply agreements signed with the customers.

On January 30, 2021, a Memorandum of Principles was signed, following which a binding balancing agreement was signed as detailed below, the purpose of which is to allow each partner in the reservoir to market gas separately, not jointly with the other partners in the reservoir, and to allow the partner to market gas beyond its relative share of output subject to the availability of available production capacity on a daily basis and to the extent that another partner did not market its share of the gas on that day. In such a case, balancing arrangements will apply in order to balance, as necessary, the partners' rights in relation to the gas sold, in accordance with the partners' relative share in the reservoir. Principles were also established regarding the right of a partner to join agreements for the sale of gas entered into by another partner in the reservoir, to allow Tamar Partners to market their share of gas in the Tamar reservoir in the event that marketing is not done by all partners in the reservoir, without prejudice to the possibility of marketing gas from the reservoir subject to regulatory decisions (hereinafter in this section: "**Memorandum of Principles**"). For further details, see Immediate Reports dated 31.1.2021 (Reference No. 2021-01-012915) and dated 18.2.2021 (Reference No. 2021-01-020530), the details of which are hereby incorporated by reference.

On the basis of the Memorandum of Principles, on February 23, 2021, a balancing agreement was signed between Tamar Partners for the selling separately from the Tamar reservoir, the purpose of which is to determine the rules and mechanisms detailed in connection with each Tamar Partner's share in gas production in accordance with the Joint Operating Agreement, as well as balancing arrangements that will apply between the partners in the event that the marketing of the gas is not done in accordance with the relative share of the partners in the said output (hereinafter: "**the Balancing Agreement**" or "**the agreement**"). The following are the main points of the agreement:

- a) Each partner will have the right to join as a full party to a gas supply contract from the Tamar reservoir (hereinafter: "supply contract") to be signed by another partner in accordance with its relative share in the reservoir and the mechanisms and conditions set forth in the agreement (hereinafter: "**the Right to Join**"). With respect to an export supply contract, the right to join is subject to arrangements to be agreed between the partners individually in relation to each export supply contract.
- b) The agreement includes various arrangements and mechanisms that allow the partner to market, subject to available capacity on a daily basis, quantities of natural gas in excess of its relative share in Tamar (hereinafter: "surplus partner"), after first allowing each other partner to order its full share in the output and a particular partner did not market its full share of the daily output (hereinafter: "deficit partner"). In such a case, balancing arrangements will apply between the partners, in order to balance the partners' rights in relation to the gas sold according to their relative share in the reservoir: in money (i.e. through a reduced payment to be made by a surplus partner to a deficit partner) or in gas (i.e. the deficit partner will receive additional quantities of gas in the future beyond its relative share in output in order to reach a balance), at the choice of the deficit partner, all in accordance with and subject to stipulation in the agreement. In addition, the agreement stipulated mandatory balancing arrangements for money in each of the following cases: (1) when a deficit partner accrued credit for excess gas quantities in excess of a ceiling set in the agreement; (2) at the time the operator determined that proven reservoirs of gas in the amount of 60 BCM remained in the reservoir; (3) on the date on which the production from the reservoir ends or on the date on which the Deed of Lease expires or is terminated, under the conditions set forth in the agreement.
- c) The operator shall be responsible, inter alia, for implementing the provisions of the agreement and managing the orders thereunder as well as supplying the gas at the point of delivery in accordance with its provisions. The operator's liability for breach of its obligations under the agreement shall be subject to the limitations and exceptions set forth in the Joint Operating Agreement.

- d) In the event of a conflict between the agreement and the Joint Operating Agreement, the provisions of the agreement shall prevail.
- e) Each party to the agreement shall bear the payment of taxes, royalties according to law, levies and payments according to law applicable to the gas it has taken, and settlement arrangements have been established regarding what is said between a deficit partner and a surplus partner in the event of balancing money. It is further stipulated that the parties will apply to the tax authorities and the Ministry of Energy in joint requests to regulate the manner of reporting and payment of statutory royalties, levies, and taxes in relation to the agreement, and that until the authorities decide, the reports and payments will be made in accordance with current practice.
- f) The entry into force of the balancing agreement is subject to the approval of the Competition Authority (as required). In the event that such approval is not received by May 31, 2021, the agreement will end with 30 days' prior notice by either party (unless such approval is received prior to the termination of the agreement). The agreement will be valid until the end of the Joint Operating Agreement. As of the date of approval of the report, the Competition Authority informed Tamar's partners that it leaves to their self-assessment whether the balancing agreement amounts to a material change in the restrictive arrangement approved by the Commissioner on 22.8.2006 (see section 7.16.4 below) that requires an exemption.
- g) To the extent that any of the partners requests to transfer his rights in the Tamar Lease to another / others, the said rights will be transferred together with the rights and obligations of the partner according to the balancing agreement.
- h) The law applicable to the Agreement shall be the laws of England and Wales. Any dispute between the parties, which does not reach a solution in accordance with the mechanism set forth in the agreement, will be referred to arbitration in accordance with the arbitration rules of the International Chamber of Commerce as stated in the agreement. A party wishing to appeal the operator's determinations concerning, inter alia, the disposable output, the allocation of orders and the date referred to in section b (2) above or the determination of any party to the agreement

regarding the relevant prices for balancing money, may refer the matter to the decision of an expert to be appointed pursuant to the provisions of the agreement, whose decisions are final and binding except in case of fraud or significant error. To the extent that the expert does not resolve the dispute, the dispute shall be referred to arbitration as aforesaid.

- i) The implementation of the provisions of the agreement requires the establishment of various systems and the adoption of procedures as well as the receipt of approvals and clarifications from the various tax authorities and regulators. Therefore, an interim period has been stipulated in the agreement, from its signing until 1.7.2021, at the end of which it will only be possible to make balancing arrangements (in cash or in gas).

For further details, see the Immediate Report dated 23.2.2021 (Reference No. 2021-01-021753), the details of which are hereby incorporated by way of reference.

7.5.2 Export

- (A) The Company, together with the Tamar Partners, is acting 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.

For details regarding the engagements in the gas supply agreements to customers in Jordan and Egypt and regarding the Capacity Allocation Agreement signed in connection with the EMG pipe and the transmission pipeline in Israel, see Section 7.4.5(c) above.

- (B) 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. Subsequently, on July 19, 2020, Government Decision No. 235 was made in which the government ratified an agreement signed between Israel, the Republic of Cyprus, the Republic of Greece and

the Republic of Italy, regarding the pipeline system for transporting natural gas from the Eastern Mediterranean to European markets, and the decision to give responsibility to the Minister of Energy for executing the agreement, and give responsibility to the Finance Minister to notify the parties of its ratification⁸¹. In the framework of the agreement, 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; and it was agreed that it would be possible to attach other countries to the project with the consent of all the founding countries⁸². On October 29, 2020, the Ministry of Energy issued a notice regarding the approval of the Petroleum Commissioner in the Ministry of Energy, to the company selected, to begin conducting a preliminary survey to gather information for the laying of the said transmission pipeline and its engineering route. The announcement said that the survey, which will begin with Israeli sovereign waters in the east to the border of Israel's economic waters in the west, and continue west in Cypriot and Greek waters, is the first operational step in advancing the project.⁸³

(C) The following is a description of the key potential target markets for the export of natural gas through pipelines from the Tamar Project⁸⁴:

- (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. 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

⁸¹ For information on the Government's decision, see the Government's announcement of July, 19, 2020: https://www.gov.il/he/departments/policies/dec235_2020

⁸² For information about the "East-Med" agreement on the gas pipeline that will pass from Israel, via Cyprus and Greece to Europe, see the Ministry of Energy's announcement of January 1, 2020: https://www.gov.il/he/departments/news/ng_021220

⁸³ For the announcement of the Ministry of Energy dated October 29, 2020 regarding approval to conduct a preliminary survey, see: https://www.gov.il/he/departments/news/east_med_291020

⁸⁴ Said information is based, inter alia, on various publications and data from various consulting companies.

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 the Jordanian side, and from there to the existing transmission pipeline in Jordan. Domestic consumption of gas in Jordan stood at 4 BCM in 2020, similar to the volume of consumption in 2019, and is expected 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 targets set by the Jordanian government are for renewable energy resources to account for about 20% of the volume of electricity produced in 2020 and about 50% in 2040.

- (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. 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 reached a peak of 7.2 bcf/d during 2020. The increased production from the Zohr

field together with the import of gas from Israel enabled, in early February 2021, the renewal of the supply of gas to the liquification facility in Damietta after about eight years in which it was shut down. However, it is expected that the gas export capacity from the facility will be limited until after the summer of 2021. To the best of the Company's knowledge, after reaching its peak, Egypt's gas production is expected to remain more or less constant for the next two years and then, assuming no significant gas discoveries in Egypt, a decrease is expected in natural gas production by the end of the decade. 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. Also, to the best of the Company's knowledge, Egypt is working to turn it into a natural gas export and import center for all countries in the region (HUB), while promoting natural gas supply projects from Israel and Cyprus.

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.

With the engagement with INGL in transmission agreements with the operation of the compressor at the entrance of the EMG system in Ashkelon in July 2020, the throughput capability increased via the EMG Pipeline, using the existing infrastructure of the INGL transmission system, up to about 450,000 MMBTU per day (approx.. 4.5 BCM per year).

To the best of the Company's knowledge, on May 28, 2019, an agreement was signed between INGL and Noble for the supply of interruptible transmission services (Hereinafter in this section: the "**2019 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 which the gas is transmitted to Egypt via the EMG pipe.

In the 2019 agreement it was stipulated, inter alia, that the payment under it 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, and that the Agreement will be in force from the date of its signature until January 1, 2023.

On January 18, 2021, a transmission agreement was signed between Noble and INGL on a binding basis (Firm) (hereinafter in this section: "**the Transmission Agreement**"), the main points of which are described below:

- a. INGL will establish the section of the Ashdod-Ashkelon marine transmission system, subject to the provisions of the transmission agreement.
- b. INGL undertook to provide transmission services (on a binding basis) for the natural gas to be supplied from the Tamar reservoir and the Leviathan reservoir, including maintaining basic capacity in the transmission system at an annual volume of approximately 5.5 BCM (hereinafter: "**the Basic Capacity**"), in exchange for fixed capacity fees. In respect of the basic capacity and transmission fees in respect of the amount of gas actually throughput in accordance with the usual transmission rates in Israel, as will be updated from time to time⁸⁵. INGL also undertook to provide discontinuous transmission services on an interruptible basis of additional quantities beyond the basic capacity, subject to the capacity that will be available in the transmission system, in exchange for the throughput fees for the quantities of gas that will actually be throughput as stipulated in the transmission agreement.
- c. The transmission period under the 2019 agreement will be extended until January 1, 2024 or until the start date of the

⁸⁵ As of the date of approval of the report, the capacity and throughput fees charged by INGL to its customers amount to approximately 90 agorot per MMBTU. It should be noted that on January 7, 2021, the Natural Gas Authority published a hearing regarding the reduction of the capacity and throughput fees by approximately 5%.

transmission under the transmission agreement, whichever is earlier.

- d. The throughput of gas under the transmission agreement will begin on the date on which INGL completes the construction of the Ashdod-Ashkelon marine transmission system section (hereinafter: "**the date of commencement of the throughput**"). The Ashdod-Ashkelon marine section will be established in accordance with 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. (hereinafter: "**the Council Decision**"). According to the transmission agreement, the start date of the throughput is expected to occur between July 2022 and April 2023.
- e. The transmission agreement will end at the earlier date of: (1) the date on which the total amount to be throughput will be approximately 44 BCM; (2) 8 years after the actual start of the throughput; or (3) upon the expiration of the transmission license of INGL. If the parties agree to increase the basic capacity then the quantity mentioned in paragraph (b) above shall increase accordingly. In the Company's estimation, no difficulty is expected in extending the agreement upon its termination at the capacity and transmission rates that will be customary at that time.
- f. In accordance with the Council's decision, Noble undertook to pay for the share of the partners in Tamar and the partners in Leviathan (56.5%) of the total cost of establishing the Ashdod-Ashkelon maritime section, which is currently estimated at NIS 738 million. In addition, Noble undertook with regard to the capacity of the transmission infrastructures to pay the amount of NIS 27 million for the share of the partners in Tamar and the partners in Leviathan in the advance costs of doubling the Dor-Hagit and Soreq-Nesher segments (currently estimated at about NIS 48 million). In accordance

with the Capacity Allocation Agreement (as defined below), the Company estimates its share of the aforesaid costs may amount to approximately NIS 23 million.

- g. In accordance with the Council's decision, Tamar's partners and Leviathan's partners will provide bank guarantees to secure INGL's share in the construction of the infrastructure as stated in section 7.16.9 (d) (1) h. below, as well as bank guarantees to secure some of the obligations under the transmission agreement as set out in detail in the transmission agreement. The Company is to provide bank guarantees in accordance with the above in the total amount of approximately NIS 23.6 million. As of the date of approval of the report, the Company has provided the said guarantees.
- h. The transmission agreement stipulates that if natural gas exports from the Tamar project and the Leviathan project to Egypt cease, Noble will be entitled to cancel the transmission agreement subject to the payment of compensation to INGL for the early cancellation, in an amount equal to 120% of the construction costs of the Ashdod-Ashkelon marine section with the addition of advance costs of doubling the Dor-Hagit and Soreq-Nesher sections, and after deducting the amounts paid by Noble up to the date of cancellation for the construction and introduction costs and for the gas throughput under the transmission agreement. If after the cancellation of the transmission agreement exports to Egypt are renewed, then the transmission agreement will be renewed, subject to and pursuant to the capacity available in the transmission system at that time.
- i. The transmission agreement was conditioned on certain conditions precedent, and on February 14, 2021, Noble informed the Company that all the conditions precedent were met for the transmission agreement to enter into force.

Simultaneously with the signing of the transmission agreement, Noble, the Company and the other partners in Tamar and the partners in Leviathan signed a service agreement (hereinafter: "the

Services Agreement") which stipulates, among other things, that the partners in Tamar and the partners in Leviathan will be entitled to gas transmission (via Noble) under the transmission agreement, and will be responsible for fulfilling all of Noble's obligations and undertakings under the back-to-back agreement, as if they were a party to the transmission agreement, each in accordance with its part as stipulated in the Capacity Allocation Agreement between the Tamar partners and the Leviathan partners as specified in section 7.4.5 (c) above (hereinafter: the "**Capacity Allocation Agreement**") and in accordance with the Services Agreement. The Services Agreement further stipulates that the basic capacity to be maintained in the transmission system for Tamar partners and Leviathan partners will be allocated between Tamar partners and Leviathan partners at rates of 31% and 69%, respectively, and will be in accordance with the fixed order in the Capacity Allocation Agreement. Notwithstanding the provisions of the Capacity Allocation Agreement, the partners in Tamar and the partners in Leviathan will bear the Capacity fee in accordance with their relative share in the basic capacity as stated above, regardless of the actual utilization of the basic capacity. Additional arrangements have also been established that allow each group of partners to use the unused basic capacity of the other group of partners, as well as to increase the basic capacity without obtaining the consent of the other group of partners and subject to the Capacity Allocation Agreement.

Caution regarding forward-looking information:

- 7.6 **The above estimates in relation to the construction costs of the Ashdod-Ashkelon maritime section, the introductory costs of doubling the Dor-Hagit and Soreq-Nesher sections, including the Company's share of these costs, gas transmission costs, expected start of throughput date, quantities that can be throughput under the transmission agreement and an evaluation regarding the possibility of extending the transmission agreement, constitute forward-looking information within the meaning of the Securities Law, 5728-1968, which has no certainty that it will materialize, in whole or in part, and may materialize in a materially different manner, due to various factors, including non-compliance with the conditions precedent in the transmission**

agreement, delays and malfunctions in the construction of transmission system segments, actual construction costs different from the estimated costs, failure to obtain the required regulatory approvals, changes in transmission rates applicable in Israel, quantities of gas to be exported to Egypt and other factors beyond the Company's control.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 attributed to the Company's share in the Tamar Lease included in the Reserves and Cash Flow Statement; (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, as well as quantities of gas which in the Company's estimate will be consumed by their customers who have an existing obligation for the consumption of gas from Tamar for operating their plants,⁸⁶ 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(c)(3) above during 2021-2022; (2) the options granted to the Tamar Partners' customers to reduce the total contractual quantity, as specified in Section 7.4.4(b)(3) above, which were not yet exercised by the date of approval of the report will be exercised, and the reductions (after the period of prior notice under the agreements) will begin in June 2022; (3) there will be no changed in the minimum annul quantities in the Amended Export Agreement, as specified in Section 7.4.5(b) above; (4) in agreements in which there is an extension option at the discretion of the sellers insofar as the maximum contractual amount has not been fully consumed, the exercise of the option has been assumed; (5) quantities of gas of approximately 0.44 BCM according to the settlement agreement with the IEC as stated in section 7.4.4 (c) above; and (c) actual revenues during January and February 2021 from agreements on an interruptible basis:

Year	Total Revenues (USD millions) as of December 31, 2019*
2021 Q1**	About 50
2021 Q2**	About 47
2021 Q3**	About 65
2021 Q4**	About 65
2022	About 172

⁸⁶ The quantities depend, among other things, on the date of operation of the Karish reservoir, which the Company estimates will begin during 2022.

Year	Total Revenues (USD millions) as of December 31, 2019*
2023	About 195
2024	About 188
2025	About 187
2026	About 185
2027	About 187
2028	About 132
2029	About 90
2030	About 91
2031	About 87
2032	About 82
2033	About 82
2034	About 68
2035	About 62

* 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 assumptions specified in this section above, and there is no certainty of their materialization, in the light of, among other things, non-realization of the Company's assessments, including in connection with the volume of gas consumption in its customers' facilities, exercise of reduction options at different dates and to a different extent and / or realization 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 2020, as of December 31, 2019, was estimated at USD 222 million. The Company's actual revenues for 2020 totaled USD 253 million. The discrepancy between the expected revenues from the order backlog and actual revenues for 2020 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 years⁸⁷:

Period	Q1 (in BCM)	Q2 (in BCM)	Q3 (in BCM)	Q4 (in BCM)
2019	2.64	2.43	2.76	2.61
2020 ⁸⁸	2.01	1.38	2.39	2.47

7.9 Facilities and production capacity

The Tamar Project production system include the following main components:

- 7.9.1 Production wells: Six underwater production wells with a production capacity of up to about 250 MMCF per day. From each of the production wells, natural gas is throughput from the Tamar reservoir, which is located at a depth of about 3 km below the seabed, to the underwater production system.
- 7.9.2 Underwater production system: An underwater production system located on the (A) seabed connects the production wells to the production platform. The production system includes a system of 10-inch pipes through which natural gas and condensate are throughput from the wells to the underwater manifold. The gas and condensate flow from the manifold to the production platform via two underwater pipes, each with a diameter of 16 inches and a length of 150 kilometers, (hereinafter: "**the Double Pipes**"). In addition, the underwater system includes two 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 wells, and two control cables (umbilicals), each 150 kilometers long, that connect the production platform to the wells 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

⁸⁷ The data refers to total sales of natural gas by all of the Tamar Partners rounded to two tenths of a BCM.

⁸⁸ The distribution of Tamar reservoir sales in 2020 by quarters was affected by the timing of the IEC's gas consumption from the Tamar reservoir, among other things, in light of its consumption also from the Leviathan reservoir.

to the Tamar Project's production system. The maximum rate possible of gas supply that can be piped through the umbilicals under the existing conditions is 1.1 BCF per day, and this restriction currently constitutes the bottleneck of the Project's production system.

7.9.3 Treatment and production platform: The production platform is located about 25 km. from the shore, and about 2 km. north of the Mary B Platform. The platform is fixed to the seabed at a water depth of about 234 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, storage, treatment and recycling of MEG, gas dehydration facilities by way of TEG (liquid that absorbs water which serves to dry out the natural gas, 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 and/or in the Onshore Terminal on the Ashdod beach.

7.9.4 The natural gas transmission system and the onshore terminal at Ashdod Beach: The transmission system from the Tamar platform consists of two parts: (1) Piping from the platform to the reception facility at Ashdod Beach, which includes a short 20-inch pipe section connected to a 30-inch natural gas pipe, a 10-inch pipe for the supply of natural gas, and two 6-inch diameter pipes for the supply of condensate and / or MEG from the Tamar platform to the onshore terminal. The onshore terminal includes a gas treatment system to meet the quality requirements for its throughput in the national gas transportation system of INGL; (2) piping connecting the Tamar platform to the Mary B platform, which includes a 16-inch pipe for natural gas supply, an 8-inch pipe for the supply of condensate, and the equipment required for the introduction of natural gas and condensate into the Mary B reservoir, as required.

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 First 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, 2019 and as of December 31, 2020, 7 employees (of which 5 executive office holders).
- 7.10.3 The Company also receives external consulting services, including legal, accounting, financial, geological, engineering, and marketing 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. Eitan Meir began serving as active Chairman of the Board of Directors in a 50% time basis . For further details, see Section 8 in Part Two of the Board of Directors Report, as well as details of Regulation 26 and 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 agreement, 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 Company does not engage directly with suppliers or professional contractors, but the engagement is made between the suppliers or the contractors and the Operator. As a general rule, 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, 2020
Current assets	146,740
Current liabilities	104,998
Current assets in excess of current liabilities	41,742

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 may expect 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 the Company deems necessary.

7.13.3 It should be noted that in view of the Company's high rate of financial leverage, the Company considers, from time to time, 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. During 2020, and up to the report approval date, the carried out bond repurchases of Series A and B bonds, pursuant to the repurchase plan approved by the Board of Directors' meeting of March 29, 2020. For further details, see 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

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

7.14.2 On December 2, 2020, the Taxation of Profits from Natural Resources (Advances Due to Petroleum Profits Levy) Regulations, 2020 (hereinafter: the "Regulations") were published. As part of this, the issue of payment of advances to be paid by oil venture rights holders, including how the advances are calculated, their dates of payment and reporting.

The regulations are enacted pursuant to sections 10 (b) and 51 of the Taxation of Profits from Natural Resources Law (hereinafter in this section: "**the Law**") and their purpose is to regulate the issue of payment of advances to be paid by oil venture rights holders and recipients of derivative payments as defined by law. The proposed regulations deal with the determination of the calculation of advances, the dates of payment and the manner of reporting them, as defined by law. The following is a summary of the main provisions contained in the regulations:

(A) The regulations stipulate that an oil venture right holder (hereinafter in this section: "**oil right holder**") shall pay advances on account of the levy for that tax year, when the payment begins from the tax year following the tax year in which the levy coefficient was 1 or more with the addition of linkage differentials and interest from the date set for payment until the payment of the advance amount.

- (B) Formulas have also been established for calculating the amount of the advance, its rate, the date of payment and the manner of reporting the amount paid. According to the regulations, anyone who owns an oil right will be required to pay advances in accordance with his relative share in the oil right, and in the case of selling oil separately in jointly owned ventures under section 18 of the law - according to current receipts for the oil owner's determining month in the oil venture. It was further determined that in the first three tax years from the tax year following the tax year in which the levy coefficient was 1 or more, or from the tax year 2021, whichever is later, the advance rate will be: in the first tax year - 21%; In the second tax year - 30%; and in the third tax year 37%.
- (C) Pursuant to section 9 (b) (1) of the Act, a derivative payment is a payment calculated as a percentage of the oil produced in the territory of the oil venture, from the receipts of the enterprise or from oil profits of the venture. The recipient of a derivative payment must pay a levy (hereinafter: "the **Participation Amount**"). The section stipulates that the amount of the participation will be deducted from the amount of the levy that the holder of the oil right owes. Accordingly, the regulations stipulate that the amount of the participation deducted originally from an oil right holder, as payment on account of advances to which he owes. Such deduction is conditional on the existence of all of the following: (1) the holder of the oil right transferred to the Assessing Officer the amount of the levy deducted no later than the date of payment of the advance for the determining month; (2) the amount of the deduction transferred has not been offset in the past; (3) The determining month in which the offset is required applies in the same tax year in which the derivative payment was received. The Assessing Officer will be entitled to reduce or increase the advance rate set for a particular tax year if it has been proven to his satisfaction that the levy for the tax year in which the advance is paid is higher or lower than the total of the advances calculated for that tax year

7.14.3 On January 1, 2021, the Ministry of Justice published for public comments (that were received by January 24, 2021) a Memorandum on the Taxation of Profits from Natural Resources (Amendment) Law, 5721-2021. The law memorandum is intended to regulate a number of issues in the field of audit and collection of the levy. The amendments in the proposed memorandum include advancing the

payment of the tax under dispute, combining the decision of the Assessing Officer in an appeal against an assessment and measures to increase enforcement in the field. In addition, the memorandum stated that actions would be promoted to clarify the taxation rules on the subject. On March 8, 2021, the law memorandum was approved in the Knesset on first reading. For further details, see Note 22D 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. As of the date of the report, the Company is not an operator (according to the definition of an operator) in its oil assets, and the entity entrusting the implementation of the provisions on environmental issues in the said oil assets is the operator of the oil assets. For details regarding the operator in the possession of Tamar, see section 1.5 above.

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

- (A) 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 by way of the Operator 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 (hereinafter: "**Prevention of Sea Water Pollution Law**") and its regulations; the Prevention of Sea Water Pollution by Oil Ordinance [New Version], 5740-1980; the Hazardous Substances Law, 5753-1993 (hereinafter: "the **Hazardous Substances Law**") 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 Clean Air Law, 5768-2008 (hereinafter: "**the Clean Air Law**") 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 7.16.9(l) 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 environmental instructions by other 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 Sea 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 2020 there was no event or matter connected with the Company's operations in connection with the protection of the environment and which had a material impact on the Company.

7.15.4 Environmental risk management policy

(A) 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 operational, drilling and production facilities. The Operator carries out current activities on issues of environmental protection, safety and hygiene 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.

- (B) It should also be noted that, to the best of the Company's knowledge, although the Operator holds a different position on the legal interpretation of the applicability of Israeli laws in general, and environmental laws in particular, to its offshore activity outside the territorial waters, 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, a sea discharge permit under the Prevention of Sea Pollution from Land-Based Sources Law, and an air emissions permit under the Clean Air Law.
- (C) On August 31, 2020, the Ministry of Environmental Protection issued an emission permit for the Tamar rig. However, the wording of the final permit issued includes substantial changes in relation to the draft published to the public, and, according to the operator of the Tamar project, without an opportunity to comment on such changes. Therefore, immediately after the permit was published, an exchange of letters began between the Operator of the Tamar project and the Ministry of Environmental Protection, and a number of meetings were held between the Operator of the Tamar project and the Ministry of Environmental Protection, in which the Operator clarified his legal position regarding defects in the process of formulating the permit and the technical problems arising from its final version. The Operator informed the company that on December 30, 2020, he submitted an application to change the permit in accordance with the Clean Air Law, and a further reference is included in the Operator's position regarding the safeguarding of their rights in the matter.

The Ashdod Onshore Terminal (AOT) operates under an air emissions permit from December 72, 2014, which is in effect for 7 years. According to information provided to the Company by the Operator, in 2019 the Operator was instructed by the Ministry of Environmental Protection and acted to submit an application for a new emissions permit, and update the current emissions permit and is in contact with the relevant officials in this regard in the Ministry of Environmental Protection. On October 30, 2020,

the Ministry of Environmental Protection published a draft update of the emissions permit for AOT for public comments, with the aim of regulating all activities taking place at the station. On December 16, 2020, the update to the emissions permit came into effect. It should be noted that, at the same time, an application was submitted by the Operator for the issuance of a new emissions permit for the station.

7.15.5 Environmental costs and investments

During 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. The installation of said systems reduces pollutant emissions in accordance with the Operator's undertakings towards the Ministry of Environmental Protection. The expected costs of actions related to environmental protection are included in the Tamar Project budget and are updated from time to time in accordance with the work plan approved for the project (for details, see section 7.2.5 above). As of the date of approval of the report, no additional material costs are expected.

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.

7.16 Restrictions and supervision of the Company's operations

7.16.1 The Gas Framework

(A) 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 field⁸⁹ 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,

⁸⁹ "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."

2015, with the grant of an exemption to Delek Drilling, Avner Oil Exploration – Limited Partnership (hereinafter: "**Avner**")⁹⁰, Ratio and Noble (in this section: the "**Parties**") from certain provisions of the Economic Competition Law, 5748-1988 (the "**Economic Competition Law**")⁹¹ 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 said exemption applies in respect of certain restrictive arrangements that may ostensibly have been attributed to the parties, as set out in the Government Decision (hereinafter: "**the Restrictive Arrangements**"). The government decision and the exemption will be read above and below: "**the Gas Framework**").

(B) As per the decision of the government, the exemption from certain provisions under the Economic Law is contingent on the fulfillment of the following conditions:

(1) Karish and Tanin reservoirs

A. Delek Drilling, Avner and Noble will transfer all their rights in the Karish and Tanin leases to a third party who is not related to the parties or any of them, which will be approved by the Commissioner of Petroleum Affairs.⁹²

B. The permitted export quota from the Karish and Tanin reservoirs amounting to 47 BCM has been replaced, as of the date of approval by the Commissioner of Petroleum Affairs for the transfer of rights in Karish and Tanin, against the domestic supply obligation applicable to the Karish lease holders.

(B) Structural change of the Tamar reservoir⁹³

⁹⁰ On May 17, 2017, Avner was merged with and into Delek Drilling, in the manner in which all of Avner's assets and liabilities were transferred to Delek Drilling, and at that time Avner was retired without liquidation and deleted from the registrations of the Partnerships Registrar.

⁹¹ 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."

⁹² In order to comply with the provisions of the Framework, on December 26, 2016, a transaction was completed for the sale of all the drilling, Avner and Noble fuel rights in Tanin and Karish leases to Energean Israel.

⁹³ 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

- (1) Delek Drilling and Avner⁹⁴ 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.⁹⁵
- (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 of Sale (as defined in Section 7.16.1(a)(1) above) by the

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 significant 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."

⁹⁴ 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.

⁹⁵ 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 the balance of its said holding in the Tamar and Dalit Lease as well as its holdings in the Company.

Effective Date for Tamar shall be deemed compliance with the provisions of this section.⁹⁶

- (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.⁹⁷

(C) 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:

⁹⁶ For carrying out the provisions of the Framework, 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 another 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.

⁹⁷ 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. As of the date of approval of the report, the date prescribed above has passed.
- (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.

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:

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.

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) Provisions relating to prices

A. In the government resolution it is provided that 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, it will be recommended that they 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, 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).⁹⁸
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, on the basis of a simple average of the prices in the supply contracts, as set out in the Resolution.⁹⁹

C. The provisions of Subsection (b) do not derogate from the duty of the holders of rights in the Tamar and Dalit Leases to offer consumers in Israel the gas price specified in an export agreement, in order to meet the conditions of the taxation

⁹⁸ The updated base price as calculated by the Natural Gas Authority in the publication dated 14.1.2021 is \$ 5.16 per MMBTU unit. For more details see: https://www.gov.il/BlobFolder/generalpage/decision476/he/ng_price_1_2021.pdf

⁹⁹ According to the above publication of the Gas Authority dated 14.1.2021, the simple average price of conventional private electricity producers is US\$ 4.7 per MMBTU unit, and the simple average price of private electricity producers in cogeneration is US\$ 4.7 per MMBTU unit.

mechanism as set out in Section 3(c)(4) below. For details regarding a tax ruling in connection with the Amended Export Agreement, see Section 7.4.5(b) above.

(2) Provisions relating to the export of natural gas

- A. In the framework of the Gas Framework provisions, several clarifications and amendments were included in Government Resolution No. 442 of June 23, 2013, relating to the adoption of the recommendations of the Committee for review of Government Policy on the Natural Gas Industry in Israel (the Tzemach Committee Report. 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, 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 above.

(4) 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.

(5) 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.

(6) 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.

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 Framework¹⁰⁰ 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.

7.16.3 Antitrust

- (A) On August 28, 2006, the Competition Commissioner granted an exemption, subject to certain conditions, from approval of a restrictive arrangement, under Section 14 of the Economic Competition Law, to an agreement regarding the joint holding by the parties thereto of rights in the 309/"Matan" and 308/"Michal" licenses¹⁰¹(in the areas of which the Tamar

¹⁰⁰ The Government's commitment to restrict future changes in regulation of the natural gas industry.

¹⁰¹ On December 2, 2009, the Tamar and Dalit Leases were granted in lieu of the aforementioned licenses.

and Dalit natural gas discoveries were made in 2009) (the "**Matan and Michal Licenses**"), with part of these rights subsequently transferred to Noble ((hereinafter: "**the 2006 Decision**") . 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.
- (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.

For this purpose, the "Local Corporations" means – "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 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) In 2012 an exemption was granted to Tamar Partners 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 in which the basic supply period is longer than 7 years (hereinafter: the "**Commissioner's Decisions**"). Following are the essential points of the Commissioner's Decisions:

- (A) The gas consumer may choose to notify Tamar Partners on his selection of 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) Regarding the reduction of 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.
- (B) 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.

(C) 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.

(4) 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.

(1) 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.

(2) Karish and Tanin reservoirs

Following the Commissioner's Decisions, said agreements were amended accordingly, and all the new agreements signed by the Tamar Partners were drawn up in keeping with the Commissioner's Decisions.

(D) Against the backdrop of the contacts made

between the Tamar Partners who have no holdings in the Leviathan Project, on the one hand, and the IEC for a possible amendment of the IEC-Tamar Agreement, disagreements arose during 2019 between Tamar Partners, including as regards the ability of Noble and Delek Drilling to prevent the said amendment. Subsequently, the Tamar Partners who have no holdings in the Leviathan Project submitted on November 20, 2019 to the Competition Commissioner. that would clarify that 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 amending the Tamar-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).

On April 13, 2020, a statement was issued by representatives of the Ministry of Energy, the Economic Department of Legislative Consulting in the Ministry of Justice, the Ministry of Finance and the Competition

Authority, according to which Tamar Partners were given a short period to amend their arrangements to ensure that Delek Drilling, Noble and Isramco will not hold the right of veto on decisions for marketing natural gas from the Tamar reservoir.

On May 27, 2020, Tamar Partners submitted for approval by the regulators an agreed outline of principles for joint marketing from the Tamar reservoir (hereinafter - the marketing arrangement), which included various arrangements and mechanisms in connection with securing the parties' rights and improving the Tamar reservoir's competitive position in marketing natural gas to customers in the local economy. After it became clear that the regulators would not approve the marketing arrangement, Tamar Partners held discussions in connection with the amendment of the marketing arrangement, which did not lead to an agreement.

On September 6, 2020, the opinion of the Deputy Attorney General (Economic Law) was published, in agreement with the opinion of the Attorney General, according to which the current marketing and sales mechanism in the Tamar project means that each Tamar partner has the right of veto (hereinafter - the opinion), including Noble, whose possession of such a right of veto was prohibited under the Gas Framework. According to the opinion, as of the date of approval of the report, the veto ban on Noble has not yet entered into force (this in light of Delek Drilling's holdings in the shares of Tamar Petroleum Ltd.), and that Noble must act to change the said mechanism to ensure that Noble does not veto transactions for the sale of gas or a component in such transactions until the determining date in Tamar (December 17, 2021) or until the date of completion of the sale of its holdings in Tamar to a third party unrelated to Delek Drilling or Noble, whichever is earlier. At the same time, the Competition Authority notified Delek Drilling and Isramco that each of them holds the right of veto in Tamar, and that this holding of the right of veto is contrary to the 2006 decision to the agreement under which Delek Drilling acquired its rights in the Tamar project, and accordingly, Delek Drilling and Isramco were required to act within one month to nullify the said right of veto and notify the Competition Commissioner on the manner in which they nullified the right of veto in their possession.

In accordance with the publication of the Competition Authority, the Competition Authority contacted Noble on September 22, 2020a and informed it, inter alia, that if it did not fulfill its obligation to nullify the right of veto it holds until the ban on its entry into force in accordance with the Economy Competition decision under section 52 of the Economic Competition Law 1988, the Competition Commissioner intends to begin a hearing on the issuance of instructions that will oblige Noble to accept the decision of the majority of Tamar's holders in all matters concerning Tamar, and in particular with regard to entering into transactions for the sale of Tamar gas or any such component in the said agreement. It was also noted in the request that if necessary and depending on the circumstances, the Competition Commissioner will not wait until the expiration of the ban on holding a right of veto to begin in order to begin the hearing process in a manner that will allow the provisions to take effect close to that date.

Further to the aforesaid, on October 1, 2020, Tamar Partners who do not own the Leviathan project signed an agreement for cooperation regarding the marketing and sale of gas from the Tamar project, which, among other things, nullifies Isramco's right of veto. In this agreement, which was sent to the Competition Authority, it was determined, inter alia, that decisions regarding the conclusion of gas sales agreements from the Tamar Reservoir by the parties will be made by a majority of those present and voting in accordance with the parties' holdings in the Tamar reservoir, but, (1) a decision not passed due to Isramco's objection and / or due to the objection of a party who is in a conflict of interest in making the decision, will be considered as having been made; and (2) a decision made due to Isramco's vote alone without another party joining it shall be deemed to have been rejected. The agreement is for an indefinite period and each of the parties may withdraw from the agreement subject to giving 45 days' prior notice to the other parties.

In addition, according to a report published by Delek Drilling on October 13, 2020, Delek Drilling notified the Competition Authority of the manner in which it nullifies its right of veto in marketing decisions in the Tamar reservoir.

- (E) The validity of the settlement agreement signed between Tamar Partners and IEC was conditioned, among other things, on the approval of an

agreement signed by Noble and published for public comment by the Competition Commissioner on January 31, 2021 (hereinafter: "**the Agreed Order**")¹⁰².

According to the agreed order, Noble undertook to allow each of the Tamar Partners to sell its share in the Tamar reservoir separately from the other partners, and without the need for prior consent. Subject to the fulfillment of Noble's obligations, and in view of the settlement agreement signed between Tamar's partners and the IEC, the Commissioner will not continue dealing with the matter and will not take enforcement action against any of the Noble Group for the actions listed in the complaints filed by the other Tamar Partners and the IEC in connection with the agreement signed between them on October 4, 2020., as described in Section 7.4.4 (e) (1) above. The agreed order is subject to the approval of the Competition Court.

For details regarding a claim and a motion for its for approval as a class action filed in February 2020 in the Tel Aviv District Court by an electricity consumer, in which it was claimed, inter alia,

that Delek Drilling and Noble, who hold the Tamar and Leviathan reservoirs under cross-ownership, may not prevent the other 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,

see Section 7.21.6 below.

7.16.4 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.

¹⁰² <https://www.gov.il/he/departments/legalInfo/draftord-nobleenergy>

- (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)¹⁰³, but in any event no less than the minimum royalty prescribed by the Law.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.

¹⁰³ For further details regarding State royalty calculations, see Section 7.18 below.

- (10) 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.
- (11) 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 USD100 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 soundness¹⁰⁴, total assets and total equity will be examined according to the data

¹⁰⁴ Financial soundness is proven if the conditions specified in the Offshore Regulations are fulfilled.

in the audited financial statement as of December 31 of the year preceding the submission of the application, or according to an average of the data in the audited financial statements as of December 31 of the two years preceding the submission of the application, according to the discretion of the Petroleum Commissioner.

- C. The Petroleum Commissioner may, with the approval of the Minister of Energy, deny approval of an application to receive a petroleum right or an application to serve as an operator, even if all the aforesaid conditions are fulfilled, if he is convinced that reasons of national security, foreign relations and international trade relations so justify, or if there are special circumstances due to which approval of the application is not in the best interests of the public or the energy sector in Israel.
- D. Notwithstanding the foregoing, it is possible to approve an operator or grant a petroleum right even if not all of the details which appear above are fulfilled, provided that under the circumstances the non-fulfillment of the conditions is immaterial, and the Petroleum Commissioner is convinced that there are special grounds which justify approval.
- E. The Offshore Regulations include additional provisions regarding the details to be included in the application for approval of an operator and reports which an operator and a holder of a petroleum right are required to submit to the Petroleum Commissioner.

(D) The Natural Gas Sector Law

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) Memorandum of the Petroleum Law (Amendment No. 7) (Regulation of Export Pipes and Certain Liquefaction Facilities), 5780-2020

On August 9, 2020, the Ministry of Energy issued a memorandum of the Petroleum Law (Amendment No. 7) (Regulation of Export Pipes and Certain Liquefaction Facilities), 5780-2020 (hereinafter in this section: "**the Memorandum**"). The purpose of the memorandum is to regulate the construction of pipelines for the export of natural gas and facilities for the export of natural gas, even by those who do not have a holding under the Petroleum Law. As of the date of the report, there is regulation on this matter in section 10A of the Natural Gas Economy Law. The purpose of the memorandum is, among other things, to replace the regulation set forth in the Natural Gas Economy Law. It is also proposed in the memorandum to regulate the construction and operation of a natural gas liquefaction facility at sea, the purpose of which is to transform the solid state of natural gas from gas to liquid, and which is intended to enable the export of liquefied natural gas.

In addition, the proposed amendment to the Petroleum Law requires an indirect amendment to the Natural Gas Economy Law for the purpose of adapting the Natural Gas Economy Law to the amendments proposed in the Petroleum Law.

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

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

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

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

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

In addition, when allocating a right (as defined above), including a license required for activity in a business sector that is not an Essential Infrastructure Sector, the regulator is required to take into account

considerations for the promotion of sectoral competitiveness, apart from any other consideration it must weigh by law, in this regard.

The Committee for the Reduction of Concentration has published, in accordance with the provisions of the Concentration Law, the list of concentrating factors in the economy, the list of significant non-financial corporations, and the list of significant financial entities. As of the date of approval of the report, the Company is not on the said lists. To the best of the Company's knowledge, the Committee intends to include it in the list of concentrated entities by virtue of section 4 (a) (2) of the said Law (an entity that holds half of the activity in the field of vital infrastructure). Therefore, the Company intends to take legal proceedings against it in connection with the aforesaid.

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.

7.16.5 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 reported to the Company and to the best of the Company's knowledge, in February 2019, the operator received approval from the Cyber Directorate in connection with the implementation of the information security requirements in the Tamar reservoir, which included a number of issues for further treatment by 2021.
- (D) 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.

7.16.6 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

- (1) On December 28, 2020, the Petroleum Commissioner issued new directives for the purpose of Section 76 of the Petroleum Law, which replaced previous directives from December 31, 2015, the objective of which is to regulate the procedure and conditions 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 right¹⁰⁵ (in this section: the "**Directives**") whose main points are described 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

¹⁰⁵ 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.

license or of a lease, or of a group, as the case may be; (2) more than 25% of a particular type of means of control in a license holder or a leaseholder, or in a corporation that holds part of a license or of a lease, or of a group, as the case may be; (3) a right to contractual royalties.

"Means of control" – means of control in a group or means of control in a corporation, as the case may be";

"Means of control in a group" – each of the following: (1) voting right at a meeting, operating committee or other forum where decisions are made that are binding on the group as regards exercising the petroleum right; (2) the right to appoint members at a meeting, operating committee or other forum where decisions are made that are binding on the group as regards exercising the petroleum right, or appointing a person whose job is to make 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. In a corporation that is a limited partnership - any of the said rights in the corporation that is the general partner;

"Transfer" - transfer in any way other than authorized and including allocation as specified in the Directives, whether for consideration or not for consideration, as well as granting the right to choose such action.

"Group member" - any person who directly has a share in the oil rights operated by the group.

"Group" - a group of unincorporated people who have oil rights.

"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.

- (2) The Petroleum Commissioner may approve the transfer of rights in a license and in a lease, which is not a transfer of a contractual royalty, if all the following conditions are fulfilled:
 - A. The financial capacity of the license or lease holder after the transfer meets the requirements under the Law and the provisions of the Petroleum Commissioner;
 - b. If the transferor is the operator or employer of the professional staff and as a result of the transfer he ceases to be the operator or employer of the professional staff, including due to a

decrease in his share below the minimum required rate from the operator or employer of the professional staff, the transferee fulfills the requirements of the operator pursuant to the provisions of the law and the provisions of the Petroleum Commissioner, and if the transfer is to two or more transferors - one of the transferees fulfills the said conditions.

- (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 or between members in the group, provided that the conditions set out in Subsection (2) above, *mutatis mutandis*, and certain additional conditions are fulfilled.
- (4) The Petroleum Commissioner may approve transfer of petroleum rights, as stated above, even if not all the specified conditions are fulfilled, in the case of a transfer of rights in a limited scope (no more than 10% in a license or lease; and no more than 25% in a certain type of means of control of the license holder or lease holder, 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.
- (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 license or lease holder, as applicable, has to perform in connection with the said license or lease, by law, the terms of the license or the lease deed and the work plan; or obtaining a loan to finance the aforementioned actions, as well as for essential needs that the Commissioner saw fit

to approve for special reasons of the Petroleum Commissioner, provided that there is no impairment of the licensee's or leaseholder's ability to comply with the provisions of the law and the pledged license / lease; or to secure a right to contractual royalties; 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.
- (10) In addition, the directives include a list of types of transfers for which a fast track application can be submitted. If the Petroleum Commissioner considers that the application is not suitable for fast track approval, he will inform the applicants and they will be entitled to submit an application in the regular route. If the Commissioner does not notify as aforesaid within 45 days from the date of receipt of the application, the application will be deemed approved at the end of 45 days and the approval will be recorded in the Oil Register. The types of requests that can be approved on the fast track are:
 - A. Transfer of oil rights between group members up to a rate of 10%, excluding the transfer of rights of an operator;
 - B. Transfer of oil rights from a corporation to a corporation held at a rate of 100% by it, or a holder of it at a rate of 100%;
 - C. Transfer of a benefit that is not a contractual royalty, except in the following cases:
 - The benefit relates to a productive lease and may materially affect the activity within the lease;

- Benefit of an operator or group member holding 40% or more of the oil rights;
- D. Transfer of an existing right to a contractual royalty, except for royalties, whose transfer is required by Government Decision No. 476 of 16 August 2015;
- E. Pledge of an existing right to a contractual royalty, except for a royalty whose transfer is required by Government Resolution No. 476 of August 16, 2015;
- F. A pledge on a benefit that is not a contractual royalty, unless the pledge may materially affect the activity in the framework of a productive lease.

(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 (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.

7.16.7 Directives on manner of calculation of the value of the royalty at the wellhead

On May 14, 2020, the Natural Resources Administration in the Ministry of Energy published directives on the manner of calculation of the value of the royalty at the wellhead in connection with offshore oil rights (hereinafter: "the **Directives**") :

- (1) In the framework of the directives is determined that 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 necessary handling costs, processing and transporting oil, which were actually expensed by the lease holder whether at the wellhead or at the point of sale .

- (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 detailed below, provided they are necessary, in the Petroleum Commissioner's opinion, for the oil to be saleable,: (a) The following Capex expenses: (1) Expenses for treatment and processing of the oil; and (2) expenses for transporting oil through pipelines up to the first connection point to the national transmission system; and b. operating expenses (Opex) - arising directly from the types of capital expenses.
- (3) The Commissioner will determine for each lease holder, from time to time, specific directives for each lease, setting out the deductible expenses for purposes of calculating the royalty, according to the specific characteristics of the lease.

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 the fixed assets began operating (i.e. only when the fixed assets arrived at the location and condition required for their activation, and began operating). Total recognized depreciation expenses may not exceed the cost of the fixed assets.

- (4) 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. Depreciation expenses will be calculated by multiplying the amortized cost at the beginning of the year by the recognized portion of the fixed assets set forth in the individual provisions at the rate of depreciation determined in accordance with the depletion method.
- (5) If an agreement is signed that grants third parties a right of ownership in the fixed assets 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 the value of the fixed assets will be made in the year in which the economic value was created beyond the amortized cost of the relevant fixed assets as determined, taking into account the depreciation expenses deducted for the purposes of calculating the value of the royalty according at the wellhead.

- (6) The estimate shall be adjusted in the year in which the relevant asset transaction was made, in accordance with the "realization principle", when the lease owner can and will pay the state royalties for this value, even if no income was generated in that year.
 - (7) The economic value for the purpose of adjusting the estimate shall be limited to the amount recognized and amortized for the purposes of royalties, in respect of the fixed assets sold or the rights to use it transferred.
 - (8) The directives set forth additional provisions, including a breakdown of non-recognized types of expenses, how to recognize abandonment costs and how to deal with transactions affected by the existence of special relationships between the parties to the transaction.
- (B) On September 6, 2020, the Natural Resources Administration of the Ministry of Energy published the directives of the Petroleum Commissioner regarding the calculation of the value of the royalty at the well head in the Tamar lease¹⁰⁶ (in this section: "**the Directives**"). The following is a summary of the directives:
- (1) The capital expenses (CAPEX) that will be recognized for the purpose of calculating the value of the royalty at the wellhead and the recognition rate include: (a) The cost of capital for the pipeline from the main manifold to the Tamar rig and the rig to the onshore facility in Ashdod will be recognized at 100%; (B)

¹⁰⁶ https://www.gov.il/BlobFolder/policy/oil_search_publications/he/tamar_royalty.pdf

Capital costs in respect of the Tamar rig and in respect of the onshore facility in Ashdod will be recognized at a rate of 82%; and (C) The cost of capital in respect of the pipeline from the Tamar rig to the entrance to the onshore facility in Ashdod will be recognized at a rate of 100%.

- (2) Operating expenses arising directly from the types specified in paragraph (1) above shall be recognized at a rate of 82%: the salary expenses of the employee at the rig and the onshore facility; maintenance expenses and repairs; travel and transportation expenses for the rig; food expenses for employees at the rig and onshore facility; guarding and security expenses at the Tamar rig and the onshore facility; expenses for professional and engineering consulting; insurance expenses.
- (3) In the event that the sale price of the contract includes a component of the transmission tariff paid to INGL, all transmission expenses paid by the lease owner shall be recognized.
- (4) Abandonment costs will be recognized for the purpose of calculating the royalty in accordance with the provisions set forth in the general guidelines, and provided that a cumulative amount of at least 170 BCM was generated from the Tamar lease and the abandonment plan was approved by the Commissioner.

In this context, it should be noted that, from the beginning of the production of natural gas from the Tamar reservoir, the Company and other Tamar partners have paid, under protest, royalties at a rate that is updated from time to time by the Commissioner. Tamar Partners dispute the manner in which the royalty rates were set, in a way that does not give proper weighting to the expenses for the transmission and treatment of the gas from the wellhead to the transmission system..

For additional 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.

(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 25 BCM	No obligation to supply

In respect of reservoirs shared by Israel and other countries, the Petroleum Commissioner will determine specific arrangements and conditions¹⁰⁷. 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 Commissioner¹⁰⁸, 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

¹⁰⁷ 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.

¹⁰⁸ 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.

agreement signed with the leaseholders prior to such date, the quantity of natural gas for which the option to reduce quantities was exercised, will be deemed part of the quantity of natural gas which the leaseholders have not yet committed to the domestic market.

- (4) The holder of a lease in a developed reservoir will be entitled to exchange its export quota against an obligation to supply to the domestic market according to its size and at the rates determined, and subject to the approval of the Petroleum Commissioner and the Competition Commissioner, after they took all the relevant considerations into account.
- (5) It was decided to stipulate an obligation to connect reservoirs to the domestic market according to the size of the reservoir, in the 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). In this context, it should be noted that on December 29, 2020, the Ministry of Energy issued a notice stating that the Minister of Energy has decided that the agreement with the liquid natural gas vessel will not be extended beyond 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 October 7, 2020, the Subcommittee published a report on the regulatory principles pertaining to future exports of natural gas by-products¹⁰⁹, 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 5 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

¹⁰⁹ https://www.gov.il/BlobFolder/reports/ng_products/he/ng_products_report.pdf

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 5 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.

- (11) In a government decision dated October 10, 2020, dealing with the promotion of renewable energies, the second amendment to the government decision of June 23, 2013, was approved, in which it was decided that the government will examine the restrictions on permitted export quotas in 2021 in order to increase them. For further details regarding the decision, see section 7.16.9 (h) below. In this context, it should be noted that the Company intends to act to increase the volume of exports permitted from the Tamar reservoir.

(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.

Regarding the risk factor relating to the possible effect of the imposition of price control on natural gas prices in Israel at the price fixing level, see Section 7.24.17 below.

- (B) Decision of the Natural Gas Economy Council regarding the regulation of criteria and tariffs regarding the operation of the transmission system in a flow control regime

On January 3, 2021, the Natural Gas Economy Council issued an amendment to the Council's decision regarding criteria and tariffs regarding the operation of the transmission system in a flow control regime (Amendment No. 2) (hereinafter in this section: "**the Decision**")¹¹⁰. The decision states that the costs for a reasonable measurement gap in the transmission system resulting from reasons that cannot be attributed to poor operation of the transmission system, self-consumption of INGL, malfunction of the transmission system, meters or operational problem in the transmission system, but to unavoidable or uncontrollable factors will be imposed and shared equally between gas suppliers and consumers. The decision states that a measurement gap that is considered within a reasonable range is a gap ranging from 0%-0.5% (positively or negatively). The decision will take effect on April 1, 2021.

Following the publication of the decision, INGL approached Noble with a request to apply the decision in relation to the Tamar project retroactively, starting in November 2019. Following this announcement, Noble approached the Gas Authority and expressed its opposition to the decision and retroactive application of the decision.

As of the date of approval of the report, Tamar Partners are examining the consequences of the decision and their further steps.

- (C) Decision of the Natural Gas Authority Council regarding the financing of export projects via the National Transmission System (hereinafter in this Section: "**the Decision**")

On September 7, 2014, the Natural Gas Sector Council released its decision regarding the financing of export projects via the National Transmission System (Decision No. 2/2014). The decision

¹¹⁰ https://www.gov.il/BlobFolder/generalpage/ng_council_decisions/he/board_decision_5_20.pdf

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).

It should be noted that in the framework of the Amended Export Agreement detailed in Section 7.4.5 above, it was agreed that the Tamar Partners would bear the costs of the gas transmission in the INGL's transmission system.

On March 26, 2020, the Natural Gas Sector Council published an addendum to the decision of September 7, 2014 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 (Decision No. 3/2020). The addendum establishes the following principles:

- 9) 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."
- 10) 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:

- 11) 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**")
- 12) 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. On June 23, 2020, the Director of the Natural Gas Authority announced that he is determining that the cost of the Ashdod-Ashkelon combined section will be estimated at a total of NIS 738 million and will be updated in accordance with the updating and accounting mechanism between the parties as stipulated in the transmission agreement with INGL.
- c. 43.5% of the segment cost, as determined in accordance with Subsection a. above, will be financed by the transmission license holder.
- d. 56.5% of the segment cost will be financed by the exporter according to milestones determined in the Transmission Agreement.
- e. 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.
- f. 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.

- g. 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.
- h. 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 specified in Section 7.5.2 (c) (2) above, on January 18, 2021, Noble entered into a binding agreement with INGL for the throughput of natural gas from the Tamar reservoir and the Leviathan reservoir to the EMG reception point in Ashkelon for its transmission to Egypt.

On February 23, 2021, the Natural Gas Authority issued a decision regarding the reduction of the transmission tariff as a result of the expansion of the system by approximately 5%. The aforesaid reduction applies from 1.3.2021.

(D) 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.

(E) The decisions of the Minister of Energy regarding the discontinuation of use of coal and the reform in the IEC and in the electricity sector

- (1) In June 2018, the Government passed Resolution No. 3859 concerning a reform in the electricity sector and in the IEC, in which it was resolved among other things that 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, and that it 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.

In November, 2019, the Minister of Energy announced that 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.

- (2) As part of the decision, it was determined that the units of the production plant at the Rotenberg power plant will be converted from coal to natural gas, and that units 5-6 at the Orot Rabin power plant in Hadera will be converted by the end of 2025.

- (3) On June 8, 2020, a joint announcement was published by the Ministry of Energy and the Ministry of Environmental Protection¹¹¹, regarding the decision of the Ministers to instruct the IEC to extend the initiated shutdowns of polluting coal units 1-4 at the Orot Rabin site in Hadera, starting in the second half of 2020, and their complete shutdown in 2022, and thus, as published in the announcement, to bring about a further significant reduction in pollutant emissions into the air.
- (4) On June 24, 2020, a notice was issued by the Ministry of Energy regarding the Energy Minister's decision to reduce the rate of use of coal in IEC power stations by another 20%, compared to 2019, so that coal use in 2020 will not exceed 24.9% (compared to 30% in 2019). The Energy Minister instructed the IEC to take the necessary steps in order to meet the new target, while maintaining the survivability of the electricity generation system¹¹².
- (5) On February 8, 2021, a notice was issued by the Ministry of Energy regarding the Energy Minister's decision to maintain the polluting carbon units 1-4 at the Orot Rabin site in Hadera, under the conditions set and for a conservation period ending at the end of 2025 (hereinafter: "**the Conservation Period**"). During the conservation period, the Ministry of Energy will continue to monitor the economy's readiness for emergencies and the implementation of various alternatives, and in light of this, the need will be examined for continued conservation of units 1-4 until the end of the conservation period¹¹³.
- (6) In addition, on February 8, 2021, the Energy Minister notified the IEC that the target set for electricity production from coal out of total electricity production for 2021 is in the range of 19% - 22.5%. Setting the target constitutes a further annual decrease of about 30% compared to 2019, and the IEC must make a maximum effort to

¹¹¹ Energy Ministry website, Notice of the Spokesperson's Department dated June 8, 2020: https://www.gov.il/he/departments/news/press_080620

¹¹² Energy Ministry website, Notice of the Spokesperson's Department dated June 24, 2020: [24https://www.gov.il/he/departments/news/press_080620](https://www.gov.il/he/departments/news/press_080620)

¹¹³ Energy Ministry website, Notice of the Spokesperson's Department dated February 8, 2021: https://www.gov.il/BlobFolder/policy/electricity_080221/he/ls_19_2021.pdf

reach the target, by increasing the load on the use of other gas-powered units, and by shutting down coal-fired units during transition periods as much as possible.

(F) The plan to save Israel from polluting energy

On October 9, 2018, the Minister of Energy published the "Plan to Save Israel from Polluting Energy," which essentially deals with reducing the use of polluting fuel products by 2030. Further thereto, in March 2019, the Ministry of Energy published a policy principles document entitled Energy Sector Targets for 2030.¹¹⁴ 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 until completely discontinued in all coal-fired power plants, and power generation will be based solely on natural gas and renewable energy sources. 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 will be completely prohibited. Further to this policy, the Ministry of Energy issued a tender¹¹⁵ 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. In preparation for the deployment of the new charging stations, the Ministry of Energy is promoting the establishment of a map and app that will include all the existing stations in Israel. The construction of the system is expected to be completed by the end of 2021.¹¹⁶

¹¹⁴ <https://www.gov.il/BlobFolder/rfp/target2030/he/e>

¹¹⁵ https://www.gov.il/he/departments/general/electric_vehicle_ac_dc

¹¹⁶ https://www.gov.il/he/departments/news/electric_car_110619

- 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.¹¹⁷
 - 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 20% already in 2025, 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.
- (G) Government Decision on "Promoting Renewable Energy in the Electricity Sector and Amending Government Decisions"
- (1) On October 25, 2020, a Government Resolution was made to promote renewable energy in the electricity sector and amend government decisions, in which, among other things, the Energy Minister's policy was adopted that by 2030, 30% of electricity will be from renewable energy based mainly on solar and some on wind. An update has been set for the intermediate target so that it will stand at 20% electricity generation from renewable energies by December 31, 2025 and the policy regarding the promotion of conventional facilities for electricity generation has been changed. As part of the Government Resolution, a series of decisions were made whose purpose is to facilitate the promotion of renewable energy. In addition, the government's decisions regarding the adoption of the

¹¹⁷ https://www.gov.il/he/departments/news/electric_car_110619

Zemach Committee's principles have been amended - so that the government will examine the restrictions on natural gas export quotas as early as 2021¹¹⁸.

It was also decided, as part of the adoption of the Energy Minister's policy and announcement of August 11, 2020¹¹⁹, to amend Government Resolution No. 2592. Therefore, until July 31, 2023, additional power generation is required with natural gas and 4,000 megawatts of diesel in approved plans in response to electricity consumers by 2030 - of which at least 4 programs that will enable the production of electricity in a combined cycle with the most available and modern technology.

- (2) On November 10, 2020, the Natural Gas Authority announced¹²⁰ that as part of the plan to save Israel from polluting energy, it is promoting the connection of 16 hospitals to the natural gas network, at a cost of NIS 40 million, and in doing so issued a call for proposals to distribution companies to offer grants to connect hospitals to the natural gas distribution network. On January 12, 2021¹²¹, the Ministry of Energy announced that a grant had been awarded to connect five more hospitals across the country to the natural gas distribution network within three years. The plan and the published call for proposals promote a move ending with, as of the date of the update, 18 government and non-government hospitals will be connected to the natural gas distribution network.

(H) Energy sector targets for 2050

On November 29, 2020, the Ministry of Energy called for participation of the public participation in the proposed targets for reducing emissions in the energy sector in 2050. According to the proposed plan, the energy sector will reduce greenhouse gas emissions by 2050. The plan presented by the Ministry of Energy also includes a number of sub-targets: a commitment to close coal-fired power stations by 2025, reduction of

¹¹⁸ https://www.gov.il/he/departments/policies/dec465_2020

¹¹⁹ https://www.gov.il/he/departments/news/electricity_110820

¹²⁰

[https://www.gov.il/he/departments/news/ng_101120?utm_source=InforuMail&utm_medium=email&utm_campaign=%D7%A2%D7%93%D7%9B%D7%95%D7%A0%D7%99%D7%9D+%D7%9E%D7%90%D7%AA%D7%A8+%D7%9E%D7%A9%D7%A8%D7%93+%D7%94%D7%90%D7%A0%D7%A8%D7%92%D7%99%D7%94\(184\)+](https://www.gov.il/he/departments/news/ng_101120?utm_source=InforuMail&utm_medium=email&utm_campaign=%D7%A2%D7%93%D7%9B%D7%95%D7%A0%D7%99%D7%9D+%D7%9E%D7%90%D7%AA%D7%A8+%D7%9E%D7%A9%D7%A8%D7%93+%D7%94%D7%90%D7%A0%D7%A8%D7%92%D7%99%D7%94(184)+)

¹²¹ https://www.gov.il/he/departments/news/ng_120121

greenhouse gas emissions in the electricity sector by up to 85% by 2050, an annual improvement of 1.3% in the energy intensity index, as well as a further examination of the export policy in the natural gas sector and a full transition to natural gas in the industrial sector¹²².

- (I) 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. On January 1, 2021, the increase in Excise Tax came into effect.

- (J) 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

¹²² https://www.gov.il/he/departments/publications/Call_for_bids/energy_2050_public

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 7.16.5(e) 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 7.16.5(e) 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.

(K) 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. In addition, the Ministry of Energy and the Ministry of Environmental Protection, as well as other authorities on behalf of other government bodies, including the Israel Land Authority, publish environmental

guidelines to which the Company may be subject directly or indirectly. These guidelines are updated periodically, and 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: 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.

(L) 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.

(M) Decision of the Electricity Authority – principles for recognizing gas costs for private producers that use natural gas and principles for recognition of costs to an essential service provider (System Management Unit) in respect of agreements for the procurement of 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.

The IEC will not sell natural gas in a secondary sale to a non-producer of electricity, if the system administrator has determined that the next day diesel or liquefied petroleum gas is required in the general load plan of the electricity sector, except where diesel is used in the load plan for testing purposes only. The effect of this section will expire on the

date of commercial operation of an additional gas supplier in the economy.

- 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. The decision framework determines how the price sold in shekels is calculated for one MMBtu, to the manufacturer who signed a gas agreement in which the gas price is linked to the production component, or to the manufacturer who signs a gas agreement that replaces a previous gas agreement recognized by the Authority. The decision will only apply to licensees who are entitled to recognition of the ownership of the gas agreement according to the decisions of the Authority that apply to them (provided that two cumulative conditions are specified in the decision).¹²³
 - (5) In the Notes to the Decision it is to be noted, among other things, that:
 - (6) A private 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.
 - (7) A private producer who signs a gas agreement that does not replace a gas agreement recognized by the Authority will receive 25% of the

¹²³ https://www.gov.il/BlobFolder/policy/55511/he/Files_Hachlatot_55511_1337.pdf

difference between the maximum gas price under the Gas Framework and the gas price in the agreement.

- (8) The decision establishes a mechanism that encourages private electricity producers to enter into agreements for the sale and purchase of gas, in which the price of gas will be lower than the maximum price set in the gas framework, by recognizing a price higher than the actual gas price. In addition, the decision encourages private electricity producers to enter into agreements with gas suppliers that are not related to Tamar Partners, as long as the price of gas in these agreements is lower than the maximum price set in the gas framework. It should be clarified that, in relation to the IEC, [*missing text] of the Electricity Authority applied from June 12, 2017¹²⁴, which established principles that the IEC is required to adhere to in order that costs be recognized, but does not define a similar mechanism.

7.16.9 Permits and licenses for the facilities of the Tamar Project

In the framework of the Tamar Project development plan, the Tamar Project partners received approval to construct a permanent rig for the production of natural gas and petroleum and also an approval for the operation of a production system of natural gas and condensate from the Tamar Project, according to which the Tamar Project partners were required, inter alia, to provide guarantees in the amount of NIS 100 million (in terms of 100%).¹²⁵

Furthermore, on August 29, 2016, the Minister of Energy granted Tamar 10-Inch Pipeline Ltd. (a company owned by the Tamar Partners according to their respective pro rata interests in the lease) a temporary transmission license for the operation of a pipeline to be used for the transport of natural gas originating in the Tamar Lease, from the Tamar Platform to the entry point of the natural gas processing terminal in Ashdod, all subject to the conditions of the license. The pipeline was constructed as part of the Production System, as defined in the 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

¹²⁴ https://www.gov.il/BlobFolder/policy/51813d/he/Files_Hachlatot_13518.pdf

¹²⁵ 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.

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 7.2.13 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(c) 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 The balancing agreement for the separate sale of natural gas produced from the Tamar reservoir

For details regarding the balancing agreement signed between Tamar Partners regarding the separate marketing of natural gas produced from the Tamar reservoir, see section 7.5.1 above.

7.17.8 Cooperation agreement regarding the marketing and sale of gas from the Tamar project

For details regarding an agreement for cooperation regarding the marketing and sale of gas from the Tamar project, which, among other things, nullifies Isramco's right of veto, see section 7.5.1 above.

7.17.9 Natural Gas Transport Agreement

For details regarding an agreement for the provision of natural gas transmission services signed by the operator in the Tamar project with INGL, and a services agreement signed by Tamar Partners and Leviathan partners which stipulates gas

transmission arrangements under the said transmission agreement, see section 7.5.2 (c) (2) above.

7.17.10 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:

1. Does not pay the Tamar Partners any amount required under the Usage Agreement within 10 days from the day of receipt of an invoice from the Tamar Partners.
2. Denial of the usage rights in the Yam Tethys Facilities in any way.
3. Breached the Usage Agreement (other than in connection with the management of the Yam Tethys Facilities by the Yam Tethys Partners), and such breach was not remedied within 60 days from the date of receipt of the notice from the Tamar Partners regarding the breach.

(F) The sole relief available to the Tamar Partners for these breaches by the Yam Tethys Partners is the filing of a claim.

(G) Additionally, the Agreement includes, inter alia, provisions that regulate relations between the Tamar Partners and the Yam Tethys Partners throughout the term of use of the Yam Tethys Facilities, including with respect to the management of the Yam Tethys Facilities and a mechanism for the division of operating expenses of the Yam Tethys Facilities and the division of capital expenses of the Yam Tethys Facilities in connection with the preparation and upgrade of the facilities for the receipt of natural gas from the Tamar Project, based on the gas capacity ratios between the Yam Tethys Project and the Tamar Project.

(H) The Agreement is subject to English law. All differences of opinion between the parties in connection with the Agreement or its performance will be submitted to an arbitration before three arbitrators which is subject

to the arbitration rules of the London Court of International Arbitration. Disputes of a technical nature may be submitted to a suitably qualified independent expert.

- (I) Ownership of the upgraded Yam Tethys Facilities will remain with the Yam Tethys Partners, with the Usage Agreement establishing provisions regarding a mechanism for settling accounts regarding the value of said facilities at the end of the period of production from the Tamar Project. Within 90 days from the end of said period, the Operator of Yam Tethys is required to submit to each of the Tamar Partners a calculation of the market value of the upgrades to the Yam Tethys Facilities, said calculation taking into account the condition and life span of the facilities, the planned use of the facilities by the Yam Tethys Partners and the Yam Tethys Group, the dismantling and abandonment costs and any other matter which the Yam Tethys Operator considers relevant. The parties to the Agreement will conduct negotiations and agree on a final market value, and any dispute in this regard will be submitted to the decision of an expert.

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.

7.17.11 The Trust Deed for Series A bonds – for details see Note 9B to the financial statements.

7.17.12 The Trust Deed for Series B bonds – for details see Note 9C to the financial statements.

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

The Petroleum Law 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.

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.

In May 2020, the Natural Resources Administration in the Ministry of Energy issued directives on the manner of calculation of the value of the royalties at the wellhead for marine oil rights. In addition, in September 2020, the Natural Resources Administration in the Ministry of Energy published the directives of the Petroleum Commissioner regarding the calculation of the value of the royalty at the wellhead in the Tamar lease (for details, see section 7.16.8 above). In 2018, the Company recognized royalty expenses according to a calculation based on the principles of the "English formula," which constituted the best 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). 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 that year is 11.16%.

In the financial statements for 2019 and 2020, the method of calculating the royalty rate for the State was updated in accordance with the Company's assessments and estimates, inter alia in light of the said directives of the Ministry of Energy, and the royalty rate based on the updated calculation for these years is 11.3%. As stated above, these rates do not reflect the royalty rate actually paid to the State in these years. It is further noted that in the data of the discounted cash flow attributed to the Company's share in the Tamar reservoir included in the Reserves and Cash Flow Statement, the Company assumed a royalty rate of 11.3%. There is no certainty that the actual royalty rate will not be different.

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 way of 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, 2020	Rate of the royalties	Additional information
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 Royalties ¹²⁶ (the " Holders of the Delek Group Royalties ")	Collectively: 1.5% before the return-on-investment date and 6.5% thereafter, of the Rights Acquired from Delek Drilling ¹²⁷	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 "). For details regarding the main terms of the Delek Group Royalties, as prescribed in said rights transfer agreement, see Paragraphs and a)-e) below.
Cohen Gas and Oil Development 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.

¹²⁶ 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.

¹²⁷ 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, 2020	Rate of the royalties	Additional information
Dor Chemicals Ltd. ("Dor")	0.48% of the Rights Acquired from Delek Drilling, calculated after the royalties to the State (i.e. 0.42%)	Said right to royalties derives from an agreement dated January 21, 2007 signed by Delek Drilling and Avner with Dor, whereby Delek Drilling and Avner purchased from Dor 2.5% (out of 100%) of the rights in the Michal and Matan Licenses, in whose place the Tamar and Dalit leases were later granted (respectively) (the " 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 on 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.¹²⁸ 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 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

¹²⁸ 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.

is defined in the agreement for the transfer of rights in a mediation process before the Honorable Supreme Court Justice (emeritus) Yoram Danziger.¹²⁹ 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 mediation process has not been successful.

- (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 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

¹²⁹ 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.

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 which have concluded, 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 June 1, 2020, a court hearing was held in which the parties orally completed the summaries filed on their behalf. At the end of the hearing, the court determined that a decision on the motion for approval will be sent to the parties.. For further details see Note 11I(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. On July 21, 2020, a pre-trial hearing was held, in which the respondents requested that the court decide on the threshold allegations raised in the responses to the motions for approval, and in particular on the grounds that the applicants cannot serve as class action plaintiffs.

The court ruled that the applications for summary dismissal are forwarded for decision. On November 1, 2020, the applicants filed a motion for amendment of the motion for approval (hereinafter: "**the Motion for Approval**") and in this context sought to delete Applicant 2 as a class action plaintiff, and instead to attach Orcom Strategies and Properties Ltd., which is, according to the plaintiff, a classified investor in accordance with the Securities Law, and which participated in the issue. The applicants also claimed in the motion for amendment that the Israel Securities Authority decided to accede to their motion and assist in financing the proceeding, in accordance with section 55C (a) of the Securities Law. As part of the wording of the amended motion attached to the motion for amendment, the respondents argued for another cause of action concerning an expected violation, in light of the Company's reports of March 30, 2020 and August 26, 2020, according to which the Company will not distribute dividends. As a result, the damage claimed as part of the amended motion was estimated at approximately \$ 153.8 million. The applicants gave notice that as far as they are permitted to correct the motion for approval, they also intend to amend the economic opinion so that it will support the amount of damage claimed. On January 6, 2021, the respondents submitted their responses to the request for amendment, in which it was argued that the request for amendment does not meet the conditions formulated in the law and the ruling for the amendment of statements of claim. On 15.2.2021, the plaintiffs' response was submitted comments, in which the plaintiffs repeated all their claims and responded to the respondents' claims. As of the date of approval of the report, the court has not yet ruled on the motion for amendment. For further details, see Note 11I (2) to the financial statements.

7.21.4

Further to Section 7.4.4(d) 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. 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**"). In August 2020, a judgment was handed down in the appeal dismissing the appeal.

- 7.21.5 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,¹³⁰ 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. On January 7, 2021, the respondents' responses to the motion for disclosure were submitted, in which it was alleged that the conditions set forth in the law for granting the requested relief were not met. On February 11, 2021, an update notice was submitted on behalf of the respondents, inter alia, regarding the settlement agreement signed between Tamar Partners and the IEC for the purchase of gas from the Tamar reservoir, and regarding a memorandum of principles for marketing and balancing arrangements for sale separately, in which it was explained that the aforesaid constitutes an additional major reason to dismiss the motion. A pre-trial hearing is scheduled for May 18, 2021. The applicant is to submit his response to the answers to the motion for disclosure and the update notice up to 30 days in advance. For further details, see Note 11I (3) to the financial statements.

¹³⁰ For details regarding the competitive process, see Section 7.4.4(d)(2) above.

- 7.21.6 In February 2020, a class action lawsuit was filed in the Tel Aviv District Court (hereinafter: "**the Applicant**") and a motion for approval as a class action (hereinafter in this section: "**the Motion for Approval**"), according to which the court is asked to determine that Delek Drilling and Noble, who cross-owned Tamar and Leviathan reservoirs, cannot prevent the Tamar reservoir partners from entering into an agreement with the IEC in a contract that reduces the cost of natural gas it supplies to the IEC, in any way, including by exercising a right of veto, which the applicant claims is granted to them in their agreements with corporations that own only the Tamar reservoir.

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. On December 23, 2020, the respondents holding the Tamar project submitted a motion to summarily delete the motion for approval insofar as it is addressed to them. The applicant objected to the motion for deletion while the other respondents did not object to the said motion. The court scheduled a hearing on the motion for deletion for May 5, 2021. A preliminary hearing on the motion for approval is scheduled for November 17, 2021.

- 7.21.7 In April 2020, a statement of claim and a motion for approval was filed as a class action (hereinafter collectively: "**the Motion for Approval**") which was submitted to the Economic Department of the Tel Aviv District Court, by a shareholder in the Company (hereinafter: "**the Applicant**") against the Company, directors and CEO (hereinafter in this section: "**the Respondents**"). The matter of the motion for approval is the applicant's claim for lack of disclosure in the Company's reports of a condition in an agreement for the sale of natural gas from the Tamar reservoir to Dolphinus Holding Limited (hereinafter: "**Dolphinus**"), under which if the annual average price per barrel of Brent oil falls below \$ 50, Dolphinus will be entitled to a 50% reduction in the amount of gas it undertook to purchase or pay for. According to the applicant, the alleged lack of disclosure amounts to a violation of various sections of the Securities Law, 5728-1968 and regulations enacted thereunder, violation of the duty of care and negligence of the Company's officers by virtue of the Companies Law, 5759-1999, breach of

statutory duty and breach of contract and duty of good faith in the performance of a contract. According to the applicant, the disclosure regarding the said condition of Isramco on March 24, 2021, led to a decline in the price of the Company's shares on March 25-26, 2020, and caused damage to the group it seeks to represent, which is estimated by the applicant at approximately NIS 12 million. The court was requested in the motion for approval, inter alia, to order the respondents to compensate the members of the group it seeks to represent, for the damage alleged above, or alternatively or cumulatively, to grant any other remedy for the benefit of the group (or the public) as the court sees fit in the circumstances of the matter. On November 19, 2020, the Company submitted its response to the motion for approval, in which it rejected the applicant's claims. The applicant is to submit his response to the reply to the motion for approval by April 15, 2021. For further details, see Note 11I (5) to the financial statements.

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 in 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 Promotion of steps for growth in the Tamar reservoir.
- 7.22.6 Reduction of the Company's financial leverage, whether through investment in the Company's equity and / or reduction of the balance of bonds in circulation and / or increasing rights in the Tamar and Dalit leases. For details regarding the Board of Directors' resolution of March 29, 2020 adopting a bond repurchase program for Series A and B bonds carried out mostly in the period of the report and up to the report approval date, see Chapter Three of the Board of Directors' Report.

Caution regarding forward-looking information – The Company's goals and strategy, 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 the operator.

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 is a condensed summary of the main risk factors affecting the Company's activities arising from the general environment (hereinafter: "Macro Risks"), from the field of activity (hereinafter: "Industry Risks") and from the unique characteristics of the Company's activities (hereinafter: "Special risks to the Company"). It should be clarified that the risk factors listed below do not constitute an exhaustive list of risks related to the Company and its operations, and that the Company has additional risks arising from the Company's business and assets as described in this Chapter A, as well as risks that as of the report approval date are not yet known to the Company:

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 6.8.4 above. For details regarding the spread of the coronavirus and its possible impact on the Company's business, see Section 6.8.1 above.

7.24.2 Decrease in the Linkage Components in the Price Formulas of Natural Gas

The prices paid by the consumers for the natural gas produced from the Tamar Project are determined according to various price formulas, some of 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. In addition, in many of the natural gas supply contracts signed by the Company, in addition to the price formulas, floor prices

were set which to some extent limit the exposure to fluctuations in the linkage components, but there is no certainty that the Company will be able to set floor prices in new contracts. For further details regarding the fixed linkages in the natural gas sales agreements, see section 6.8.2 above.

A decrease in the Electricity Production Tariff (due, inter alia, to price adjustments, if there will be 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 changes in oil prices, gas prices and LNG prices in the report period, see Section 6.8.3 above. Additionally, decisions and reforms in the electricity sector in general, and at the IEC in particular, could reduce demand from existing and potential customers 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. It should also be noted that insofar as the scope of renewable energy use will expand in the electricity sector, among other things in light of government decisions on the subject, demand for natural gas in the economy may moderate.

7.24.4 Geopolitics

The security, and political situation in the Middle East on general and in Israel in particular, may affect the willingness of countries and foreign bodies, including in the Middle East, to engage in business relations and / or continue existing engagements with Israeli bodies, including the Company. 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 significantly adversely affect the Company's revenues from export agreements, as well as the Company's

ability to promote its business dealings with countries and additional bodies in neighboring countries.

7.24.5 Difficulties in obtaining financing

For retaining and 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. As of the report approval date, against the backdrop of the Corona pandemic, a serious global economic crisis may develop that will negatively affect the Company's ability to raise financing, if this may be necessary. 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.

7.24.6 Competition in gas supply

In recent years, the Company has been exposed to competition in the supply of natural gas to the domestic market and export markets, which has recently increased significantly, with the start of commercial operation of the Leviathan reservoir in early 2020. Also, such competition is expected to increase with the start of commercial operation of [*missing] reservoir and Karish, as well as if in future new reservoirs are discovered in Israel [*missing] a number of gas reservoirs in neighboring countries. In addition, as of today there is competition from alternative energy sources including coal, liquid fuels (such as diesel and fuel oil) and renewable energy sources (such as solar and wind), which may increase, among other things, as a result of implementation of government policy in this area. Increased competition in the past year has led to a decrease in natural gas prices set in new supply contracts, and the continuation of this trend in the future may cause significant damage to the Company's revenues and businesses. For details regarding competitive processes for natural gas and oil exploration in Israel's economic waters that may lead to new gas discoveries, see section 7.1.9 above. In Egypt and Jordan, to which the Company exports natural gas, the Company is exposed to competition that may increase in the future from reservoirs that were discovered (such as the Zohr natural gas field in Egypt), or

new discoveries in the future, as well as from suppliers of alternative energy products. As of the date of the report, in addition to the Tamar reservoir and the Leviathan reservoir currently producing in Israel, Karish, Karish North and Tanin reservoirs that are owned by Energean, are in advanced stages of development, the first of which, to the best of the Company's knowledge and reliance on Energean publications, expected to begin supplying gas in the first quarter of 2022. These reservoirs, grouped under a single production system, are expected to be significant suppliers of natural gas. It should be noted that, in accordance with the provisions of the gas framework, Karish and Tanin reservoirs, which are expected to constitute additional significant suppliers, are designated to supply natural gas to the local market only. The limited volume of natural gas demand in the domestic gas economy, the entry of additional competitors into the local gas market, the restrictions on the volume of gas that can be exported, and incentives given to the development of renewable energy sources, may significantly increase competition in domestic gas sales. Until the date of approval of the report, most of the gas produced from the Tamar reservoir was marketed jointly by all Tamar Partners. For details regarding a balancing agreement for sale separately from the Tamar reservoir signed between Tamar Partners, which allows the sale of gas separately from the reservoir and therefore improves the competitive status of the partners in the Tamar reservoir, see section 7.5 below. 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(n) above.

7.24.7 Restrictions on export

The volume of the gas reserves in the Tamar Project is greater than the expected demand for gas 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. If a decision is made regarding an additional reduction in the exportable natural gas quantities, this 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 development and integrity of 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. For details on Noble's and INGL's engagement in a binding transmission agreement, see section 7.5.2(c)(2) above.

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 and combustion of the well, breakdowns, accidents, and other events that may harm the functioning of the

production and transmission system, substandard or inefficient work may also be caused, among other things, as a result of contractor or operator errors, labor disputes and disruptions, injuries, 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, 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 operating 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 6.8.1 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 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. Thus, in the event

of large-scale loss or damage, the insurance policies acquired may be insufficient for covering all of the damage to the Company and/or third parties, including with respect to cyber, political risks, risks of war and terror and risks of environmental pollution damage. Such risks, if they materialize, may cause postponements and delays in the Company's 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 Corona pandemic, inter alia, on the availability of manpower and/or on the availability of equipment for the Tamar Project facilities, see Section 6.8.1 above.

7.24.12 Risks of exploration activity and reliance evaluations, estimates and on partial and estimated data

Oil and gas exploration activity 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. Moreover, there is a lack of direct geological and geophysical information regarding some of the marine areas of the Company's oil assets, due in part to the limited drilling carried out in these areas and the paucity of information that can be obtained from them. 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, and additional information accumulated about the 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. In addition, the discounted cash flow data attributed to the Company's share of the Tamar project included in the Reserves and Cash Flow Statement are based on various assumptions, many of which are beyond the Company's control, including the quantities of gas and condensate produced, production and sales rates and sales prices. For details regarding the main assumptions underlying the cash flow in the Tamar project, see the Reserves and Cash Flow Statement.

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 past experience and 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 pandemic and its possible impact, inter alia, on the operation of the Tamar reservoir, see Section 6.8.1 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 over the last year, as detailed in Section 6.8.1 and 6.8.4 above, could impact the financial resilience of its partners.

7.24.15 Dependence on the receipt of regulatory and other approvals

Exploration, development and production operations in the Company's oil assets require the receipt of numerous regulatory approvals, mainly from bodies authorized under the Petroleum Law and the Natural Gas Economy Law, as well as related approvals from State authorities (including the Ministry of Energy, Ministry of Defense, Environment, Tax and various Planning Authorities), the Ministry of Agriculture, the Ports Authority and the Ministry of Transportation (hereinafter in this section: "**the Approvals**"). The approvals required for the partners' activities in the oil assets include the stipulation of conditions of validity, many of which are not controlled by the partners. Violation of these conditions may lead, inter alia, to the cessation of production activity from the production reservoirs, the imposition of restrictions on the various activities and the exposure of the partners in the oil assets to financial, administrative or criminal sanctions. The partners in the oil assets have no control over the conditions that will be determined in new approvals that will be required in the future, and there is no certainty that it will be possible to obtain the required approvals or meet their conditions.

7.24.16 Regulatory changes

As a general rule, the scope of regulation that applies to the Company's area of activity is characterized by constant growth. For further details regarding the

regulation applicable to the Company's operations, as of the date of approval of the report, see section 6.8.3 above. The expansion of regulation began, among other things, with exploration operations, 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 and condensate.

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. As part of the gas framework, binding provisions were established regarding the price of gas and the linkage alternatives of the price that can be presented to customers of the Tamar reservoir, as specified in section 7.16.1 (c) (1) (b) above.

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 which is expected to end in December 2021.

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, in which it is claimed, inter alia, that the price of gas sold from the Tamar reservoir to the IEC is an unfair price that constitutes an abuse of the status of Tamar partners as monopolies in the field of natural gas supply in Israel, in violation of section 29A of the Economic Competition Law (hereinafter 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. For further details on this proceeding, see Note 7.21 above. 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 11I(1) to the Financial Statements.

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 the Operator's 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 Operator, 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 their 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.

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 Climate change

The public debate that is taking place regarding climate change and the human impact on it may lead to regulatory intervention and other developments that may have a material impact on the Company's area of activity. International agreements, legislation and other regulatory measures that will be taken to reduce greenhouse gas emissions, if and to the extent that they enter into force and apply to the Company's operations, may result in, among other things, significant expenses to meet new requirements, and significantly increase competition from renewable energy suppliers .

In addition, the activities of organizations and activists who oppose the production and use of fossil fuels may impact the Company's reputation and cause

legal and other expenses that will be required to deal with this activity and its consequences.

7.24.21 Dependence on weather and sea conditions

Offshore operations are exposed 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.

7.24.22 Information and cyber security risks

The Tamar partners, 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, especially during the current period in which, against the background of the Corona pandemic, many organizations moved to activity mainly through remote connection to the corporate networks, which increases exposure to penetration by unauthorized parties. 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.

7.24.23 Tax risks

Tax issues, relating to the Company's activities including concerning the levy imposed under the Taxation of Profits from Natural Resources Law, enacted in 2011, have not yet been discussed in the rulings of the 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. For details regarding disputes between the owners of the rights in the Tamar lease and the tax authorities, see Note 12 to the financial statements and regarding the Memorandum of the Taxation of Profits from Natural Resources Law (Amendment), 5781-2021, see section 7.14.3 above.

7.24.24 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. The IEC-Tamar agreement sets dates on which each party to the agreement may request an adjustment of the price. To the extent that the gas price is adjusted in accordance with the mechanism set forth in the agreement, this may have a negative effect on the Company's business and results (see section 7.4.4 (c) above). 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. For details regarding the settlement agreement signed on January 30, 2021 between all Tamar Partners and the IEC, see section 7.4.4 (e) (2) above.

7.24.25 Financial soundness of the Company's customers

The Company is exposed to risks beyond its control regarding the financial resilience of its customers and their ability to meet their obligations under the gas supply agreements. To the extent that its customers do not meet their obligations under the supply agreements, and to the extent that the Company fails to sell the contractual amount stipulated in the said agreements to other customers, it will have a material adverse effect on the Company's revenues and financial results. For details on the possible impact of the Corona pandemic, see section 6.8.1 above.

7.24.26 Dependence on the Operator

7.24.27 The Company relies to a great extent on the operator of the Leases, in light of the provisions of the JOA. Noble's withdrawal, for any reason, 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. Also, in the event that Noble fails to meet its obligations as an operator under the Joint Operations Agreement or under agreements with third parties with whom Noble enters as an operator, the Company may bear expenses and losses that may result from the operator's actions (or omissions). Minority right of opinion in actions under the Joint Operating Agreement

The Company holds 16.75% in the Tamar Project. Since the resolutions specified in the JOA are passed by a majority of 68% (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.

7.24.28 Manner of marketing the gas produced in the Tamar reservoir

Until recently, the gas produced from the Tamar reservoir was marketed mostly jointly, so that all the Tamar Partners entered into the supply agreements signed with the customers. On February 23, 2021, a balancing agreement was signed between Tamar Partners for sale separately from the Tamar reservoir, the purpose of which is to determine the rules and mechanisms specified in connection with each Tamar partner's share in gas production in accordance with the Joint Operating Agreement, and balancing arrangements that will apply between the partners in the event that the marketing of the gas will not be performed in accordance with the relative of the partners in the said output, as specified in section 7.5.1 above.

The implementation of the provisions of the balancing agreement requires the establishment of various systems and the adoption of procedures, as well as the receipt of approvals and clarifications from the various tax authorities and regulators. To the extent that the balancing agreement is not implemented, 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.

7.24.29 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.

7.24.30 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.

7.24.31 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.

7.24.32 Security risks

The production facilities of the Yam Tethys Project and Tamar Project are located at sea and INGL's gas transmission installations, the EMG pipeline and additional infrastructures for purposes of supplying gas to Egypt are 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 Onshore Terminal in Ashdod, the pipeline, infrastructures and installations used for supplying gas to Jordan as well as installations of the Company's customers are also exposed to security risks, including terrorist attacks and sabotage. These security risks, if and to the extent realized, may, inter alia, disrupt the production of gas from the reservoirs and / or the supply of gas to customers in the domestic market and / or export markets, and in extreme cases may lead to cancellation of gas sales agreements or reductions of amounts the customers are required to pay due to the claim of a "force majeure" event, and these risks may also limit the ability of service providers and equipment to provide their services or items necessary for the Tamar project's operations, and impair the ability to raise and retain appropriate human capital. The realization of the said security risks may result in a significant impairment of the Company's revenues and business, including its ability to carry out operations that are conditional on prior coordination with the security system. 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.

7.24.33 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.

7.24.34 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)).

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

The Tamar Partners were declared in 2012 as 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.

7.24.36 Obligations related to 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.

7.24.37 "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.

7.24.38 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) (It should be emphasized that the degree of influence of the said risk factors on the Company's activity is based on an assessment only and it is possible that in practice the degree of influence will be different):

	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 linkage components in price formulas of the natural gas		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 development and integrity of 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 assessments, estimates and 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 regulatory and other approvals			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	
Climate change		X	
Dependence on weather and sea conditions			X
Information security and cyber risks		X	
Company-Specific Risks			

	Extent of Risk Factor's Effect on Company's Business		
	Major Effect	Moderate Effect	Minor Effect
Tax risks		X	
Dependence on primary customers	X		
Financial soundness of the Company's customers			X
Dependence on the Operator	X		
Minority <u>right of opinion in actions under the Joint Operating Agreement</u>			X
Manner of marketing the gas in the 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 risks	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 Company's bonds		X	
"Force majeure" clause in the existing natural gas sale agreements			X
Reliance on a single petroleum asset	X		

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. According to the Petroleum Resource Management System (PRMS), contingent resources are reported according to the certainty of their scope, the low estimate marked C1, the best estimate marked C2, and the high estimate marked C3.

"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"; Discovered; Discovery; "On Production"; "Approved for Development"; "Justified for Development"; "Development Pending"; "Development Unclassified or on Hold"; "Well Abandonment"; "Development Not Viable"; "Condensate"; "Dry Hole"; – Within the meaning of such terms in the SPE-PRMS.

"Porosity" - the ratio between the total volume of cavities in the rock and the volume of the entire rock.

"Preemptive right to receive a license" – As defined in the Petroleum Law.

"Prospective Resources" - Defined according to the Petroleum Resource Management System (SPE-PRMS) as estimated quantities of oil, at a given time, as potential for production from undiscovered / undrilled reservoirs. According to the PRMS, predicted resources are reported according to the certainty in their scope, the low estimate marked U1, the best estimate marked U2, and the high estimate marked U3.

"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: They are discovered; recoverable; commercial and remaining based on the implemented development project. Reserves are reported according to the extent of the certainty, for proved, marked 1P; probable, marked 2P; and possible, marked 3P. It is also usual to report the low estimate, marked P1 (which is equal to 1P); the best estimate, marked P2 (equal in value to the aggregate scope of 1P and 2P); and the high estimate, marked P3 (equal in value to the aggregate scope of 1P, 2P and 3P).

"Reservoir" - a layer or layers of rock that are characterized by relatively high porosity and permeability, which allow the reception and flow of liquids and gas. Sometimes also used to describe an oil and / or gas field. **"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

**Confirmation regarding no material
changes in Tamar Lease**

and

**Consent of NSAI to the inclusion of
the reserves reports in Tamar Lease
and the resources reports in Dalit
Lease**

March 18, 2021

Tamar Petroleum Ltd.
11 Galgalei Haplada Street
Herzeliya 4672211
Israel

Ladies and Gentlemen:

This no change letter is regarding our report dated March 4, 2021. The March 4 report sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2020, to the Tamar Petroleum Ltd. interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.

Since our March 4 report, we, Netherland, Sewell & Associates, Inc. (NSAI), have received daily well production data for these properties through March 14, 2021. This daily well production data has been reviewed by NSAI and it is our opinion that there are no material changes to the production profile for each category or the proved, proved plus probable, and proved plus probable plus possible reserves referenced in our March 4 report.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: 

Richard B. Talley, Jr., P.E.
Senior Vice President

RBT:WKE

March 18, 2021

Mr. Yuval Raikin
Tamar Petroleum Ltd.
11 Galgalei Haplada Street
Herzeliya 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 March 4, 2021, which sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2020, 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 unrisksed contingent and prospective gas resources, as of December 31, 2017, to the Tamar Petroleum working interest in discoveries and prospects located in the Dalit Discovery area, offshore Israel.

In addition to the reports listed above, NSAI hereby grant permission to Tamar Petroleum to use our No Change letter dated March 18, 2021, which sets forth our opinion that there are no material changes to the production profiles for each category or the proved, proved plus probable, and proved plus probable plus possible reserves referenced in our March 4, 2021, report for properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: 

Richard B. Talley, Jr., P.E.
Senior Vice President

RBT:WKE



Tamar Petroleum Ltd.

Chapter B

**Board of Directors Report for the year
ended December 31, 2020**

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 18, 2021

Tamar Petroleum Ltd.

Board of Directors' Report

For the year ended December 31, 2020

The board of directors of Tamar Petroleum Ltd. (the "**Company**") respectfully submits the Board of Directors' Report for the year ended December 31, 2020 (hereinafter: the "**reporting year**").

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

1. Main details from the description of the Company's business

The Company engages 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. During the month of July 2020, the throughput of natural gas from the Tamar project and its sale began under the export agreement to Egypt. 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**").

In the reporting year, a total amount of natural gas of about 8.25 BCM (100%) was sold from the Tamar reservoir, compared with a total amount of about 10.4 BCM (100%) in the corresponding period last year. The decrease in the quantities of natural gas sold is mainly due to a decrease in the sales of natural gas to the IEC, due to the fact that Leviathan partners won the IEC tender. For further details, see section 3A below.

In the period from January 1, 2021 until close to the date of approval of the report, a quantity of natural gas of approximately BCM 1.6 (100%) was sold from the Tamar reservoir.

2. Spread of the coronavirus and its possible implications on the Company

At the end of 2019, the Corona virus (Covid-19) broke out in China, which during the first quarter of 2020 spread also in many countries worldwide, and in March 2020 it was declared a global pandemic by the World Health Organization (WHO) (hereinafter: the "**Corona pandemic**"). Following the spread of the Corona pandemic, many countries, including Israel, have taken during 2020, and are still taking, extreme measures to prevent the spread of the virus, such as restrictions on the movement of citizens and gatherings, travel restrictions on commuters and the transfer of goods, closing borders between countries, and so on.

The Corona pandemic has slowed down global economic activity, which as it continues could lead to an ongoing global economic crisis, which is expected to affect many domestic sectors, and has

led to damage to the various industries that affected levels of consumption in various areas, including energy, in which the Company operates. Thus, during the first half of 2020 there were very sharp declines in international markets in prices of oil and natural gas, which can be attributed, among other things, to the Corona pandemic, as well as to other causes and factors influencing the demand and supply of energy products. In addition, there was a decline in electricity consumption in Israel in the first half of 2020. However, towards the end of 2020 and during the first quarter of 2021, there was a recovery in world energy product prices as well as demand for natural gas in the local economy. In addition, there has been a moderation in the decline in electricity consumption due to the economy's adaptation to the crisis. It should be noted that since the end of 2020 many countries in the world have begun the process of vaccinating their citizens against the Corona virus. However, the extent of vaccine efficacy is still being examined, and depends, among other things, on the rate and mode of spread of various mutations in the virus.

The Corona pandemic poses a global macroeconomic risk that creates uncertainty regarding future economic activity worldwide and the expected effects on financial markets, levels of demand and commodity prices in the energy sector and may impact many industries including the energy industry in which the Company operates.

For further details on the Coronavirus pandemic, including its effect on the Company's business and activities, see Section 6.8.1 in the chapter "Description of the Company's Business" (Chapter A of the Periodic Report).

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	
	2020	2019
Revenues from gas and condensate sales	253,271	349,937
Less royalties	41,133	57,853
Net revenues	212,138	292,084
<u>Costs and expenses</u>		
Cost of production of natural gas and condensate	19,435	28,450
Depreciation, depletion and amortization expenses	40,232	50,037
General and administrative expenses	3,903	3,207
Total costs and expenses	63,570	81,694
Income from ordinary activities	148,568	210,390
Finance expenses	(54,915)	(60,147)
Finance income	5,868	3,279
Finance expenses, net	(49,047)	(56,868)
Income before income taxes	99,521	153,522
Income taxes	(11,264)	(27,871)
Total comprehensive income	88,257	125,651
Gas sales in BCM¹	8.2	10.4
Condensate sales in thousands of barrels²	383	483

¹The figures refer to sales of natural gas by all of the Tamar partners (hereinafter: "**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.

Net revenues in the reporting year amounted to \$212.1 million compared with \$292.1 million the year before, a decrease of 27.4%, mainly due to a decrease of approximately 21% in the quantities of natural gas sold in the reporting year, as well as a decrease of approximately 8% in the average price of natural gas sold in the reporting year.

The decrease in net revenues of approximately \$ 80 million is mainly due to a decrease in net revenues of approximately \$ 60.4 million from natural gas sales to the IEC following Leviathan partners winning the IEC tender (for further details, see Note 11C to the financial statements as of December 31, 2020 ("**The financial statements**")). The additional decrease in net revenues is mainly due to a number of additional customers who began consuming gas from the Leviathan reservoir, and a decrease in sales to private electricity and industrial customers (which the Company estimates is mainly due to a decrease in demand for electricity and energy products as a result of the Corona crisis) which was partially offset by the sale of natural gas under new agreements including the export agreement to Egypt (the supply of which began in July 2020).

In the fourth quarter of 2020, net revenues amounted to approximately \$ 59.8 million, compared with approximately \$ 71.2 million in the corresponding period last year, a decrease of approximately 16%. The decrease is mainly due to a decrease of about 13.6% in the average price of natural gas sold and a decrease of about 5.5% in the quantities of natural gas sold.

The supply of natural gas in 2020 to the IEC (about 34% of total Company revenues), to Dalia Power Energies Ltd. (about 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 \$19.4 million compared with \$28.5 million last year, a decrease of approximately 31.7%. The decrease is mainly due to maintenance work performed on the production platform in the corresponding period last year.

In the fourth quarter of 2020, the cost of producing gas and condensate amounted to approximately \$5.6 million, compared with approximately \$6.4 million in the corresponding period last year.

Depreciation, depletion and amortization expenses in the reporting year amounted to approximately \$ 40.2 million, compared with approximately \$ 50 million last year, a decrease of approximately 19.6%. Most of the decrease is due to the amount of natural gas and condensate produced in accordance with the depletion method.

In the fourth quarter of 2020, depreciation, depletion and amortization expenses totaled approximately \$ 11.7 million, compared with approximately \$ 12.8 million in the corresponding quarter last year.

General and administrative expenses in the reporting year amounted to approximately \$3.9 million, compared with approximately \$3.2 million last year and include, among other things, expenses for professional services, salary expenses and general expenses. The increase is mainly due to an increase in professional services in the amount of approximately \$0.2 million and an increase in other expenses in the amount of approximately \$0.3 million, which is mainly due to an increase in the premium for officers' liability insurance.

General and administrative expenses in the fourth quarter of 2020 amounted to approximately \$1.1 million, compared with approximately \$0.8 million in the corresponding period last year.

Net financing expenses in the reporting year amounted to approximately \$ 49 million, compared with approximately \$ 56.9 million last year. The decrease in net financing expenses in the reporting year was mainly due to a decrease in financing expenses in the amount of approximately \$ 4.8 million in respect of Bonds (Series A and B), from profit as a result of the repurchase of Bonds (Series A and B) in the amount of approximately \$ 2.3 million and a profit as a result of the purchase of Call and Put dollar options in the amount of approximately \$ 1.7 million (for further details, see Note 20D1 to the financial statements), which was partially offset by a decrease in interest income in the amount of approximately \$ 1.2 million.

In the fourth quarter of 2020, financing expenses amounted to a total of approximately \$ 10.3 million, compared with a total of approximately \$ 13.7 million in the corresponding quarter last year. The decrease in net financing expenses is mainly due to a decrease of approximately \$ 1 million in financing expenses in respect of Bonds (Series A and B), from profit as a result of the repurchase of Bonds (Series A and B) in the amount of approximately \$1.3 million and a profit as a result of option transactions for the purchase dollars as aforesaid in the amount of approximately \$ 1.7 million, which was partially offset by a decrease in interest income in the amount of approximately \$ 0.5 million.

Taxes on income in the reporting year amounted to approximately \$ 11.3 million, compared with approximately \$ 27.9 million last year. Tax expenses in the reporting year are after a decrease of approximately \$ 10.3 million due to the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the financial statements (dollars). Last year, tax expenses are after a decrease of approximately \$ 8.2 million resulting from the difference between the measurement basis of income as reported for tax purposes and the measurement basis as reported in the financial statements.

Taxes on income in the fourth quarter of 2020 amounted to income of approximately \$ 4.1 million compared with an expense of approximately \$ 7.9 million in the corresponding quarter last year. Taxes in the fourth quarter of 2020 are after a decrease of approximately \$ 9.7 million due to the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the financial statements (dollars). Tax expenses for the fourth quarter of 2019 are after a decrease of approximately \$ 0.6 million resulting 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, 2020, compared with the statement of financial position as of December 31, 2019:

Total of the statement of financial position as of December 31, 2020 amounted to about \$1,308 million compared with about \$1,317 million as of December 31, 2019.

Total current assets as of December 31, 2020 amounted to about \$146.7 million compared with about \$140.2 million as of December 31, 2019. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** amounted to about \$88.2 million as of December 31, 2020 compared with about \$79.2 million as of December 31, 2019. The increase resulted mainly from the cash flow from current operations of about \$179.5 million which was partially offset by the payment of principal and interest on Bonds (Series A and B) in an amount of about \$143.1 million, from repurchase of bonds of about \$11.3 million, investments in gas and oil assets totaling about \$11.1 million and purchase of traded securities in the amount of about \$4.2 million.

- (2) **Investment in traded securities** amounted to about 4.2 million as of December 31, 2020.
- (3) **Trade receivables** amounted to about \$27.9 million as of December 31, 2020 compared with about \$34.6 million as of December 31, 2019. The decrease in trade receivables resulted mainly from a decrease in sales for the month of December 2020 compared with the month of December 2019.

Total non-current assets as of December 31, 2020 amounted to about \$1,161.5 million compared with about \$1,176.5 million as of December 31, 2019. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** amounted to about \$979.6 million as of December 31, 2020 compared with \$1,008.4 million as of December 31, 2019. The decrease, which is mainly attributable to depreciation, depletion and amortization expenses amounting to about \$39.8 million, was partly offset by an increase in oil and gas assets totaling about \$11 million. With regard to an impairment test in the investment in oil and gas assets as of December 31, 2020, see Note 2B to the financial statements.
- (2) **Deferred taxes** amounted to about \$123.6 million as of December 31, 2020 compared with about \$112.7 million as of December 31, 2019. The increase derives from deferred tax income for the period totaling about \$10.9 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 (dollars) and their measurement basis for tax purposes (NIS).

Current liabilities as of December 31, 2020 amounted to about \$105 million compared with about \$120.9 million as of December 31, 2019. The change is mainly attributable to the following factors:

- (1) **Current maturities of bonds** amounted to about \$72.4 million as of December 31, 2020 compared with \$87.6 million as of December 31, 2019.
- (2) **Amounts payable** amounted to approximately \$ 21.4 million as of December 31, 2020, compared with \$ 29.4 million as of December 31, 2019. The decrease is mainly due to a decrease in the Company's share in liabilities in connection with the Tamar reservoir in the amount of approximately \$ 5.3 million, from a decrease in the balance of interest payable to the bondholders (Series A and B) in the amount of approximately \$ 1.7 million and from a decrease in royalties payable in the amount of approximately \$ 1.2 million, mainly due to a decrease in December 2020 sales compared with December 2019 sales.
- (3) **Income taxes payable** as of December 31, 20120 amounted to about \$11.1 million compared with \$4 million as of December 31, 2019.

Non-current liabilities as of December 31, 2020 amounted to \$889.7 million compared with \$970.7 million as of December 31, 2019. The change is mainly attributable to the following factors:

- (1) **Bonds net of current maturities** amounted to about \$859.4 million as of December 31, 2020 compared with \$944.7 million as of December 31, 2019. The decrease mainly derives from the payment of principal on Bonds (Series A and B) in the amount of about \$93.6 million, from the repurchase of Bonds (Series A and B) at a par value of approximately \$ 13.5 million, and from the amortization of issuance and discounting expenses in the amount of approximately \$ 6.7 million.
- (2) **Other long-term liabilities** amounted to about \$30.3 million as of December 31, 2020 compared with about \$26 million as of December 31, 2019. 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, 2020 amounted to \$313.5 million compared with equity of about \$225.1 million as of December 31, 2019. The increase stems primarily from comprehensive income for the period totaling \$88.3 million.

B. Cash flows

Net cash flows provided by operating activities amounted in the reporting year to about \$179.5 million compared with net cash flows provided by operating activities amounting to about \$223.4 million last year. The decrease of about \$43.9 million results mainly from a decrease in profit from regular operating activities (after deduction of depreciation) in the amount of about \$71.6 million, which was partially offset by a decrease in taxes paid on income in the amount of about \$16 million and from changes in the working capital (mainly resulting from changes in the receivables and the Operator) in the amount of about \$10 million.

Net cash flows used for investment activities amounted in the reporting year to about \$16.2 million compared with about \$35 million last year. The decrease, deriving mainly from a deposit into restricted deposits made in the corresponding period last year of about \$20 million, and from a decrease in long-term investments in other assets amounting to about \$5.2 million, which was partly offset by the purchase of traded securities amounting to about \$4.2 million, from a decrease of about \$1.4 million in interest received and from an increase of about \$0.7 million in oil and gas assets.

Net cash flows used for financing activities amounted in the reporting year to about \$154.4 million compared with about \$196 million last year. The decrease resulted from a dividend payment last year amounting to about \$40 million, from a decrease in payments of principal on Bonds (Series A and B) and interest payments on them in the amount of about \$12.9 million, which was partly offset by repurchase of Bonds (Series A and B) totaling about \$11.3 million.

C. Financing Sources

In the reporting year the Company financed its current operations, the investments in the Tamar project, principal and interest payments on Bonds (Series A and B) 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

On March 29, 2020, the Company's Board of Directors decided to allocate an amount of NIS 100,000 to donations to non-profit organizations and / or bodies involved in education and / or culture. Following the outbreak of the Corona pandemic, the Company's Board of Directors decided on April 8, 2020 to donate an amount of NIS 50,000 of the said amount to the Yad Sarah Association, which at the time acted to supply breathing equipment. The same amount was donated to the House of Wheels organization.

On March 18, 2021, the Company's Board of Directors decided to allocate an amount of NIS 100,000 in 2021 for donations to non-profit organizations and / or bodies involved in education and / or culture and / or health.

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 (external director), Alon Cohen (external 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 of Association do not include any provision regarding the number of independent directors. It should be noted that four independent directors serve on the Board of Directors who are not "External 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. 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 a multiannual audit plan based on a risk survey conducted to determine the internal audit objectives that was carried out in 2017. 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 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. As a general rule, towards the end of each year, the internal auditor prepares an annual plan for the following year that includes audit objectives from the multi-year plan, in coordination with the Company's management, and brings it to the Audit Committee for approval. Accordingly, the Internal Audit Work Plan for 2020 was approved by the Audit Committee in November 2019. 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. 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 Operating Agreement. It should also be noted that in July-August 2020, the Company established, together with other partners in the reservoir who are not its Operator, a dedicated professional supervision and control team, whose role is to monitor, supervise and advise on an ongoing basis regarding the operations performed by the Operator at Tamar project facilities.

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 420 hours.

The scope of employment of the internal auditor is determined, inter alia, based on the size and complexity of the Company's business operations. The Company's management, audit committee and board of directors may change the scope of the internal audit services according to circumstances.

F. Audit performance

Internal auditing is performed in accordance with Israeli and international generally accepted auditing standards and in accordance with professional guidelines for internal auditing, as provided in Section 4(b) of the Internal Audit Law.

The board of directors is satisfied that the internal auditor has complied with all the requirements and conditions specified above, taking into account the internal auditor's statement as submitted to the board.

G. Access to information

The internal auditor has full and unrestricted access to the Company's information systems, including financial data, for the purpose of performing the audit, in accordance with Section 9 of the Internal Audit Law.

H. Internal auditor's report

The internal auditor's report was submitted in writing.

The annual audit plan for 2020 is 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>
Process of processing and payment of salaries, including reimbursement of expenses	May 20, 2020
Examining the controls on the billing adequacy of the Operating Company	November 12, 2020
Handling litigation, including class actions	December 28, 2020
Management of agreements and engagements.	December 28, 2020
Examination of a material transaction, insofar as it will take place during 2020.	Not relevant

It should be noted that another report on the insurance system has not yet been completed and therefore has not yet been discussed by the Audit Committee.

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. The aforesaid assessment was made after an examination by the Audit Committee of the Company's internal audit system and the functioning of the internal auditor, taking into account the resources available to him and the tools necessary for him to fulfill his role, taking into account, among other things, the Company's special needs and size.

J. Remuneration

The Company paid for internal audit services in 2020 a total of NIS 105 thousand. In the Board of Directors' assessment, the remuneration is reasonable and does not affect the exercise of the internal auditor's independent professional judgment.

5. Fee of independent internal auditors

The independent auditors are Kost Forer Gabbay & Kasierer, CPA, who until November 7, 2019 acted as auditors jointly with and Ziv Haft, CPA,, as the Company's independent auditors.

2020

For audit, audit-related and tax services - 1,868 hours; about NIS 437 thousand.

For other services - 245 hours; about NIS 119 thousand.

2019

For audit, audit-related and tax services – 2,079 hours; NIS 359 thousand.

For other services – 573 hours; NIS 248 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 and in March 2020) 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 external 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.

On December 23, 2020, the General Meeting approved the reappointment of Mr. Eitan Meir to the position of Director of the Company.

9. Committees of the Board of Directors

Following the decision of the Board of Directors at its meeting of March 18, 2020 regarding the adoption of an investment policy as stated in section 2 of the fourth part of the Board of Directors' report for the year ended December 31, 2019, the Company's Board of Directors decided at its meeting of March 29, 2020 to a Board of Directors' Committee, of which the directors are Ran Efrati and Avi Eini, and to authorize it to establish rules for making investments of the available funds in the Company within the framework of the said investment policy. For the investment policy adopted by the Company, see Note 20F to the financial statements.

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. Until the date of approval of the report, the Company made repurchases of Bonds (Series A) in the total amount of NIS 34,160,451 par value and of Bonds (Series B) in the amount of NIS 28,314,307 par value, for a total consideration of about \$ 15.2 million.

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.

Part Five – Details of 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 issuance date	2,315,668	1,940,113
Issuance date	July 9, 2017	March 13, 2018
Par value as of December 31, 2020	1,852,185	1,537,256
Linked par value as of December 31, 2020	1,690,737	1,428,817
Carrying amount in the Company's books as of December 31, 2020	1,673,330	1,322,538
Quoted market price as of December 31, 2020	1,482,860	1,244,716
Amount of accrued interest as of December 31, 2020	26,722	22,582
Annual fixed interest rate	4.69%	4.69%
Principal payment dates	See Annex A to this Report	See Annex B to this Report
Interest payment dates	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive)	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from August 30, 2018 to August 30, 2028 (inclusive)
Linkage basis, base rate (principal and interest)	Linked to the USD; base rate – \$ 1=NIS 3.522	Linked to the USD; base rate – \$ 1=NIS 3.459
Conversion right	None	None

Early repayment right	<ul style="list-style-type: none"> Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the supplementary notice released on July 6, 2017 (TASE reference: 2017-01-057724) ("the Series A Indenture"). Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series A Indenture. Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture. 	<ul style="list-style-type: none"> Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the shelf offering report dated March 12, 2018 (TASE reference: 2018-01-019125) ("the Series B Indenture"). Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series B Indenture. Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture.
Guarantee for payment of the liability	None	None
Name of trustee	Strauss Lazer, Trust Company (1992) Ltd. 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 issuance date	A1.il (Stable)	A1.il (Stable)
Ratings from the issuance date and rating as of the report date ⁴	A1.il (Negative)	A1.il (Negative)
Has the Company complied with all the conditions and obligations under the Indenture throughout the Reporting Period	Yes	Yes

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 Series A bonds. On July 6, 2020, the meeting of holders of Series B bonds confirmed the appointment of the trustee as trustee for the bondholders up to the full and final payment of the Series B bonds.

⁴ The bonds (Series A) were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018, March 12, 2018, March 13, 2019 and March 29, 2020; the bonds (Series B) were rated on February 20, 2018, March 12, 2018, March 13, 2019 and March 29, 2020. For details see the Company's immediate report dated March 29, 2020 (TASE reference: 2020-01-027667), the contents of which are included herein by reference.

until December 31, 2020		
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. • 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. <p>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.</p>	<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. • 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. <p>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.</p>
Financial covenants as of December 31, 2020	<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 	<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

	<p>the Series A Indenture) – about \$ 1,022 million⁵</p> <ul style="list-style-type: none"> • Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (for the 12 months beginning April 1, 2021) – 1.24⁶ • Historical debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (as of December 31, 2020 and June 30, 2020) – 1.17 and 1.24, respectively⁷ • Economic equity (as defined in Section 5.10.3 of the Series A Indenture) – about \$ 614 million⁸ 	<p>Indenture) – about \$ 1,022 million⁹</p> <ul style="list-style-type: none"> • Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B Indenture) (for the 12 months beginning April 1, 2021) – 1.24¹⁰ • Historical debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (as of December 31, 2020 and June 30, 2020) – 1.17 and 1.24, respectively¹¹ • Economic equity (as defined in Section 5.10.3 of the Series B Indenture) – about \$ 614 million¹²
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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

Liami Vaisman
CEO

Tamar Petroleum Ltd.

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 A Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution.

⁷ According to the terms of the Series A Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution.

⁸ According to the terms of the Series A Indenture, said economic equity may be no less than \$ 250 million during two consecutive quarters.

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

¹⁰ According to the terms of the Series B Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution.

¹¹ According to the terms of the Series A Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution.

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
Repayment Schedule of Series A Bonds set forth in the Terms of the Indenture

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
Repayment Schedule of Series B Bonds set forth in the Terms of the Indenture

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, 2020

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, 2020
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, 2020 and 2019 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, 2020. These financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019 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, 2020, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Tel Aviv
March 18, 2021

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Tamar Petroleum Ltd.

Statements of Financial Position (U.S. dollars in thousands)

		December 31	
	Note	2020	2019
Assets:			
Current assets:			
Cash and cash equivalents	20A	88,205	79,167
Investment in traded securities	20A	4,249	-
Restricted deposits	20A	20,484	20,283
Trade receivables	20E(2)	27,925	34,588
Other accounts receivable	5	5,877	6,201
		<u>146,740</u>	<u>140,239</u>
Non-current assets:			
Investments in oil and gas assets	6	979,621	1,008,360
Deferred taxes	19B	123,597	112,736
Restricted deposits	20A	43,938	43,258
Other long-term assets	7	14,319	12,194
		<u>1,161,475</u>	<u>1,176,548</u>
		<u>1,308,125</u>	<u>1,316,787</u>
Liabilities and equity:			
Current liabilities:			
Current maturities of bonds	9	72,420	87,581
Other accounts payable	8	21,430	29,405
Income taxes payable		11,148	3,951
		<u>104,998</u>	<u>120,937</u>
Non-current liabilities:			
Bonds net of current maturities	9	859,421	944,743
Other long-term liabilities	10	30,326	25,961
		<u>889,747</u>	<u>970,704</u>
Total liabilities		<u>994,745</u>	<u>1,091,641</u>
Equity:	13		
Ordinary share capital		2,517	2,517
Share premium		784,495	784,495
Retained earnings		233,402	145,145
		<u>1,020,414</u>	<u>932,157</u>
Capital reserve		(706,944)	(707,011)
		<u>313,470</u>	<u>225,146</u>
		<u>1,308,215</u>	<u>1,316,787</u>

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

March 18, 2021

Date of approval of the
financial statements

Eitan Meir
Chairman of the Board

Liami Vaisman
CEO

Yuval Raikin
CFO

Tamar Petroleum Ltd.

Statements of Comprehensive Income (U.S. dollars in thousands)

	Note	Year ended December 31		
		2020	2019	2018
Revenues from gas and condensate sales	14	253,271	349,937	311,273
Less royalties	15	41,133	57,853	49,691
Net revenues		212,138	292,084	261,582
<u>Costs and expenses</u>				
Cost of production of natural gas and condensate	16	19,435	28,450	21,897
Depreciation, depletion and amortization expenses	6,7	40,232	50,037	44,466
General and administrative expenses	17	3,903	3,207	2,661
Total costs and expenses		63,570	81,694	69,024
Income from ordinary activities		148,568	210,390	192,558
Finance expenses	18	(54,915)	(60,147)	(58,293)
Finance income	18	5,868	3,279	1,832
Finance expenses, net		(49,047)	(56,868)	(56,461)
Income before income taxes		99,521	153,522	136,097
Income taxes	19	(11,264)	(27,871)	(37,279)
Total comprehensive income		88,257	125,651	98,818
Basic and diluted earnings per share (in \$)		1.00	1.42	1.22
Weighted number of shares for the above calculation	13	88,495,576	88,495,576	80,901,928

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, 2018	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	<u>2,517</u>	<u>784,495</u>	<u>(707,114)</u>	<u>59,494</u>	<u>139,392</u>
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	<u>2,517</u>	<u>784,495</u>	<u>(707,011)</u>	<u>145,145</u>	<u>225,146</u>
Changes in the year 2020:					
Total comprehensive income	-	-	-	88,257	88,257
Share-based payment	-	-	67	-	67
Balance as of December 31, 2020	<u>2,517</u>	<u>784,495</u>	<u>(706,944)</u>	<u>233,402</u>	<u>313,470</u>

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	2019	2018
Cash flows – operating activities:			
Net income	88,257	125,651	98,818
Adjustments required to reconcile net income to net cash used in operating activities:			
Depreciation, depletion and amortization	40,232	50,037	44,466
Income taxes	(3,652)	(3,065)	26,373
Amortization of bond discount and issue costs	6,713	6,568	5,902
Finance expenses, net	44,106	50,291	50,757
Share-based payment	67	103	92
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	6,663	(1,159)	(15,133)
Increase in advance payments of petroleum and gas profit levy paid	(1,599)		
Increase in other accounts receivable and other long-term assets	(826)	(79)	(3,778)
Change in balance of the Joint Venture operator	1,909	(5,312)	(1,807)
Increase (decrease) in other accounts payable	(2,419)	322	2,769
Net cash provided by operating activities	179,451	223,357	208,459
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)
Investments in oil and gas assets	(11,120)	(10,400)	(7,231)
Investment in other long-term assets	(3,407)	(8,618)	-
Purchase of traded securities	(4,244)	-	-
Proceeds from realization of traded securities	4	-	-
Interest received	1,666	3,085	1,424
Receipts in connection with other long-term assets	941	941	792
Net cash used for investing activities	(16,160)	(34,992)	(511,781)
Cash flows – financing activities:			
Proceeds from a bond issue, net	-	-	512,239
Repayment of bonds	(93,554)	(101,813)	(30,791)
Proceeds (payment of issue costs) from a share issue, net	-	-	(204)
Repurchase of bonds	(11,333)	-	(840)
Dividend paid	-	(40,000)	(71,347)
Interest paid	(49,501)	(54,180)	(46,978)
Net cash provided by (used for) financing activities	(154,388)	(195,993)	362,079
Profits (losses) from exchange rate differences on cash and cash equivalents	135	(133)	(268)
Increase (decrease) in cash and cash equivalents	9,038	(7,761)	58,489
Cash and cash equivalents at beginning of year	79,167	86,928	28,439
Cash and cash equivalents at end of year	88,205	79,167	86,928

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		
	2020	2019	2018
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	379	4,278	1,120
Asset retirement obligation against oil and gas assets	3,850	4,330	1,795
Annex B – Additional information on cash flows			
Income tax paid	14,916	30,936	10,906

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

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

Cash flows – investing activities:

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

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2020 (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. During July 2020, the flow began of natural gas from the Tamar project and its sale under the export agreement to Egypt.

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 Note 4 below).

The Company is an Israeli resident public company incorporated in Israel on November 4, 2015 and began its operations with effect from July 1, 2017. 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.** As of the date of approval 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).

C. The spread of the Corona virus and its possible effect 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 thereafter throughout the world, and it was declared a global pandemic by the World Health Organization (WHO) in March 2020 (hereinafter: the "**coronavirus pandemic**") and which caused a slowdown in global economic activity, and as a result affecting the various sectors which affect volumes of consumption in various areas, including the energy sector in which the Company operates.

During the first half of 2020, there were very sharp declines in international markets in the prices of oil and natural gas, which the Company estimates can be attributed, among other things, to the corona crisis. However, towards the end of 2020 and up to close to the date of approval of the financial statements, there has been a recovery in the prices of energy products worldwide, including oil prices. It should be noted that since the end of 2020 many countries in the world have begun the process of vaccinating their citizens against the corona virus. However, the extent of vaccine efficacy is still being examined, and depends, among other things, on the rate and manner of spread of various mutations of the virus.

Note 1 – General (continued):

C. The spread of the Corona virus and its possible effect on the Company's business (continued)

As of the date of approval of the financial statements, there is still a great deal of uncertainty as to the extent of the possible impact of the corona epidemic on the global economy, which depends, among other things, on the time it will take to eradicate it or stop it from spreading, as well as the possibility of a renewed emergence of the virus that will lead to the imposition of restrictions that may lead to an economic slowdown and long-term recession, resulting in impact on many industries including the energy sector in which the Company operates. Thus, at this stage it is difficult to estimate the full consequences of the corona epidemic and its impact on demand and sales from the Tamar gas field and, accordingly, on the Company's operations and business results.

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 gas field (see Note 11.B.1 above).

- D.** The financial data in these financial statements are based, among other things, documents and accounting figures that were provided to the Israeli participants in the Joint Venture by the Operator.

Note 2 – Judgment and critical assumptions based on significant estimates:

Preparation of the Company's financial statements in accordance with International Financial Reporting Standards (hereinafter: "**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.

- A. 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. For information on an up-to-date evaluation of the natural gas reserves in the Tamar gas field, see Note 6.F.

Note 2 – Judgment and critical assumptions based on significant estimates (continued)

B. Estimate of impairment of oil and gas assets

During 2020, and as a result of possible indications of a decrease in the value of investments in oil and gas assets, the main reason being the decrease in the market value of the Company's shares on the Tel-Aviv Stock Exchange below the amount of equity as presented in the financial statements, the Company evaluated the need for recording a provision for impairment as of March 31, 2020 and as of December 31, 2020. The evaluations were carried out by an independent external appraiser, who estimated the recoverable amount as of those dates according to value-in-use calculated in accordance with a DCF model (discounting the expected cash flow from the asset), based on the cash flow forecast of the Company from 2P reserves (proved reserves + probable reserves) from the Tamar gas field.

In accordance with the aforesaid examinations, the recoverable amount of the oil and gas assets exceeds their amortized cost and therefore there was no need to record a provision for impairment.

The examination as of the date of the statement of financial position was based on the forecast of the Company's cash flows as of December 31, 2020, as published on March 7, 2021 (hereinafter: the "**Company's forecast**"), and using a weighted average cost of capital (WACC) (after tax) of 9.3%. Based on said evaluation, the recoverable amount of the Company's oil and gas assets was estimated by the external appraiser at \$1,138 million and is higher than the book balance of investments in oil and gas assets as of December 31, 2020, which, net of the retirement obligation and other long-term assets (whose effect was included in the Company's forecast), amounts to \$962 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 recoverable amount of the asset to \$1,012 million.

C. 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 11.I.

D. 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.

Note 2 – Judgment and critical assumptions based on significant estimates (continued)

E. Petroleum and gas levy

As stated in Note 3G, the Company will recognize the expense in respect of the levy from the date on which the obligation to pay it is established for the first time. As of the date of approval of the financial statements, a number of interpretive disputes are being adjudicated regarding the implementation of the Taxation of Profits from Natural Resources Law, 2011 (hereinafter in this section: "**the Law**") in the Tamar project's reports to the Israel Tax Authority, within the framework of an appeal being conducted in the Tel Aviv District Court. The issues that are the subject of these disputes have not yet been discussed in the rulings of the courts in Israel.

The Company estimates that, based, inter alia, on the opinions of its legal counsel in connection with the disputes with the Israel Tax Authority as stated above, as of December 31, 2020, the obligation to pay the levy has not yet arisen and is expected to apply from January 2021 onwards. Accordingly, the Company did not include in its accounts a provision for the payment of a levy in 2020.

In light of the innovative nature of the law and the complexity of the calculation formulas and the various mechanisms defined in it, there is no guarantee that this interpretation of how the levy will be calculated will be the same as that adopted by the Tax Authorities and / or identical to the interpretation of the law by the court. For further details, see also Note 12.

F. 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.

G. Return-on-investment (ROI) date for determining the overriding royalty rate (see Note 11.G. 2)

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 – Limited Partnership (hereinafter: "**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.

Note 3 – Significant Accounting Policies:

- A.** The financial statements are prepared in accordance with IFRS provisions. 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. 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.

Note 3 – Significant Accounting Policies (continued):

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, in the Tamar and Dalit leases, 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.
 - f) The Company's share in the assets and liabilities in respect of the rights acquired from Noble Energy Mediterranean Ltd. (hereinafter: "Noble" or "the Operator"), and its share in the related expenses and income, is based on the values attributed to them at the time of purchase. The Company's share in the assets and liabilities in respect of the rights acquired from Delek Drilling (as a controlling shareholder at the time), is based on their book value at the time of acquisition (see also Note 4).
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.

Note 3 – Significant Accounting Policies (continued):

F. Provisions (continued):

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.

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. Oil profits levy:

Under the Taxation of Profits from Natural Resources Law 2011, the Company is subject to payment of an oil and gas profit levy on its profits from each of the Tamar and Dalit leases (calculated separately) in progressive rates (see also Note 12). The aforesaid levy is dealt with in accordance with IFRIC 21 - "Levies." Therefore, the Company recognizes, where relevant, expenses in respect of the levy only from the date on which the obligation to pay the levy is established and thereafter, pursuant to the rate of the levy as of the date of the statement of financial position. In the Company's opinion, and based, inter alia, on its legal counsel in connection with disputes with the Israel Tax Authority as stated in Note 12, the obligation for payment of the levy by the Company is expected to be established as of January 2021 (see also Note 2.E).

H. Expenses of oil and gas exploration and development of proved reservoirs and investment in oil and gas assets:

- 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.

Note 3 – Significant Accounting Policies (continued):

H. Expenses of oil and gas exploration and development of proved reservoirs and investment in oil and gas assets(continued)

- 1) The Company uses the "successful efforts" method of accounting for investments in oil and gas exploration, whereby: (continued)

- 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:

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)(d) 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, 2020 is approximately 3.2% (as of December 31, 2019 approximately 4%).

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.

Note 3 – Significant Accounting Policies (continued):

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. 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.

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:

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).

Note 3 – Significant Accounting Policies (continued):

L. Financial instruments (continued):

1) Financial assets (continued):

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:

Impairment of financial assets is measured based on the Expected Credit Losses Model. 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.

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.

Note 3 – Significant Accounting Policies (continued):

L. Financial instruments (continued):

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.

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.

Note 3 – Significant Accounting Policies (continued):

L. Financial instruments (continued):

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.

7) Derivative financial instruments:

The Company sometimes enters into undertakings in derivative financial instruments, such as a put or call option for foreign currency to protect itself from the risks involved in fluctuations in the exchange rates of a foreign currency. These transactions are not recognized as accounting hedging transactions. Profits or losses resulting from changes in the fair value of the instruments are recognized in profit or loss.

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.

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, 2020, see Note 2B.

Note 3 – Significant Accounting Policies (continued):

N. Revenue recognition:

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

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

The Company 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.

Note 3 – Significant Accounting Policies (continued):

P. Income taxes:

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.

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.

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.

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.

Note 3 – Significant Accounting Policies (continued):

S. Share-based payment (continued):

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. Leases:

As of January 1, 2016, the Company applies IFRS 16 - "Leases" (in this section: the "Standard"), which replaced IAS 17 on the subject. In accordance with the transition provisions of the Standard, the Company has opted for a partial retrospective application (without re-presentation of comparative information).

The accounting policy on leases applied as of January 1, 2019 (in effect for the years 2019 and 2020) 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.

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 IAS 17. 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. The scope and amounts of the leases that were first recognized as aforesaid are not material to the Company's financial statements.

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.

Note 3 – Significant Accounting Policies (continued):

T. Leases (continued):

The Company's policy in dealing with leases until December 31, 2018 in relation to leases in which the Company is the lessee (in accordance with IAS 17), was as follows:

Financial lease - assets in which all the risks and benefits associated with the ownership of the property have been transferred to the Company are classified as a financial lease. The leased asset is measured at the beginning of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Operating lease - Assets for which all the risks and benefits inherent in owning the leased asset are not actually transferred, are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

U. First-time adoption of new financial reporting standards and amendments to existing accounting standards:

The initial application of new financial reporting standards and their amendments did not have a material effect on the financial statements.

V. Disclosure of new standard in the period prior to its adoption:

Amendment to International Accounting Standard 1 "Presentation of Financial Statements" (hereinafter: the amendment to IAS 1)

The amendment clarifies the guidelines regarding the classification of liabilities as current or non-current in the statement of financial position. The amendment clarifies, among other things, that:

An obligation will be classified as a non-current obligation only if the entity has a material right to defer the settlement of the obligation for at least 12 months after the end of the reporting period. The amendment also clarifies that the entity's intention regarding the exercise of the right is not relevant for the purpose of classifying the obligation.

A material right as aforesaid exists only if the entity meets the relevant conditions on the date of the statement of financial position, even if the examination is at a later date during the 12 months following the end of the reporting period.

"Disposal" of the liability in equity instruments (conversion right) does not affect the classification of the liability if the conversion right has been classified and treated as capital.

The amendment to IAS 1 will be applied retrospectively with respect to annual periods beginning on or after January 1, 2023. In accordance with the provisions of the amendment, its early application is possible. The Company is currently examining the expected effects of the amendment.

Note 4 – Agreement for Acquisition of Working Interests in the Tamar and Dalit Leases:

A. Acquisition of 9.25% working interests in the Tamar and Dalit leases from Delek Drilling;

With the fulfillment of the conditions precedent in a sale agreement with Delek Drilling, in July 2017 the Company acquired participation rights at a rate of 9.25% (out of 100%) in Tamar and Dalit holdings and a proportionate share (9.25%) in approvals, rights and obligations under ancillary agreements, for approximately \$ 845 million In cash and the allotment of NIS 19,900,000 ordinary shares of the Company of NIS 0.01 (regarding the waiver of Delek Drilling for some of the rights of the shares, see Note 13C). Prior to the acquisition of the rights, the Company was not active and was fully controlled and owned by Delek Drilling.

The acquisition of the rights in 2017, which constituted a transaction with a controlling shareholder at the time, was handled using the "As Pooling" method, and accordingly, the Company's share in the assets and liabilities acquired, is reflected in accordance with the book value of Delek Drilling.

The rights in the holdings acquired from Delek Drilling are subject to royalty payments to third parties as described in Note 11G (2).

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

On March 14, 2018, with the fulfillment of the conditions precedent in the sale agreement of January 29, 2018 signed with Noble, the Company acquired as of January 1, 2018 additional participation rights in holdings at a rate of 7.5% (out of 100%) and a proportionate share (7.5%) in approvals, rights and obligations, according to accompanying agreements.

In this context, Noble sold and transferred to the Company the above rights in exchange for a cash payment of \$ 475 million (after a reduction of approximately \$ 43 million, net, resulting from adjustments in accordance with the agreement), and a private allocation of 38,495,576 ordinary shares of the Company of NIS 0.1 par value (blocked carrying out transactions on the Stock Exchange in accordance with the Securities Law). The cost of the acquisition in the amount of approximately \$ 690 million, includes the cash consideration as described above and the fair value attributed to the shares, which was determined with respect to their value on the Stock Exchange at the date of completion of the transaction (after making adjustments to their blocking period).

The Company's share in the assets and liabilities acquired is based on the allocation of the acquisition cost to the assets and liabilities identified at the acquisition date, in accordance with the valuation study and attribution of the consideration to the assets and liabilities acquired (PPA); the Company's share of the income and expenses in respect of this acquisition, takes into account accordingly, the acquisition costs (excess cost) allocated to assets and liabilities. Regarding the value attributed to the Company's share in the assets and liabilities acquired, as reflected in the Company's books, see Appendix C to the Cash Flow Statement for the year 2018).

The results of operations relating to the aforesaid rights in the holdings are included in the statement of comprehensive income as of the date of acquisition above (March 14, 2018).

The rights in the holdings acquired from Noble are not subject to royalties to third parties.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)

Note 5 – Other Accounts Receivable:

	December 31	
	2020	2019
Prepaid expenses and other receivables	1,522	1,375
Receivables within the Joint Venture	1,787	3,856
Advance payments in respect of Oil and Gas Profits Levy	1,612	-
Amounts receivable in connection with the construction of export infrastructure to Jordan	956	970
	5,877	6,201

Note 6 – Investments in Oil and Gas Assets:

A. Composition:

B.

	December 31	
	2020	2019
<u>Cost</u>		
Balance at the beginning of the year	1,168,610	1,150,763
Additions during the year:		
Investments in development	7,238	13,560
Subtractions	-	(44)
Impairment	(1,173)	-
Movement in long-term asset retirement cost	3,850	4,331
	9,915	17,847
Balance at the end of the year	1,178,525	1,168,610
<u>Accumulated depreciation</u>		
Balance at the beginning of the year	160,250	110,213
Depreciation and impairment*	38,654	50,037
Balance at the end of the year	198,904	160,250
<u>Net book value at the end of the year**</u>	979,621	1,008,360
* Average rate of impairment of the producing assets during the period	4.2%	5.1%
** Net book value includes:		
Net book value of assets under a finance lease from Yam Tethys (see H below)	31,606	32,844
Balance of amortized asset retirement obligation cost	20,472	17,803

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, 2020, see Note 2B above.

Note 6 – Investments in Oil and Gas Assets (continued):

- 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.

D. The development plan of the Tamar project:

The production system of the Tamar project (in this section, the "**Development Plan**") currently includes six subsea production wells, each of which with a production capacity of up to 250 MMCF per day. From the Tamar field the gas throughput to the production system on the sea bed, and from there it is throughput by way of an underwater system, through two 16-inch pipelines with the length of each about 150 kilometers, to a production and local treatment platform about 25 kilometers from the Ashdod coast (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 in Ashdod, for completion of treatment and from there the natural gas throughput 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 ("Tamar SW 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 noted 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. Following a mediation process between the partners of the Eran license and the Commissioner of Petroleum Affairs, the parties reached agreements anchored in a mediation arrangement, which was also given the consent of all Tamar partners, according to which the Tamar SW reservoir will be divided between the Tamar holding area (78%) and the Eran license area (22%), and the rights attributed as aforesaid to the Eran license area will be divided between the State (76%) and the rights holders in the Eran license (24%). On April 11, 2019, a judgment was given for the said mediation arrangement. As of the date of approval of the financial statements, the parties are working to formulate the required agreements for implementing the mediation settlement as set out above.

Note 6 – Investments in Oil and Gas Assets (continued):

F. Evaluation of the natural gas and condensate reserves in the Tamar gas field:

According to a report from March 7, 2021 by Netherland Sewell & Associates Inc. ("NSAI," a certified, expert and independent reserve and resource evaluator), based on SPE-PRMS rules, as of December 31, 2020, 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 218.8 BCM (of which 10.3% are attributed to the Tamar SW reservoir) and reserves classified as proved + probable reserves amount to 296.8 BCM (of which 9.1% are attributed to Tamar SW reservoir). According to said report, as of December 31, 2020, the amount of condensate reserves on production in the Tamar and Tamar SW reservoirs is as follows: reserves classified as proved reserves amount to about 10 million barrels (of which about 10% are attributed to Tamar SW), and reserves classified as proved + probable reserves amount to about 13.6 million barrels (of which 8.8% 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.

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.

Note 6 – Investments in Oil and Gas Assets (continued):**H. Agreement for the grant of usage rights in the facilities of the Yam Tethys project (continued):**

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.

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	
	2020	2019
Investments in connection with export to Egypt (Note 11E)*	11,384	8,375
Amounts receivable in connection with the construction of infrastructure for export to Jordan	784	1,725
Ministry of Energy in respect of royalties (Note 15B)	1,124	1,100
Interested parties in respect of royalties (Note 21)	150	345
Other	877	649
	<u>14,319</u>	<u>12,194</u>

* Depreciated over the term of the export agreement; depreciation expense in 2020 totaled 405\$ thousands.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)

Note 8 – Other Accounts Payable:

	December 31	
	2020	2019
Interest payable	15,336	17,028
Ministry of Energy in respect of royalties	2,577	3,419
Payables in connection with the Joint Venture	1,716	7,001
Interested parties (Note 21)	108	1,051
Other	1,693	906
	<u>21,430</u>	<u>29,405</u>

Note 9 –Bonds:

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

	Effective Interest Rate*	December 31			
	As of December 31, 2020	2020		2019	
	%	Par Value*	Amortized Cost	Par Value*	Amortized Cost
		NIS thou.	NIS thou.	NIS thou.	NIS thou.
Bonds (Series A)	4.88	1,852,185	525,890	2,063,163	585,793
Bonds (Series B)	6.37	1,537,256	444,422	1,700,450	491,602
Total			970,312		1,077,395
Less discount amounts related to issuance and issuance expenses, after accumulated amortization			(38,471)		(45,071)
Less – current maturities			(72,420)		(87,581)
Total			<u>859,421</u>		<u>944,743</u>

*) 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.

Note 9 –Bonds (continued):

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.

Note 9 –Bonds (continued):

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

- 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 (with reference to two consecutive examination dates; the historical ratio as of December 31, 2020 and June 30, 2020 is 1.17 and 1:24 respectively); 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 in use" 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) - The debt service ratio expected for a period of 12 months as of April 1, 2021 is 1.24; 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, 2020 is \$614 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 bondholders; the bond rating is lower than Baa3; a "going concern" note is added to the Company's financial statements.

As of the date of the statement of financial position, the Company is complying with said obligations with regard to both bond series.

F. Encumbrances:

- 1) To secure Series A and B bonds, the Company encumbered in favor of the bonds' trustee, by a single first-ranking fixed charge the following (the encumbrances in 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

Note 9 –Bonds (continued):

F. Encumbrances (continued):

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, 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 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. As of the date of the statement of the financial position, the Company purchased approximately NIS 47.3 million par value of Bonds (Series A and B) during trading on the Stock Exchange for approximately \$ 11.3 million and they were canceled and withdrawn from circulation. The Company recognized a profit from these acquisitions of approximately \$ 2.3 million which was credited to the results of operations as part of the financing income item. After the date of the statement of financial position, the Company purchased an additional amount of approximately NIS 15.2 million in Bonds (Series A and B) during trading on the Stock Exchange for approximately \$ 3.9 million and they were canceled and withdrawn from circulation.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)**

Note 10 – Other Long-Term Liabilities:**A. Composition:**

	December 31	
	2020	2019
Asset retirement obligation	30,010	25,674
Other liabilities	316	287
	<u>30,326</u>	<u>25,961</u>

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:

	2020	2019
Balance at the beginning of the year	20,580	20,580
Additions and other changes	(473)	(100)
Effect of change in passage of time	486	763
Effect of capitalization rate adjustment	4,323	4,431
Balance at the end of the year	<u>30,010</u>	<u>25,674</u>

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2020 (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 Commence ment Year	Basic Gas Supply Period ¹	Is there an Extension Option?	Balance of Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM) ²	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
IEC ³	2013	15 years	The IEC has an option for extension by two additional years, to the extent that the full total amount of contract gas has not been supplied in the basic period.	Approx. 54.4	Approx. 32.6	The U.S. CPI. ⁴
Dalia Power Energies Ltd. ("Dalia")	2015	17 years	Each of the parties has an option for extension by two additional years, to the extent that the full total amount of contract gas has not been supplied in the basic period.	Approx. 17	Approx. 6.3	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 one agreement for an eight-year agreement and two agreements for short-term periods	Most of the agreements include an option for extension by one to three additional years, to the extent that the full total amount of contract gas has not been supplied in the basic period.	Approx. 20.5	Approx. 19.4	The linkage formula in most of the agreements is based on linkage to the Electricity Production Tariff and it includes a "floor price."
Industrial customers and natural gas marketing companies	2013-2020	Up to 7 years	One agreement includes an option for the customer to extend the period for the period of up to half a year	Approx. 1.6	Approx. 7	Up to 2020 - The linkage formula in most of the agreements was based on linkage to the Brent prices and included a "floor price" (in one agreement, in addition to the

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.

² 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 should be noted that quantities for which actual reduction notices were given as of the date of approval of the financial statements were deducted from the balance of the total quantity for delivery.

³For details regarding the agreement with the IEC, see Section C below.

⁴ Except for quantities amounting to approximately BCM 1.25 that were settled in the framework of a settlement agreement signed between Tamar's partners and the IEC in January 2021, which are not linked. See Note 22A below.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)

	Supply Commence ment Year	Basic Gas Supply Period ¹	Is there an Extension Option?	Balance of Total Maximum Amount for Supply as of December 31, 2020 (100%) (BCM) ²	Total Amount Supplied by December 31, 2020 (100%) (BCM)	Primary Gas Price Linkage Basis
						aforesaid, the linkage formula is also based in part on the Electricity Production Tariff). As of 2020 – most of the quantities in the agreements are without linkage.
Agreement s for export to Jordan ⁵	2017 and 2018	13-15 years	For both parties there is an option for extension by two additional years, insofar as the contractual amount of gas was not consumed in the basic period.	Approx. 2.3	Approx. 0.65	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."
Agreement for export to Egypt - ⁶	2020	Approx. 15 years	In the event that the purchaser does not purchase the total contractual quantity in the basic period, the delivery period will be extended by an additional two years.	Approx. 25	Approx. 0.25	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."

⁵Sales are made through NBL Eastern Mediterranean Marketing Limited ("NBL") – a subsidiary wholly owned (indirectly) by the controlling shareholder in Noble (see Note 21 below).

⁶ For details of the agreement for export to Egypt, see section E below.

Note 11 – Contingent Liabilities and Commitments (continued):

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, the purchasers undertook 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. It should be noted that up to the date of approval of the financial statements, a number of clients have given notice of the exercise of the said reduction option. These announcements are expected to take effect during the years 2021-2022.

In this connection, it is noted that during the years 2019-2020 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 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 (in this section: the "**Period**"), if and to the extent they exercise it, and in some of the agreements up to the date of commercial operation of the Karish reservoir or the end of the year 2022 whichever the earlier. 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.

Note 11 – Contingent Liabilities and Commitments (continued):

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 was granted also in agreements 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 which at that time was 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 according to the terms specified in the supply agreement. During the year 2020 an amendment was signed to the agreement which is expected to end at the end of 2022 or when the purchaser shall have consumed a Specific 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 which in the period of the report was 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. The agreement ended in February 2020. In February 2021, Delek Sorek ceased to be an interested party.

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**")
- 2)** 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, 2020 amounts to 1.86 BCM (for 100% of the reservoir), and the maximum utilizable quantity in a calendar year is 1.25 BCM).

Note 11 – Contingent Liabilities and Commitments (continued):

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

- 3) 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.
- 4) 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 eight years and 11 years from June 30, 2013). 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.
- 5) 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.
- 6) 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.
- 7) 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).

Note 11 – Contingent Liabilities and Commitments (continued):

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

- 8) In December 2018, the IEC solicited from the Tamar partners and the Leviathan project partners (hereinafter: "**Leviathan 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 (in this section: "**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, as amended from time to time 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.
- 9) On October 4, 2020, the Company, Isramco Negev 2 Limited Partnership (hereinafter: "**Isramco**") , Dor Gas Exploration Limited Partnership (hereinafter: "**Dor Gas**") and Everest Infrastructure Limited Partnership (hereinafter: "**Everest**") (hereinafter and jointly in the section: "**the Sellers**") signed an amendment to the natural gas supply from the Tamar reservoir to the IEC (in this section: the "**Supply Agreement**" and "**the Amendment**", respectively), according to which the price of the quantities of natural gas that will be supplied to the IEC will be updated, to the extent that they are supplied, above the minimum quantity to be charged according to the supply agreement.

The sellers informed the other partners in the Tamar - Noble and Delek Drilling leases, that they were given the option to join as parties to the addendum within 60 days from the date of its signing. Subsequently, Noble and Delek Drilling informed the sellers that they would not join the addendum, and also claimed that the addendum does not amend the supply agreement but is a new agreement that violates the existing agreement between the IEC and Leviathan partners.

On January 30, 2021 (after the date of the statement of financial position), Tamar's partners and the IEC reached a compromise agreement regarding the disputes that existed between them regarding the addendum - see Note 22A.

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.

Note 11 – Contingent Liabilities and Commitments (continued):

E. 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 Dolphinus Holdings Limited ("**Dolphinus**" or the "**Purchaser**"), on the other, for the sale of natural gas from the Tamar project to Dolphinus ("**the Original Export Agreement**"). On September 26, 2018, the Sellers assigned the Original Export Agreement to the other Tamar partners.

On September 26, 2019, an agreement was signed to amend the Original Export Agreement between the Tamar partners and Dolphinus (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 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 Dolphinus concurrently with the signing of the Original Export Agreement (the "**Amended Leviathan Agreement**").

Upon completion in November 2019 of a transaction for the acquisition of EMG shares and the acquisition of rights in the EMG pipeline by EMED Pipeline BV (hereinafter: "**EMED**" and "**EMG Transaction**", respectively), a jointly owned company of Noble subsidiaries, Delek Drilling and an Egyptian partner (which was a condition precedent in the Amended Export Agreement), and after the other conditions precedent were met, on December 24, 2019, the Amended Export Agreement entered into force.

In July 2020, the flow of natural gas from the Tamar Reservoir to Egypt began in accordance with the amended export agreement.

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

- (1) The gas supply to Dolphinus under the Amended Export Agreement is on 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**").
- (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 which began in July 2020 and will 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.

Note 11 – Contingent Liabilities and Commitments (continued):

E. Additional details on commitments regarding the export of natural gas to Egypt (continued):

- (5) Under the Amended Export Agreement the Tamar partners undertook to supply to Dolphinus 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. The date of the increase in the flow of natural gas to Egypt, as stated above, depends, among other things, on the completion of the section of the Ashdod-Ashkelon marine transmission system by ISNL (Israel Natural Gas Lines) (see Note 22B (4)).
- (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. It should also be noted that the average price of a barrel of Brent oil during the second half of 2020 was less than \$50.
- (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.

In June 2020, Dolphinus transferred the export agreement to Egypt to a related company - Blue Ocean Energy.

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 determined:
 - (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, 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

Note 11 – Contingent Liabilities and Commitments (continued):

E. Additional details on commitments regarding the export of natural gas to Egypt (continued):

will be determined by June 30, 2022, according to the ratio of the gas quantities that will actually be 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).

- (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 Leviathan and the Tamar 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 and EMG, beyond a period of ten years from the date of signing thereof according to the decision of the Competition Commissioner. Additionally, each party will be entitled to terminate its part in the Capacity Allocation Agreement if its export agreement has been cancelled.

On January 18, 2021 (after the date of the statement of financial position) Noble undertook as an operator in the Tamar project and the Leviathan project, with ISNL in an agreement for the provision of transmission services on a binding basis (Firm) for the purpose of transporting natural gas from the Tamar reservoir and the Leviathan reservoir to the EMG reception point in Ashkelon, and at the same time, a service agreement was signed between Noble, the Tamar partners and Leviathan partners, which stipulates, among other things, that the Tamar partners and Leviathan partners will be entitled to transport gas (through Noble) under the said agreement. For details, see Note 22B.

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.

Note 11 – Contingent Liabilities and Commitments (continued):

F. Marketing gas from the Tamar reservoir:

- 1) On October 1, 2020, all Tamar partners who are not owners of the Leviathan reservoir (i.e. the Company, Isramco, Dor Gaz and Everest) (hereinafter together in this section: "**the parties**") signed a cooperation agreement regarding the marketing and sale of gas from the Tamar project which, among other things, nullifies Isramco's veto right in Tamar, as determined in the opinion of the Attorney General (Economic Law) published on September 6, 2020 (hereinafter in this section: "**the agreement**") and sent the agreement to the Competition Commissioner.

The agreement stipulates, inter alia, that decisions regarding the conclusion of gas sale agreements from the Tamar reservoir by the parties will be made by a majority of those present and voting in accordance with the parties' holdings in the Tamar reservoir, however, (1) a decision not made due to Isramco's opposition and / or opposition of a party in conflict of interest in making the decision, shall be deemed to have been made; and (2) a decision made due to Isramco's vote alone without another party joining it shall be deemed to have been rejected. The agreement is for an indefinite period and each of the parties to the agreement may withdraw from the agreement subject to giving 45 days' prior notice to the other parties.

- 2) On January 30, 2021 (after the date of the statement of financial position), all the partners in the Tamar project signed a Memorandum of Principles, the purpose of which is to allow Tamar partners to market their share of the gas in the Tamar reservoir in the event the marketing is not done by all partners in the reservoir, and on February 23, 2021, Tamar's partners signed a detailed agreement, based on the aforesaid Memorandum of principles. For details, see Note 22C.

G. 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 manner of calculation of the market value of the royalty at the wellhead, see Note 15B.

2. Royalties to interested and third parties:

According to the sale agreement with Delek Drilling (see Note 4A), 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:

Note 11 – Contingent Liabilities and Commitments (continued):

G. Undertakings and commitments for payment of royalties (continued):

2. Royalties to interested and third parties (continued):

- 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. (hereinafter: "**Delek Royalties**") (an interested party up to November 2020), 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 aforesaid 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 Oil and Gas Development Ltd. (interested party up to April 2020) 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.

Note 11 – Contingent Liabilities and Commitments (continued):

G. Undertakings and commitments for payment of royalties (continued):

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.

H. Dependence on an agreement with the Operator:

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 2020, 2019, and 2018 amounted to \$0.22 million, \$0.37 million, and \$0.25 million, respectively.

I. 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.

Note 11 – Contingent Liabilities and Commitments (continued):

I. Legal proceedings (continued):

In November 2017, the Company filed an application for its joinder as a respondent to the Certification Motion. In December 2017, the court ordered the joinder of the Company as a respondent, but imposed on it certain restrictions in the submission of a response. As of the beginning of 2020, the evidentiary hearings were concluded, in which the experts and declarators on behalf of the parties were questioned and the parties' summaries were submitted.

On June 1, 2020, a court hearing was held in which the parties orally completed the summaries submitted on their behalf. At the end of the hearing, the court ruled that a decision on the request for approval would be sent to the parties.

It should be noted that Delek Drilling and Noble have an obligation to the Company 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 Company's rights in the leases (the determining date regarding Delek Drilling – July 1, 2017 and regarding Noble – January 1, 2018).

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

- 2) 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 (hereinafter in this section: "**Applicant 1**"), and the Public Representatives Association (hereinafter in this section: "**Applicant 2**") (and hereinafter 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 (hereinafter in this section: 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 (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 in the Certification Motion 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 in the Certification Motion includes restitution of the full

Note 11 – Contingent Liabilities and Commitments (continued):

I. Legal proceedings (continued):

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. On July 21, 2020, a pre-trial hearing was held, during which the respondents requested that the court rule on the in limine claims raised in the responses to the Certification Motions, and in particular on the grounds that the applicants could not serve as class action plaintiffs. The court ruled that the applications for in limine removal be submitted for decision.

On November 1, 2020, the applicants filed a petition to amend the motion for approval hereinafter in this section: "the motion for amendment") and in this context sought to delete Applicant 2 as a class action claimant, and instead attach Orcom Strategies and Properties Ltd., which the applicant claims is a classified investor under the Securities Law, and which participated in the offering. The applicants also claimed in the motion for amendment that the Israel Securities Authority decided to accede to their application and assist in financing the procedure, in accordance with section 55C (a) of the Securities Law. In the text of the amended motion attached to the motion for amendment, the respondents argued for another cause of action concerning an expected violation, in light of the Company's reports of March 30, 2020 and August 26, 2020 that the Company will not distribute dividends. Therefore, the damage claimed was set out as part of the amended motion for a total of approximately \$ 153.8 million. The applicants have stated that as far as they are able to correct the Confirmation Motion, they also intend to amend the economic opinion so that it will support the amount of damage claimed. On January 6, 2021, the respondents submitted their responses to the motion for amendment in which it was argued that the motion for amendment does not meet the conditions formulated in the law and the ruling for the amendment of statements of claim. On February 15, 2021, the plaintiffs' response to the responses was filed in which the plaintiffs repeated all of their claims and responded to the respondents' claims. As of the date of approval of the financial statements, the court has not yet ruled on the motion for amendment.

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%.

- 3) 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 (hereinafter in this section: 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 that took place with the IEC (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 January 7, 2021, the respondents' responses to the disclosure motion were submitted, in which it was argued that the conditions set forth in the law for granting the requested relief were not met. On February 11, 2021, an update notice was submitted

Note 11 – Contingent Liabilities and Commitments (continued):

I. Legal proceedings (continued):

on behalf of the respondents, inter alia, regarding a compromise agreement signed between Tamar Partners and the IEC for the purchase of gas from the Tamar reservoir, and regarding a Memorandum of Principles for marketing and balancing arrangements for sale separately. A pre-trial hearing is scheduled for May 18, 2021. The applicant must file his response to the answers to the disclosure motion and to the notice of update no later than 30 days in advance.

In the Company's opinion, in reliance on counsel, the chances of the Application being accepted cannot be assessed at this preliminary stage.

- 4) In February 2020 a class action and motion for class certification (in this section: the "**Certification Motion**") was submitted in the Tel Aviv District Court by an electricity consumer ((hereinafter: 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 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.

On December 23, 2020, the respondents who own the Tamar project submitted a motion to delete the Confirmation Motion outright as it is addressed to them. The Applicant objected to the request for deletion while the other respondents did not object to the said application. The court set a hearing on the application for deletion as of May 5, 2021. A preliminary hearing on the application for approval was scheduled for November 17, 2021.

5. In April, 2020, a statement of claim and a motion for its approval was filed as a class action (hereinafter collectively in this section: "Request for approval") which was submitted to the Economic Department of the Tel Aviv District Court, by a shareholder in the Company (hereinafter in this section: "the applicant") against the Company, the directors and the Company CEO (hereinafter in this section: "the respondents"). The matter of the request for approval is the applicant's claim for lack of disclosure in the Company's reports of conditions in an agreement to sell natural gas from the Tamar reservoir to the Dolphinus company, according to which in the event that the price of a "Brent" oil barrel falls below \$ 50 on an annual average, Dolphinus will be entitled to reduce the amount of gas it undertook to purchase or pay for by 50%. According to the applicant, the alleged lack of disclosure amounts to a violation of various sections of the Securities Law, 1968 and regulations enacted thereunder, a breach of the duty of care and negligence of company officers under the Companies Law, 1999, breach of statutory duty and breach of good faith. In the performance of a contract.

According to the Applicant, the disclosure regarding the said condition, which was first given in the framework of the 2019 Periodic Report of Iramco published on March 24, 2020, led to a decrease in the Company's share price on March 25-26, 2020, and caused damage to the group he seeks to represent, which is estimated by the Applicant as about NIS 12 million (approximately \$ 3.5 million).

Note 11 – Contingent Liabilities and Commitments (continued):

I. Legal proceedings (continued):

The court was requested in the motion for approval, inter alia, to order the respondents to compensate the members of the group it seeks to represent, for the alleged damage as stated above, or alternatively or cumulatively, to grant any other remedy to the group (or the public) as the court deems appropriate. On November 19, 2020, the Company submitted its response to the motion for approval in which it rejected the Applicant's claims. The Applicant is to submit his response to the response to the motion for approval by April 15, 2021. In the Company's opinion, relying on its legal counsel, at this stage of the proceedings, the chances of the application being rejected outweigh the chances that it will be accepted.

- 6) In July 2020, the Company received a request from the Securities Authority to provide information and documents as part of an administrative inquiry into the possibility of reducing the annual amount of Take or Pay in an export gas agreement to Egypt, signed with Dolphinus (see Note 11.E.6). On November 2, 2020, the Company submitted information and documents to the Securities Authority in response to the aforementioned request.

J. Guarantees:

1. 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, 2020, 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.
2. As stated in Note 22B below, during the month of February 2021 (after the date of the statement of financial position), the Company provided ISNL with bank guarantees in the total amount of approximately NIS 23.6 million. The Company provided deposits totaling approximately \$ 5.4 million to secure the said guarantees.

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

The Taxation of Profits from Natural Resources Law 2011 (the "**Law**"), which applies to the Company's holdings in the Tamar and Dalit leases, prescribes, inter alia, the application of a petroleum and gas profit levy according to a mechanism specified in the Law. The Law includes transition provisions with respect to producing ventures or ones that began production by 2014 (including the Tamar project):

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%, and so the maximum levy rate will be 46.8%.

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

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 oil project separately; 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 annual depreciation rate (up to 10%) and annual depreciation at a variable rate up to the amount of the taxable income in that year and not more than 10%.

Accordingly, the holders of rights in Tamar submit annual reports to the tax authorities.

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 2013-2018, which pertain mostly to the recording of notional receipts, to the manner of recognition and classification of investments in exploration and construction in the Tamar SW reservoir and construction payments in the Tamar SW reservoir and for the recognition of payments that not all the rights holders in the Tamar project jointly bore.. It should be noted that the disagreements regarding the levy reports for the years 2013-2017 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 2018 are being deliberated in the framework of objection proceedings before the Assessing Officer for Large Enterprises.

In December 2020, the Company paid initial advances in respect of the oil and gas profits levy for its share in the Tamar project, in the amount of approximately \$ 1.6 million. The Company estimates that, based, inter alia, on the opinions of its Legal Advisers regarding disputes with the Israel Tax Authority as aforesaid, the Company will be liable to pay the oil and gas profits levy, as of January 2021. Accordingly, the levies paid during the reporting period were recorded in the statement of financial position under receivables and debit balances.

In light of the innovation of the law and the complexity of the calculation formulas and the various mechanisms defined in it, there is no certainty that this interpretation of how the levy is calculated will be the same as that adopted by the tax authorities and / or identical to the interpretation of the law by the court.

To the extent that it determines in a final and binding proceeding that the position of the tax authorities regarding the said disputes be accepted in full, an obligation may be created for the Company, as of December 31, 2020, to pay the levy in the estimated amount of approximately \$ 13.5 million.

For details regarding the Amendment Memorandum to the law from January 2021, see Note 22D.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 13 – Capital, Reserves and Retained Earnings:****A. Share capital:**

	December 31			
	2020		2019	
	Registered	Issued and paid up	Registered	Issued and paid up
	Number of shares			
Ordinary shares of NIS 0.1 par value each	200,000,000	88,495,576	200,000,000	88,495,576

B. 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 (the allotted shares were sold by Noble in October 2018 to third parties in off-stock exchange transactions). Following the aforesaid allotment, Delek Drilling's share in the Company's issued and paid-up capital decreased to 22.6%.

C. Voting rights

Under an irrevocable waiver provided by Delek Drilling to the Company, which took effect upon the completion of the share offering to Delek Drilling in July 2017, 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.

D. 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 to the Company CEO and 95,855 warrants to two officers, respectively (the "**Offerees**"). The granting of the said options to the Company's CEO was approved by the Company's shareholders' meeting on March 8, 2018. 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.

Note 13 – Capital, Reserves and Retained Earnings (continued):

D. Share-based payment (continued):

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. As of December 31, 2020, there are 69,542 exercisable options in circulation. No stock options were exercised during the year.

E. Capital reserves:

The capital reserves presented in the statements of financial position include a capital reserve in debit 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, and the balance as of December 31, 2020 and 2019 of about \$262 thousand and about \$195 thousand, respectively, in respect of a share-based payment (see Section D above).

F. Dividends:

In the Articles of Association of the Company, 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.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 13 – Capital, Reserves and Retained Earnings (continued):****F. Dividends (continued):**

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.

Below are details of the dividend distributions in the reported years:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		\$	\$ thousands
March 20, 2018	April 11, 2018	0.36	32,023
August 30, 2018	October 10, 2018	0.44	39,324
April 7, 2019	May 2, 2019	0.34	30,000
October 10, 2019	November 7, 2019	0.113	10,000

In 2020, the Board of Directors of the Company resolved in its meetings of March 29 and August 26, not to distribute dividends to its shareholders, based on the financial statements as of December 31, 2019 and June 30, 2020, respectively.

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		
	2020	2019	2018
Sale of natural gas*	251,034	345,379	306,630
Sale of condensate	2,237	4,558	4,643
	<u>253,271</u>	<u>349,937</u>	<u>311,273</u>
* Of which export sales	<u>15,839</u>	<u>8,639</u>	<u>4,984</u>

- B.** The volume of sales in 2020 (as a percentage of the total turnover) to the IEC was 34% and to Dalia 12% (2019: IEC – 46%, Dalia – 10%; 2018: IEC – 50%, Dalia – 10%).
- C.** The total quantity of natural gas (for all the Tamar partners) sold in 2020 amounted to 8.2 BCM (2019: 10.4 BCM, 2018: 10.3 BCM). The total quantity of condensate (for all the Tamar partners) sold in 2020 amounted to 382.9 thousand barrels (2019: 482.3 thousand barrels; 2018: 477.1 thousand barrels).

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)**

Note 15 – Royalties:**A. Composition:**

	Year ended December 31		
	2020	2019	2018
Royalties to the State (see B below)	28,595	40,342	34,737
Royalties to interested parties (see C and D below)	6,592	13,711	11,624
Royalties to third parties (see C below)	5,946	3,800	3,330
	<u>41,133</u>	<u>57,853</u>	<u>49,691</u>

- B.** In accordance with the Petroleum Law, the State is entitled to royalties on the quantity of produced gas (see Note 11.G.1). 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 2018 – at a rate of 11.65% on the revenues from the Tamar project; for 2019-2020 – at a rate of 11.3% on the revenues from the Tamar project. The position of the Tamar partners is that 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 February 2020, the Director of Natural Resources at the Ministry of Energy published draft general guidelines for public comments on how to calculate the value of the royalty per well under Marine Oil Rights, and in June 2020, the Director of Natural Resources at the Ministry of Energy published the final wording of the said guidelines. In addition, in September 2020, the Director of Natural Resources at the Ministry of Energy published individual instructions on how to calculate the value of the royalty per well in the Tamar project (hereinafter: "the individual instructions"), which determines the rate of deductible expenses in calculating the value of the royalty per well from the Tamar reservoir.

Based on estimates and estimates by Tamar partners, there are no material discrepancies between the amounts charged in the statement of comprehensive income during the reporting period as royalty expenses, and the royalty expenses as they were calculated in accordance with the individual provisions.

In 2018 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 that year is 11.16%. In the financial statements for the years 2019 and 2020, the method of calculating the royalty rate for the State was updated in accordance with the Company's assessments and estimates, and the rate of royalty expenses based on the updated calculation for these years is approximately 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 Note 4), amounted, as of December 31, 2020, to about \$1,124 thousand (as of December 31, 2019, - about \$1,100 thousand), which are presented in the statement of financial position in the "other long-term assets" item (see Note 7).

Note 15 – Royalties (continued):

- 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 11.G.2 above. The effective overriding royalty rate to interested parties and to third parties on total Company sales of natural gas and condensate in 2020, based on the Company's revised assessments and estimates as described in B above, is about 5% (in 2019 – 4.9%). 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 2018, was based on the principles of the "English formula" as described in B above, and is about 4.8% 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, 2020, to about \$150 thousand and \$326 thousand, respectively (as of December 31, 2019: \$345 thousand and \$120 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 11.G.2 (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, with effect from December 2017 (and at a later stage the said date was postponed to January 2018); 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.

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 about \$0.85 million in royalty payments in light of the postponement of the date of the investment refund to February 2018. 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. 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.

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.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 15 – Royalties (continued):**

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 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.

Note 16 – Cost of Production of Natural Gas and Condensate*:

	Year ended December 31		
	2020	2019	2018
Salaries and related payments	4,621	4,993	4,279
Guarding and security	1,381	1,507	1,357
Insurance	3,286	3,568	3,367
Transportation and shipping costs	2,807	3,903	2,921
Operator and operation management fee	3,360	4,119	3,667
Maintenance and other	3,980	10,360	6,306
Total	19,435	28,450	21,897

*Mostly through the operator of the Joint Venture, Noble.

Note 17 – General and Administrative Expenses:

	For the year ended on		
	31.12.2020	31.12.2019	31.12.2018
Salaries and related benefits	1,367	1,327	1,230
Professional services	1,283	1,047	626
Other expenses	1,253	833	805
Total	3,903	3,207	2,661

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 18 – Finance Expenses and Income:**

	Year ended December 31		
	2020	2019	2018
Expenses:			
For bonds	(54,264)	(59,055)	(56,853)
Exchange rate differences for monetary items, net	-	-	(294)
For changes in asset retirement obligations due to the passage of time	(486)	(763)	(868)
Other	(165)	(329)	(278)
Total expenses	<u>(54,915)</u>	<u>(60,147)</u>	<u>(58,293)</u>
Income:			
Interest income	1,595	2,819	1,832
Profit from buy back of bonds (see Note 9G)	2,308	-	-
Profit from futures transactions for the purchase/sale of dollars (see Note 20 below)	1,678	-	-
Exchange rate differences for monetary items, net	287	460	
Total income	<u>5,868</u>	<u>3,279</u>	<u>1,832</u>
Total finance expenses, net	<u>(49,047)</u>	<u>(56,868)</u>	<u>(56,461)</u>

Note 19 – Income Taxes:**A. Corporate tax:**

The Company's revenues in Israel are liable to corporate tax at the regular rate, and are measured for tax purposes in shekels. The corporate tax rate in 2018 and onwards is 23%.

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 2019 and 2020:

Balance as of January 1, 2019	98,389
<u>Movement in 2019:</u>	
Carried to statement of comprehensive income	14,347
Balance as of December 31, 2019	<u>112,736</u>
<u>Movement in 2020:</u>	
Carried to statement of comprehensive income	10,861
Balance as of December 31, 2020	<u>123,597</u>

Deferred taxes as of the dates of the statements of financial position are calculated at a tax rate of 23%. The amount of deferred taxes expected to be recovered within 12 months from the date of the statement of financial position as of December 31, 2020 is \$8.2 million (December 31, 2019 – \$13.2 million).

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 19 – Income Taxes (continued):****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.

D. Income taxes included in the statements of comprehensive income for the presented periods:

	Year ended December 31		
	2020	2019	2018
Current taxes:			
Current taxes for income of the reporting year	23,522	42,218*	-
Adjustments for previous years	(1,397)	-	192
	<u>22,125</u>	<u>42,218</u>	<u>192</u>
Deferred taxes	<u>(10,861)</u>	<u>(14,347)*</u>	<u>37,087</u>
Income tax expenses	<u>11,264</u>	<u>27,871</u>	<u>37,279</u>

*Reclassified

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		
	2020	2019	2018
Income before income taxes, as reported in the statements of comprehensive income	99,521	153,522	136,097
Theoretical tax on this income (23%)	22,890	35,310	31,302
Difference between the income measurement basis as reported for tax purposes (NIS) and the income measurement basis as reported in the financial statements (dollar)*	(10,268)	(8,230)	7,508
Adjustment of deferred taxes in connection with asset retirement	-	-	(2,167)
Taxes for previous years	(1,094)	1,061	-
Nondeductible expenses (income)	55	61	50
Other	(319)	(331)	586
Income taxes	<u>11,264</u>	<u>27,871</u>	<u>37,279</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, 2020 (U.S. dollars in thousands)****Note 19 – Income Taxes (continued):****F. Tax assessments:**

The Company has not been issued any final tax assessments.

Note 20 – Financial Instruments:**A. Groups of financial instruments:**

The Company's financial instruments are shown under the following sections:

	December 31	
	2020	2019
Financial assets:		
<u>At amortized cost:</u>		
Cash and cash equivalents (1)	88,205	79,167
Restricted deposits (2)	20,484	20,283
Trade receivables	27,925	34,588
Other accounts receivable	4,547	4,779
Long-term restricted deposits (3)	43,938	43,258
Other long-term assets	1,260	2,190
	186,359	184,265
<u>Fair value by way of profit and loss – traded securities (4)</u>	4,249	-
Total financial assets	190,608	184,265
Financial liabilities:		
Other accounts payable	18,853	25,986
Bonds (Note 9)	931,841	1,032,324
Other long-term liabilities	316	287
Total financial liabilities	951,010	1,058,597

- (1) The amount as of December 31, 2020 includes bank deposits with a maturity of less than three months totaling \$72.3 million, at a weighted annual interest rate of 0.3% (December 31, 2019: the deposits totaled \$69.2 million, at an annual interest rate of 1.9%).
- (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, 2020, the amount in the said account includes a bank deposit of \$20.4 million at a weighted annual interest rate of 0.5% (as of December 31, 2019: \$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 about \$41.7 million as of December 31, 2020 (December 31, 2019 – about \$41 million) (see Note 9D(4)), and bearing as of December 31, 2020 a weighted annual interest rate of 0.6% (December 31, 2019: 2.2%); and deposits as security for bank

Note 20 – Financial Instruments (continued):

A. Groups of financial instruments (continued):

guarantees (see Note 11.J) totaling about \$2.3 million as of December 31, 2020 (December 2019: \$2.2 million), and bearing as of December 31, 2020 a weighted annual interest rate of 2.4% (December 31, 2019: 2.4%).

- (4) The composition of the said investments includes quoted securities denominated in dollars or linked to the dollar: Bonds of the Government of Israel in the amount of approximately \$ 0.8 million and corporate bonds in the amount of approximately \$ 3.5 million.
These investments are in accordance with the Company's investment policy - see below.

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, 2020, based on a quoted price on the TASE (Level 1), of \$848 million (in 2019 – \$965 million), and a book value, including accrued interest payable as of that date, of \$947 million (in 2019 – \$1,049 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 19E).

With respect to this risk, the Company entered into futures (call and put) transactions during the reporting period for the purchase / sale of dollars, which as of the date of the report on the financial position have been fully realized; the notional amount of the transactions entered into reached \$ 350 million. In this context, the Company recorded a profit of approximately \$ 1.7 million which is included under financing income.

Note 20 – Financial Instruments (continued):

D. Market risks (continued):

2. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company's existing financial instruments bear interest at fixed rates, exposing the Company to fair value risk due to changes in market interest rates (see also B above).

3. Price risk:

As described in Note 11A, the gas prices stated in the agreements for the sale of natural gas from the Tamar project are based on different price formulas which include, inter alia, linkage to the U.S. CPI, to the Electricity Production Tariff and to the Brent price. A change in one of the above linkage components and/or in the prices of the alternative fuels would affect the price at which the Company sells the natural gas to its customers. 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 11E 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%.

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, commercial paper 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. The Company's investments in quoted bonds are made within the framework of the Company's policy, which requires investment in dollar or dollar-linked bonds with a high credit rating - see also F below.

1. The Company's principal customer is the IEC (see also Note 14A). The Company estimates that the credit risk presented by the IEC is very low.
2. The balance of trade receivables on December 31, 2020 is \$27,925 thousand (on December 31, 2019 is \$34,588 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.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 20 – Financial Instruments (continued):****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.

Surplus cash held by the Company, which is not required to finance operations as part of the working capital, is invested in fixed-term deposits and quoted securities (see A. above). During 2020, the Company adopted an investment policy according to which the Company may invest funds in quoted corporate bonds rated A + (il) or rated at least BBB International, which are repayable before the final maturity date of the Bonds (Series A and B) of the Company.

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, in \$ thousands:

As of December 31, 2020	Up to 1 year	2-3 years	4-5 years	More than 5 years	Total
Other accounts payable*	3,517	-	-	-	3,517
Bonds (Series A and B)	122,831	194,531	188,446	739,931	1,245,739
Total	126,348	194,531	188,446	739,931	1,249,256
As of December 31, 2019	Up to 1 year	2-3 years	4-5 years	More than 5 years	Total
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

* 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 13G 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.

Following the issue of shares to Noble (see Note 4B), 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.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2020 (U.S. dollars in thousands)****Note 21 – Interested and Related Parties (continued):**

To the best of the Company's knowledge, as of the date of approval of the statements of financial position, there is no entity or group of holders of shares of the Company that meets the definition of a controlling party.

A. Transactions and balances with interested and related parties:

Transactions:	Year ended December 31		
	2020	2019	2018
Remuneration and salary of interested parties employed by the Company (see B below; for the year 2020 also G below)	681	499	477
Remuneration of directors not employed by the Company	302	369	326
Number of people to whom the benefit is applicable	6	8	7
Revenues from the sale of natural gas (1)(2)	1,716	7,360	7,084
Royalties to interested parties (see Notes 11G2 and 15)	5,946	13,711	11,624
Gas supply expenses from the Yam Tethys project (2)	-	268	1,307

- (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.
- (2) During the years 2019 and 2020, the Tamar reservoir supplied natural gas to the customers of the Yam Tethys project. The proceeds of the sale were divided between Tamar Partners in a manner so as the Tamar Project partners who are not partners of the Yam Tethys Project (including the Company) received a price of natural gas equal to the average monthly price of natural gas supplied during that month to Tamar Project customers. Also, until April 2019, with the expiration of some of the natural gas sale agreements from the Yam Tethys reservoir, Yam Tethys partners supplied natural gas to both Yam Tethys customers and the Tamar Project customers, in accordance with a spot agreement for the sale of production surpluses from the Yam Tethys reservoir (that are non-material) to Tamar partners, for onward sale to customers of the Tamar Project.

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 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	
	2020	2019
Trade receivables	313	836
Other long-term assets	150	345
Other accounts payable	108	1,051
Highest receivable during the year	313	583

Note 21 – Interested and Related Parties (continued):

B. Terms of employment of the Company's CEO:

On June 25, 2017, the Board of Directors approved the appointment of Mr. Liami 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). On February 4, 2021, the Remuneration Committee approved, and on March 18, 2021, the Company's Board of Directors approved an update on Mr. Vaisman's monthly salary to NIS 88,000 gross. 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 in cash every calendar year during the term of the employment agreement in the gross amount of up to 6 monthly salaries, 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.

On April 22, 2020, the Company's Remuneration Committee approved, and on June 24, 2020, the Company's Board of Directors approved the granting of a bonus to Mr. Vaisman for the year 2019 in the amount of approximately \$ 47 thousand.

On February 4, 2021, the Company's Remuneration Committee approved, and on March 18, 2021 (after the date of the statement of financial position), the Company's Board of Directors approved the grant of a bonus to Mr. Vaisman for the year 2020 in the amount of NIS 360 thousand (approximately \$ 108 thousand).

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 thousands plus statutory VAT (the "**Management Fee**"). Mr. Meir will be entitled to reimbursement of car expenses in a monthly amount of NIS 6.5 thousands. 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

Note 21 – Interested and Related Parties (continued):

C. Terms of employment of the Chairman of the Board (continued):

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.

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. On December 23, 2020, the Company's General Meeting approved the reappointment of Mr. Meir as a Director of the Company for a period ending at the end of the Company's next Annual General Meeting.

On February 4, 2021, the Company's Remuneration Committee approved, and on March 18, 2021 (after the date of the statement of financial position), the Company's Board of Directors approved the grant of a bonus to Mr. Meir for the year 2020 in the amount of NIS 225 thousand (approximately \$ 68 thousand).

Note 22 – Events after the Date of the Statement of Financial Position:

A. Settlement agreement between Tamar partners and the IEC

On January 30, 2021, Tamar partners and the IEC reached a settlement agreement regarding disputes between them with regard to an addendum to the agreement for the supply of natural gas from the Tamar reservoir to the IEC (see Note 11C (9)) (hereinafter in this section: "Addendum to the Agreement" and "the Compromise Agreement", respectively). In which it was agreed, inter alia, that the quantities supplied to the IEC by virtue of the addendum to the agreement during the fourth quarter of 2020 in the amount of about 0.81 BCM will be at a fixed unlinked price, which is lower than the gas price in the supply agreement, which will be borne by all Tamar partners (i.e. without subsidy of any of the Tamar partners by the other partners). It was also agreed that the IEC would purchase additional quantities of gas in the amount of at least 0.44 BCM during the first half of 2021 beyond the minimum amount to be charged under the supply agreement.

The aforesaid quantities and additional quantities of gas that the IEC will order during the first half of 2021, in accordance with the supply agreement, insofar as the Leviathan reservoir is unable to supply such quantities, will be at a variable price depending on the quantity purchased, and which is lower than the gas price in the supply agreement. The quantities of gas supplied and that will be supplied at the aforesaid reduced price will not be taken into account for the purpose of calculating Take or Pay and Carry Forward in the years 2020 and 2021. It was further agreed that the maximum daily natural gas quantity that the IEC will be allowed to order under the supply agreement during the first half of 2021 will be reduced to 500,000 MMBTU (compared with approximately 655,000 MMBTU as stipulated in the supply agreement). As part of the settlement agreement, the parties waived their claims in connection with the claims stated in Note 11C (9) above. The settlement agreement is subject to the fulfillment of conditions precedent, including approval by the Competition Authority, approval by the Electricity Authority (if required), submission of letters by the sellers and the IEC to the Competition Authority, the Ministry of Energy and the Electricity Authority in connection with the settlement agreement, with the entry into

Note 22 – Events after the Date of the Statement of Financial Position (continued):

A. Settlement agreement between Tamar partners and the IEC (continued)

force of the Order agreed between Noble and the Competition Authority under section 50B of the Economic Competition Law, 1988, a mutual waiver of claims against Ratio in connection with the disputes, as mentioned above. Insofar as the conditions precedent are not met within 30 days from the date of signing the settlement agreement, and in relation to the agreed Order - 60 days, each party has the right to cancel the agreement. Upon entry into force of the settlement agreement, the addendum to the agreement will be canceled and will be invalid.

B. Entering into agreements regarding the transmission of natural gas to Egypt

On January 18, 2021, Noble, as the Operator of the Tamar project and the Leviathan project, entered into an agreement with ISNL for the supply of natural gas on a binding (Firm) basis for the supply of natural gas from the Tamar reservoir and the Leviathan reservoir to the EMG reception point in Ashkelon for export to Egypt (hereinafter: "the Transmission Agreement"), the main points of which are as follows:

- 1) ISNL will establish the Ashdod-Ashkelon maritime transmission system section, subject to the provisions of the transmission agreement.
- 2) ISNL undertook to provide transmission services (on a binding basis) for the natural gas to be supplied from the Tamar reservoir and the Leviathan reservoir, including maintaining basic capacity in the transmission system at an annual volume of approximately 5.5 BCM (hereinafter in this section: "**the Basic Capacity**"), in exchange for payment of Basic Capacity fees and transmission fees for the amount of gas that is actually throughput in accordance with the usual transmission rates in Israel, as will be updated from time to time. In addition, ISNL undertook to provide discontinuous transmission services on an occasional basis (Interruptible) of additional quantities beyond the basic capacity, subject to the capacity that will be available in the transmission system, in exchange for the throughput fee for the quantities of gas that will actually be throughput as stipulated in the transmission agreement.
- 3) The transmission period in the agreement for the provision of transmission services in connection with the throughput of natural gas from the Tamar reservoir and the Leviathan reservoir to the receiving point of the EMG pipeline in Ashkelon signed between ISNL and Noble in May 2019 will be extended until January 1, 2024 or until the start of throughput in accordance with the transmission agreement, whichever is earlier.
- 4) The throughput of gas in accordance with the transmission agreement will begin on the date on which ISNL completes the construction of the Ashdod-Ashkelon marine transmission system section (hereinafter: "**the date of commencement of throughput**"). According to the transmission agreement, the date of commencement of throughput is expected to occur between July 2022 and April 2023.
- 5) The transmission agreement shall terminate at the earlier date of: (a) the date on which the total quantity to be throughput will be approximately 44 BCM; (b) after 8 years from the date of the actual commencement of the throughput; or (c) upon the expiration of the transmission license of ISNL. Should the parties agree to increase the basic capacity then the amount mentioned in (c) above will increase accordingly. In the Company's opinion, no difficulty is expected in extending the agreement upon its termination at the capacity and transmission rates that will be customary at that time.

Note 22 – Events after the Date of the Statement of Financial Position (continued):

B. Entering into agreements regarding the transmission of natural gas to Egypt (continued):

- 6) Noble undertook to pay for the share of the partners in Tamar and the partners in Leviathan (56.5%) the total cost of establishing the Ashdod-Ashkelon maritime section, which is currently estimated at NIS 738 million. In addition, Noble undertook to pay an amount of NIS 27 million in respect of the share of the partners in Tamar and the partners in Levitan in the introductory costs of doubling the Dor-Hagit and Soreq-Nesher segments (currently estimated at NIS 48 million). In accordance with the capacity allocation agreement (as defined below), the Company estimates that its share of the above costs may amount to about NIS 23 million.
- 7) The partners in Tamar and the partners in Levitan will provide bank guarantees to secure the share of ISNL in the construction of the infrastructure, as well as bank guarantees to secure some of the liabilities under the transmission agreement. Accordingly, during February 2021, the company provided ISNL with bank guarantees in a total amount of NIS 23.6 million.
- 8) The transmission agreement stipulates that if natural gas exports from the Tamar project and the Levitan project to Egypt are discontinued, Noble will be entitled to cancel the transmission agreement subject to the payment of compensation to ISNL for the early cancellation, in an amount equal to 120% of the construction costs of the Ashkelon-Ashkelon marine section, with the addition of the preliminary costs of doubling the Dor-Hagit and Soreq-Nesher sections, and deducting the amounts paid by Noble up to the date of cancellation in respect of the construction and preliminary costs and for the throughput of gas under the transmission agreement. If after cancellation of the transmission agreement exports to Egypt are renewed, then the transmission will be renewed subject to and in accordance with the capacity available in the transmission system at that time.
- 9) The validity of the transmission agreement is conditional on the amendment and addition of additional segments to the transmission system as aforesaid to the transmission license of ISNL. If the transmission license of ISNL will not be amended as of February 15, 2021 then the transmission agreement will be revoked at that date unless otherwise agreed between the parties. On February 14, 2021, Noble informed the Company that the transmission license of ISNL was amended as aforesaid, and therefore all the conditions precedent to the entry into force of the transmission agreement were met.

Simultaneously with the signing of the transmission agreement, Noble, the Company and the other partners in Tamar and the partners in Leviathan signed a services agreement (hereinafter in this section: "Services Agreement") which stipulates, inter alia, that the partners in Tamar and the partners in Leviathan will be entitled to transmit (through Noble) under the transmission agreement, and will also be responsible for fulfilling all of Noble's debts and obligations under the transmission agreement (back-to-back), as if they were a party to the transmission agreement, each in accordance with its part as stipulated in the capacity allocation agreement between the Tamar partners and Leviathan partners and in accordance with the services agreement. The services agreement further stipulates that the basic capacity to be maintained in the transmission system for Tamar partners and Leviathan partners will be allocated between Tamar partners and Leviathan partners in the ratio of 31% and 69%, respectively, and will be in accordance with the order in the capacity allocation agreement. Notwithstanding the provisions of the capacity allocation agreement, the partners in Tamar and the partners in Leviathan will bear the Capacity fees in accordance with their relative share in the basic capacity as stated above, regardless of the actual utilization of the basic capacity. Additional arrangements have also been established that allow each group of partners to use the unused basic capacity of the other group of partners, as well as increase the basic capacity without obtaining the consent of the other group of partners and subject to the capacity allocation agreement.

Note 22 – Events after the Date of the Statement of Financial Position (continued):

C. Memorandum of principles for marketing and balancing arrangements for sale separately from the Tamar reservoir:

On January 30, 2021, all the partners in the Tamar project signed a memorandum of principles (hereinafter: "**Memorandum of Principles**"), which aims to allow Tamar partners to market their share of gas in the Tamar reservoir in the event that marketing is carried out not by all the partners in the reservoir (without detracting from the option of joint marketing of gas from the reservoir subject to regulatory decisions) and submitted to it for approval by the Competition Authority. The memorandum of principles includes, inter alia, various arrangements and mechanisms that allow a partner in the reservoir to market gas beyond its relative share in the gas produced, subject to available capacity on a daily basis, and insofar as another partner chooses not to market its share in the aforesaid gas, as well as balancing arrangements between the partners in the aforesaid case, with the aim of balancing the rights of the partners in relation to the gas sold in accordance with their relative share in the reservoir. The principles were also established for the right of a partner to join any gas sales agreement entered into by another partner in the reservoir.

On February 23, 2021, Tamar partners signed a detailed agreement, based on the aforesaid memorandum of principles (hereinafter: "**the Balancing Agreement**"). The entry into force of the balancing agreement is subject to the approval of the Competition Authority. In the event that such approval is not received by May 31, 2021, the balancing agreement will end with 30 days' prior notice by either party (unless such approval is received prior to the termination of the agreement). The balancing agreement will be valid until the end of the joint operating agreement.

As of the date of approval of the financial statements, the balancing agreement has not yet entered into force.

D. Explanatory Memorandum of the Taxation of Profits from Natural Resources (Amendment) Law, 5721 - 2021

In January 2021, the Ministry of Finance issued an Amended Explanatory Memorandum of the Taxation of Profits from Natural Resources Law (Amendment), 5721-2021 (hereinafter: "**Explanatory Memorandum of the Law**"), which was passed on March 8, 2021 in the first reading in the Knesset, and submitted to the Finance Committee for preparation for the second and third readings. The proposed memorandum proposes to amend the above law in matters of enforcement and collection. The proposed amendment will allow, inter alia, bringing forward the payment of the disputed levy to incorporate the Assessing Officer's decision on assessment according to the best judgment (and accordingly filing an appeal in court on the Assessing Officer's decision will not postpone the date of payment). The owners of the rights in the Tamar project submitted their position on the issue that the collection of a controversial oil levy, based on a unilateral decision by the Assessing Officer, who is a party to the dispute, is contrary to the accepted norm of Israeli law and constitutes an unjustified and disproportionate violation of fundamental rights. Insofar as the explanatory memorandum of the law is approved in this format, it is possible to advance the payment of the disputed levy, prior to the completion of the disputes in the court (see also Note 12 above).

E. For details about repurchasing the Series A and B bonds pursuant to the Company's bond repurchase program, see Note 9G.



March 18, 2021

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 18, 2021 on the Company's financial statements as of December 31, 2020 and 2019 and for each of the years in the three-year period ended December 31, 2020.

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, 2020

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

Name of Corporation: Tamar Petroleum Ltd.

Corporation No. in the Companies Register: 515334662

Address: 11 Galgalei Haplada St., Herzliya Pituach 4672211

Telephone: 074-7044779

Fax: 074-7044762

Balance sheet date: December 31, 2020

Report date: March 18, 2021

Regulation 8B: **Very Material Valuation**

Attached to this report is a study regarding test for impairment of an oil and gas asset as of December 31, 2020, 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:	Test for impairment of an oil and gas asset
Valuation date:	December 31, 2020
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:	US\$ 1,138 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 recoverable amount of an oil and gas asset as of December 31, 2020 is estimated by discounting the expected cash flows from the asset (value in use) at the discount rate that reflects the level of risk inherent in the forecasts.
Assumptions used by the appraiser for the valuation, according to the valuation model:	<p>The income approach (value in use) was estimated based on the 2P Reserves (Proved + Probable Reserves) cash flow forecast published by the Company on March 7, 2021 (Reference number: 2021-01-027573), after adjustments as follows:</p> <ul style="list-style-type: none"> • Adjustment of depreciation expenses for tax purposes in accordance with the recoverable amount of the asset. • The weighted discount rate (WACC) used in calculating the present value of cash flows is estimated at approximately 9.3%. <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 2020 and for 2020 as a whole (US\$ in thousands)**

	1-3/20	4-6/20	7-9/20	10-12/20	FY 2020
Revenues from sale of natural gas and condensate	64,251	41,409	76,429	71,182	253,271
Less - royalties	(10,559)	(6,580)	(12,576)	(11,418)	(41,133)
Net revenues	53,692	34,829	63,853	59,764	212,138
Cost of production of natural gas and condensate	(4,099)	(4,540)	(5,240)	(5,556)	(19,435)
Depreciation, depletion and amortization expenses	(9,486)	(7,755)	(11,314)	(11,677)	(40,232)
General and administrative expenses	(984)	(923)	(872)	(1,124)	(3,903)
Operating income	39,123	21,611	46,427	41,407	148,568
Finance expenses	(14,441)	(13,529)	(13,459)	(13,486)	(54,915)
Finance income	681	825	1,220	3,142	5,868
Finance expenses, net	(13,760)	(12,704)	(12,239)	(10,344)	(49,047)
Income before income taxes	25,363	8,907	34,188	31,063	99,521
Income taxes	(10,286)	1,767	(6,837)	4,092	(11,264)
Total comprehensive income	15,077	10,674	27,351	35,155	88,257

Regulation 21: **Remuneration to Interested Parties and Senior Officers¹**

- (a) The following table provides details of the remuneration paid in the reporting year, as recognized in the financial statements for 2020, as well as remuneration paid after the reporting year, which was not recognized in the financial statements for the reporting year, to the five highest paid of the Company's senior officers in connection with their service at the Company in the reporting year, and of the remuneration paid in 2020 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 remuneration recipients				Remuneration for services							Other remuneration			Total
Name	Position	Scope of position	Equity rights in the Corporation	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rental fees	Other	
Eitan Meir	Executive Chairman of the Board of Directors	50%	-	-	- ²	-	198	-	-	-	-	-	-	198
Liami Vaisman	CEO	100%	-	401	47 ³	36	-	-	-	-	-	-	-	484
Yuval Raikin	CFO	100%	-	280	31 ⁴	18	-	-	-	-	-	-	-	329
Efrat Hozeh-Azrad	General Counsel, VP	100%	-	247	27 ⁵	13	-	-	-	-	-	-	-	287
Yaniv Marig	Director of Geology and Environment	100%	-	137	8 ⁶	-	-	-	-	-	-	-	-	145

Interested parties in the Company														
Details of remuneration recipients				Remuneration for services							Other remuneration			Total
Name	Position	Scope of position	Equity rights in the Corporation	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rental fees	Other	
Directors ⁷	-	-	-	302	-	-	-	-	-	-	-	-	-	302

²Bonus approved in the amount of approximately US\$ 68 thousand for 2020. For details see Section (b) below.

³Bonus paid for 2019. In addition, a bonus was approved in the amount of approximately US\$ 108 thousand for 2020. For details see Section (b)(30) below.

⁴Bonus paid for 2019.

⁵Bonus paid for 2019.

⁶Bonus paid for 2019.

⁷The total salary paid to the directors except for the Chairman of the Board of Directors whose salary appears in the table above. Regarding the tenure of directors in the Company, see information in Regulation 26 below.

(b) Following are details of the tenure and service terms of senior officers in the Company:

(1) **Remuneration policy**

Regarding the Company's remuneration 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 remuneration policy**"), see Section 8.2 of the Prospectus, 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 (Reference number: 2018-01-018000)⁸, and Section 2.1 to the immediate report on the convening of a Special General Meeting on May 7, 2020 (Reference number: 2020-01-040816)⁹, whose details are included herein by reference.

(2) **Eitan Meir**

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 Remuneration 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. On February 4, 2021, the Remuneration Committee approved and on March 18, 2021, the Company's Board of Directors approved the granting of a bonus to the Chairman of the Board of Directors for the year 2020 in the amount of approximately NIS 225 thousand, based on the following components: (a) Performance-Based and Measurable Components: Entering into additional gas sales agreements from the Tamar reservoir and / or amendments to existing agreements for the purpose of maintaining and / or expanding quantities (including amending the agreement with the IEC). The aforesaid target was met and therefore Mr. Meir was entitled to the grant in respect of this component in the amount of approximately NIS 165 thousand. (b) Discretionary component: an amount of approximately NIS 60 thousand.

(3) **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

⁸Said amendment was approved by the general meeting on March 8, 2018.

⁹Said amendment was approved by the general meeting on June 11, 2020.

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 remuneration 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 remuneration 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 remuneration 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 remuneration policy as mentioned in Subsection (1) above.

On February 4, 2021, the Remuneration Committee approved and on March 18, 2021, the Company's Board of Directors approved the updating of the CEO's monthly salary to NIS 88 thousand gross¹⁰.

On March 27, 2018, the Company allocated to the CEO 112,770 unlisted warrants at terms as detailed in Note 13D to the financial statements.

On February 4, 2021, the Remuneration Committee approved and on March 18, 2021, the Company's Board of Directors approved the granting of a bonus to the CEO for the year 2020 in the amount of approximately NIS 360 thousand, based on the following components: (a) Performance-Based and Measurable Components: Entering into additional gas sales agreements from the Tamar reservoir and / or amendments to existing agreements for the purpose of maintaining and / or expanding quantities (including amending the agreement with the IEC). The aforesaid target was met and therefore Mr. Vaisman was entitled to the grant in respect of this component in the amount of approximately NIS 264 thousand. (b) Discretionary component: an amount of approximately NIS 96 thousand.

(4) 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

¹⁰First update since his appointment as CEO of 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 remuneration 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 remuneration 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 remuneration 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 remuneration 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 13D to the financial statements.

(5) **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 remuneration 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 remuneration 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 remuneration

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 Remuneration Committee and the Board of Directors respectively approved the employment agreement, in keeping with the Company's remuneration policy as mentioned in Subsection (1) above. On January 28, 2018, the Remuneration 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 13D to the financial statements.

(6) **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 remuneration 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 Remuneration Committee and the Board of Directors, based on the remuneration policy as mentioned in Subsection (1) above.

(7) **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 Remuneration and Expenses of External Directors), 2000.

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, 2020 in immediate report issued by the Company on January 7, 202 (Reference number: 2021-01-003664), 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 ¹¹
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
Tel-Aviv Stock Exchange 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

¹¹The 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 ¹²	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	Balance Sheet Committee, Investments Committee	Balance Sheet Committee	Audit Committee
Independent director: ¹³	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: ¹⁴	-	-	-	-
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 ¹⁵	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. EMBA from INSEAD. Executive MBA program (MBA) from TSINGHUA 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

¹²Served as Chairman of the Board from January 17, 2019 until December 31, 2019.

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 Remuneration and Expenses of External Directors), 2000.

¹⁵Has 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), Neshet Israel Cement Enterprises Ltd. (private company), Clal Industries Ltd. (private company), Clal Biotechnology Industries Ltd., Golf & Co. Group, Maman Cargo Terminals & Handling Ltd., Plus500 Ltd.	Chairman of the Board of Maman Cargo Terminals & Handling Ltd.; consulting director at Amal Nursing Care and External Director in Dan Public Transportation Co. Ltd.
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, Remuneration Committee, Audit Committee	Remuneration Committee, Investments Committee	Balance Sheet Committee, Remuneration Committee, Audit Committee
Independent director:¹⁶	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:¹⁷	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, In-Depth Continuing Education – Training of Directors.	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 and Co. Group Ltd.. Chairman of IDB Tourism. CEO and owner of Ofakei Danish Ltd., Chairman of the Friends of the Emek	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

¹⁶As this term is defined in Section 1 of the Companies Law, 1999.

¹⁷As this term is defined in Regulation 1 of the Companies Regulations (Rules of Remuneration and Expenses of External Directors), 2000.

Name:	Giora Inbar	Avi Eini	Alon Cohen
	Hospital (Afula); 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 remuneration committee of Fox Wizel Ltd.
Corporations in which he/she serves as director (other than the Company):	External director of Golf & Co. Group Ltd., Schnapp Industries Ltd. Independent Director in Mishorim Real Estate Investments Ltd. Chairman – Israil and Chairman – Metzger.	Tadiran Group Ltd.	External director and chairman of the audit and balance sheet committees and member of the remuneration 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 Hacoheh & 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
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.

<u>Regulation 26B:</u>	<u>Independent Signatories</u> As of December 31, 2020 and as of the Report approval date, the Company has no independent signatories.
<u>Regulation 27:</u>	<u>The Company's Auditors</u> Kost Forer Gabbay & Kasierer (EY), CPA, of 144 Menachem Begin Road, Tel-Aviv.
<u>Regulation 28:</u>	<u>Changes in the Company's Articles of Association</u> There were no changes in the Company's Articles of Association in the reporting year.
<u>Regulation 29:</u>	<u>Directors' Recommendations and Resolutions</u>
<u>Regulation 29(a)(1):</u>	<u>Distributions, as defined in the Companies Law</u> See details of the Company's Board's resolutions of March 29, 2020 and August 26, 2020, not to distribute a dividend in Section 4.4 in Chapter A of this Report.
<u>Regulation 29(a)(5):</u>	<u>Early Redemption of Bonds</u> For the decision of the Company's Board of Directors dated March 29, 2020 regarding the approval of a repurchase plan of Bonds (Series A) and of Bonds (Series B), see Immediate Report dated March 30, 2020 (Reference No. 2020-01-028873), the details of which appear therein are hereby included by way of reference.
<u>Regulation 29(a)(6):</u>	<u>Non-arm's length transaction</u> , between the corporation and an interested party For details on Memorandum of Principles, which was signed between the Tamar partners and the Balancing Agreement signed subsequently and the Settlement Agreement signed between Tamar and the IEC see Sections 7.5.1 and 7.4.4(f) in Chapter A (Description of the Company's Business), included in this Report.
<u>Regulation 29(c):</u>	<u>Resolutions of special general meeting</u> For resolutions of a special meeting convened on June 11, 2020, see immediate report regarding the convening of the special meeting dated May 7, 2020 (Reference number 2020-01-040816) and immediate report on the results of the special meeting dated June 14, 2020 (Reference number 2020-01-053113), of which the details appearing therein are hereby included by way of reference.
<u>Regulation 29A:</u>	<u>Company's Resolutions</u>
<u>Regulation 29A(4):</u>	<u>Quittance, Insurance or Liability for Indemnity Granted to Officers</u> (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 16, 2020 (Reference no: 2020-01-054052), included herein by reference.

- (c) See details of a public offering of securities insurance (POSI) in connection with the Company's Prospectus in Section 8.4.1(b) of the Prospectus, included herein by reference. See also details of changes in said policy in Section 3.2 of an immediate report of January 30, 2018 on a private placement and on 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 18, 2021

Date

Tamar Petroleum Ltd.

Name and position of signatories

Eitan Meir, Chairman of the Board

Liami Vaisman, CEO



GIZA SINGER EVEN

Tamar Petroleum Ltd.

Test for Impairment of Oil and Gas Asset

as of December 31, 2020

March 2021

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.



GIZA SINGER EVEN

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GIZA SINGER EVEN

1. Introduction and Limitation of Liability

1.1. General

This Opinion 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, 2020 (the "**Opinion Date**").

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 has received an undertaking from the Company to indemnify it in respect of any amount or liability or expense that will be charged to them in excess of the amount of fees paid to it in respect of this Opinion, multiplied by 3 times, whose grounds arise from or are related, directly or indirectly, to the Opinion. The indemnification undertaking will not apply if it is determined that we acted maliciously and / or negligently in connection with the performance 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.

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 2019-2020.
- Draft of the Company's annual report for 2020.
- Report on Reserves and Updated Discounted Cash Flow Figures for the Company's Tamar Lease, published on March 7, 2021.
- 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 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 13 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.



GIZA SINGER EVEN

Sincerely,

GSE Economic Consulting Ltd.

March 18, 2021

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. During July 2020, the throughput of natural gas from the Tamar project began and its sale under the export agreement to Egypt.

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**").²

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). To the extent that Delek Drilling does not realize its aforesaid holding, its holdings in the Tamar Reservoir and Tamar Petroleum will be transferred to a Trustee as specified in the outline.

² In March 2018, Noble sold the Company 7.5% of its rights in the Tamar and Dalit leases in exchange for cash and shares in the Company. In October 2018, it sold all its shares in the Company, and as of that date, its holding percentage in the Tamar reservoir (directly and indirectly) has decreased to 25%.

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 2020, as published in the Company's reserves report dated March 7, 2021:

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, net	
	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	6,929.8	9.0	796.4	1.0	7,726.2	10.0	1,061.5	1.4
Probable Reserves	2,595.9	3.4	159.1	0.2	2,755.0	3.6	378.5	0.5
Total P2 Proved + Probable Reserves	9,525.7	12.4	955.6	1.2	10,481.2	13.6	1,440.0	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	11,891.7	15.5	1,057.8	1.4	12,949.5	16.8	1,779.1	2.3

According to information received from the Company, during 2020 there were produced from the Tamar reservoir and sold to customers approximately 8.25 BCM.

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%



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 (hereinafter: the "IEC" or "**Israel Electric Corporation**"), 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 costs³, shorter construction time, reduced need for land areas⁴, 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 savings⁵. According to Natural Gas Authority estimates⁶, overall savings for the Israeli economy resulting from a shift to natural gas use during 2004-2019 is around NIS 71.3 billion. Most of the savings derive from the electricity sector (NIS 55.7 billion), with overall electricity consumption in 2019 amounting to 8.8 BCM, which accounts for

³ 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.

⁴ Natural gas is transmitted through a subsea pipeline, and contrary to other fuels, does not require storage areas.

⁵ 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%.

⁶ https://www.gov.il/BlobFolder/reports/energy_sector_2018/he/energy_sector_review_2018.pdf



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78% of natural gas demand. The remaining savings from a shift to natural gas use is attributed in the main to industrial plants (NIS 15.6 billion), whose overall consumption in 2019 amounted to 2.4 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 pollutants at higher levels of pollution, 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 number 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 will provide Israeli industry with long-term energy security, which will reduce its dependence on international energy 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, following the conclusions of the Sheshinski Committee, 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% (depending, 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 about 4.66 BCM, in 2019 about 4.2 BCM and in 2020 it purchased about 2.56 BCM of 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, respectively⁷. In this context, it should be noted that the Minister of Energy recently decided to terminate by the end of 2022 the contract with the gasification ship used by HHI for the purpose of absorbing and gasifying imported LNG.

⁷ 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 2019, PEP consumption amounted to about 3.6 BCM⁸, accounting for about 32% of total natural gas consumption in 2019.⁹
- **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. A major part of this increase is due to the connecting of new consumers to the distribution grid¹⁰.
- **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.

⁸ 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.

⁹ Source: Survey of Developments in the Natural Gas Industry. Link: https://www.gov.il/BlobFolder/reports/ng_2019/he/ng_2019.pdf

¹⁰ See Footnote 5 + 6 above.

3.3 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 it was determined that the leaseholder will pay the state the market value of the royalty at the wellhead. In the years 2019 and 2020, 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 Director of Natural Resources at the Ministry of Energy issued draft general guidelines for public comment, regarding the method of calculating the market value of the royalty at the wellhead for maritime oil rights, and in June 2020, the Director of Natural Resources at the Ministry of Energy published the final version of the aforesaid guidelines. In addition, in September 2020, the Director of Natural Resources at the Ministry of Energy issued detailed instructions for the method of calculating royalty value at the wellhead. In the Tamar project, in the framework of which the rate was determined of the expenses recognized for deduction in the calculation of the value of the royalty at the wellhead from the Tamar reservoir.

- **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 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



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Commissioner in 2012 (the "**Exemption**")¹¹. The granting 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. 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.
In January 2018, Noble sold to the Company 7.5% of its rights in the Tamar and Dalit leases for a cash consideration and shares. In October 2018, Noble 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.
- **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.

¹¹ 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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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.

3.4 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.



- **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, Israel held several 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 and thus to increase the scope of competition in the industry.
- **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.

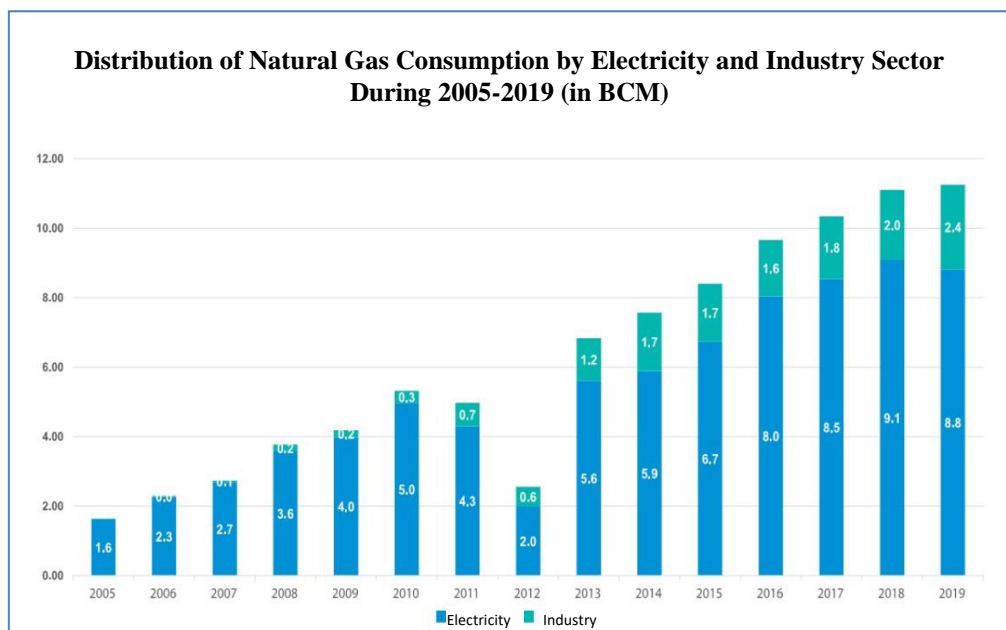


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- **Regulatory changes** – The operating sector requires numerous regulatory approvals, mainly from the competent authorities under the Petroleum Law and the Natural Gas Sector Law, as well as incidental approvals of state authorities (including the 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.

3.5 Demand

Chart 1 – Natural Gas Consumption in Israel, 2005-2019¹²:



The consumption of natural gas in the Israeli economy in 2019 amounted to about 11.25 BCM, about 93% of the quantity was supplied from the Tamar reservoir and the balance from the import of liquefied natural gas through the maritime connection.¹³ According to estimates by an external consultant of the Company, the consumption of natural gas in the Israeli economy in 2020 amounted to about 12 BCM, of which: about 7.7 BCM were supplied by the Tamar reservoir, about 3.5 BCM by the Leviathan reservoir and the balance through the maritime connection.

Following are the key factors that are expected to drive growth in natural gas demand:

3.5.1. The Electricity Sector

Recent years have seen a downtrend in the use of oil distillates and coal in electricity generation and moving to the use of natural gas and renewable energies. This trend is being led by the Ministry of Energy and government decisions to set targets for reducing the use of polluting fuels, inter alia, by shutting down IEC power plants and converting them to natural gas production. Below is a list of the government decisions made on the subject in recent years:

- 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,

¹² Source: Ministry of Energy <http://online.fliphtml5.com/dldee/idah/>

¹³ Natural Gas Authority in the Ministry of Energy http://fs.knesset.gov.il/23/Committees/23_cs_bg_582204.pdf



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.

- 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 January 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.
- On June 8, 2020, a joint announcement was issued by the Ministry of Energy and the Ministry of Environmental Protection¹⁴ regarding the decision of the Ministers to instruct the IEC to extend the initiated shutdowns of polluting coal units 1-4 at the Orot Rabin site in Hadera, from the second half of 2020 until their complete shutdown in 2022, thus bringing about a further significant reduction in pollutant emissions into the air.

¹⁴ Ministry of Energy website, Spokesperson's Announcement dated June 8, 2020
https://www.gov.il/he/departments/news/press_080620



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- On June 24, 2020, the Minister of Energy¹⁵ announced his decision to reduce by another 20% the rate of coal use in IEC power plants compared to 2019. Therefore, coal use in 2020 will not exceed 24.9% (compared to 30% in 2019).
- According to the latest forecast of the Electricity Authority, which was specified in the annual report of the Electricity Authority for 2019¹⁶ as published at the end of June 2020, the production of electricity from natural gas is expected to increase significantly and stand at about 83% in 2025.
- On October 25, 2020, a government decision was made regarding the promotion of renewable energy in the electricity sector, a decision based, among other things, on the policy principles set by the Minister of Energy in July 2020, according to which electricity production from renewable energies in 2030 will account for 30% of total electricity consumption and electricity generation from natural gas will account for 70% of total electricity consumption. An update has also been set for the intermediate target so that it will stand at 20% electricity generation from renewable energies by the end of 2025. The implementation of this policy may affect the demand for natural gas in the local economy.
- On February 8, 2021, it was announced that the Minister of Energy instructed the Electric Company to reduce coal use to 22.5% in 2021, as part of the policy to end the coal age in Israel by 2025.¹⁷

3.5.2 The Switch to the Use of Natural Gas in Industry

- Natural gas is a central component in industry's energy consumption (about 37.5% of total fuel usage in Israel in 2019¹⁸). 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 Natural Gas Authority at 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.
- According to Natural Gas Authority 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.).

¹⁵ Ministry of Energy website, Spokesperson's Announcement dated June 24, 2020
https://www.gov.il/he/departments/news/press_240620

¹⁶ <https://www.gov.il/he/departments/general/dochmeshek>

¹⁷ <https://www.calcalist.co.il/local/articles/0,7340,L-3892470,00.html>

¹⁸ Source: Israel Energy Economy Review 2019 - Ministry of Energy
https://www.gov.il/BlobFolder/reports/energy_sector_2019/he/energy_sector_review_2019.pdf



- According to the IEC forecast from 2018, 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 network¹⁹.
- On July 10, 2020, the Ministry of Energy issued a Memorandum Law to amend the Natural Gas Economy Law, under which the Minister of Energy may grant a license to establish a certain distribution network to the Israel Natural Gas Lines Company Ltd. (hereinafter: "ISNL"), if he found an urgent need of this, and there is no party from the private sector who is interested and can set up the network. The purpose of the aforesaid Memorandum Law is to enable the acceleration of the connection of industrial plants to the natural gas infrastructure.

3.5.3 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 September 26, 2016, an agreement was signed between the Leviathan Partnership and the Jordanian Electric Company (NEPCO) for the supply of up to 45 BCM of natural gas for a period of approximately 15 years. According to a public report by Delek Drilling dated December 31, 2019, the throughput began of natural gas from the Leviathan reservoir to customers with whom gas agreements were signed, including with the Jordanian Electric 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. Following the report of the Leviathan Partnership at the end of December 2019 on the start of the throughput of natural gas from the reservoir to the various customers, on January 15,

¹⁹ https://www.gov.il/BlobFolder/reports/periodic_examination/he/pua_2018_2042.pdf



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2020, Leviathan partners reported the start of the gas flow to Egypt. According to a report by Tamar partners, in July 2020, the throughput of natural gas began from the Tamar reservoir under the export agreement 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.
- On March 26, 2020, the Natural Gas Economy Council issued an Addendum to the decision of September 7, 2014, regarding the financing of export projects through the Israeli transmission system and the distribution of construction costs of the Ashdod-Ashkelon combined section. In the framework of the Addendum to the decision it is stipulated, among other things, that the marine section of the transmission system that will be established will be financed by the transmission license holder (43.5%) and by the exporter (56.5%) in accordance with the milestones to be determined in the transmission agreement. The exporter's share of the said cost will be paid by Leviathan partners and Tamar partners, in accordance with the percentage throughput to be carried out by each of the reservoirs in the said infrastructure and in accordance with the conditions specified in the agreement signed in this matter.
- On February 15, 2021, the partners in the Tamar and Leviathan reservoirs reported the fulfillment of the conditions precedent in the transmission agreement for the purpose of exporting gas to Egypt in a manner that would allow throughput on a regular basis and increase sales volumes to Egypt according to the terms of supply in the gas sale agreements of the different partnerships.

3.5.4 Consequences of the Corona crisis

- During the first quarter of 2020, there were sharp fluctuations and very sharp declines in oil and natural gas prices in international markets. According to market estimates, the fluctuations can be attributed to the Corona crisis as well as to other causes and factors influencing the demand and supply of energy products. Following a correction in the crude oil production rate, crude oil futures returned to trading at around \$ 60 a barrel (as of February 9, 2021).
- During the first half of 2020, there was a decrease in demand for natural gas in the domestic market, mainly due to the effects of the Corona crisis on the volume of electricity demand, as a result of closures and restrictions on economic activity. It should be noted that, despite the continuation of the Corona crisis, there was an increase in demand for natural gas in the second half of 2020.
- As the Corona crisis continues and the slowdown in the global economy continues, this is expected to continue to adversely affect demand for energy products and their prices.

3.5.5 Demand forecast in the domestic market

According to the forecast of an outside consultant prepared for the Company, domestic demand for natural gas in 2021 is expected to total about 13.1 BCM and increase gradually to about 17.9 BCM by 2025.

3.6. Market Developments

- **"Tamar and Leviathan" Leases** - 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.
- On October 2, 2020, Noble, which owns holdings in the Tamar and Leviathan reservoirs and serves as the operator of these reservoirs, announced that the Shareholders' Meeting officially approved the acquisition of the Company by the American company Chevron for approximately \$ 5 billion. This transaction is an expression of trust. In the domestic gas market and the economic potential inherent in these assets.
- On August 30, 2020, some of the partners in the Tamar project (hereinafter together in this section: **"the Sellers"**) reported on the signing of agreements for the supply of natural gas from the Tamar reservoir to Oil Refineries Ltd. (hereinafter in this section: **"Bazan"**) and ICL Group Ltd. (hereinafter in this section: **"ICL"**). The sellers estimate that the cumulative revenue from the sale of natural gas to Bazan is expected to amount to approximately US \$ 150 million, assuming that Bazan will consume natural gas under the supply agreement by the end of 2021. The cumulative revenue from the sale of natural gas to ICL is expected to amount to approx. 60% of the expected revenue under the Bazan Agreement. On October 4, 2020, it was reported that the agreements with Bazan and ICL were signed by all parties including Delek Drilling.
- On September 23, 2020, Delek Drilling reported that the partnership in the Leviathan project signed a natural gas supply agreement for the Ramat Hovav partnership totaling 1.3 BCM for a period of 30 months or the date of commercial operation of the Karish and Tanin reservoir, whichever is earlier.
- On January 31, 2021, the partnership in the Tamar Project signed a settlement agreement (hereinafter: **"the Tamar Settlement Agreement"**) that settles the disputes regarding the addendum to the gas supply agreement to IEC from 2012 (as amended from time to time) (hereinafter: **"the Addendum"** and **"the IEC-Tamar Agreement"**, respectively) signed by IEC, the Company, Isramco Negev 2 - Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructure Limited Partnership on October 4, 2020. According to the Tamar Settlement Agreement, the addendum will be canceled and replaced by a Settlement Agreement, according to which until June 30, 2021, IEC will be able to purchase from the Tamar reservoir an amount of 1.25 BCM, at a price lower than the price of the IEC-Tamar agreement, of which about 0.81 BCM which were already supplied in 2020, and also, additional gas quantities insofar as they will not be supplied by Leviathan Partnership.
- On February 23, 2021, the Company reported that following a Memorandum of Principles dated January 31, 2021, the partnership in the Tamar project signed a Balancing Agreement for Sale separately from the Tamar reservoir which aims to determine the rules and mechanisms detailed in connection with the assuming of the share of each of the Tamar partners in the gas production in accordance with the Joint Operating Agreement, as well as balancing arrangements that will apply between the partners in the event that marketing the gas is not done in accordance with the partners' relative share in the production. The Agreement includes various arrangements and mechanisms that allow the Partner to market, subject to certain conditions.

3.6.1 Karish and Tanin Leases

- On November 27, 2018, Energean, which is developing the Karish and Tanin reservoirs, 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 from the reservoirs. 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. On April 9, 2020, Energean reported the completion of an updated reserve report in the Karish and Tanin reservoirs. According to this report, the total resources in Karish North amount to about 33.7 BCM of natural gas and about 39.5 million barrels of hydrocarbon liquids.
- On September 16, 2020, Energean announced the signing of two agreements for the sale of natural gas in the domestic market with a cumulative volume of 1.4 BCM per year and cumulative revenues of approximately \$ 2.5 billion. Most of the amount is attributed to an agreement with the Ramat Hovav Partnership (which was declared the winner of a tender held by IEC for the sale of the Ramat Hovav power plant) for a period of up to 20 years. Energean stated in the report that to date it had signed on contracts for a total of 7 BCM per year out of production capacity of 8 BCM per year.
- On December 17, 2020, Energean reported that it had entered into an agreement with Rafek Energy Ltd. in an additional agreement for the supply of natural gas with an average annual amount of 0.4 BCM for a period of 6 to 15 years, in addition to the existing signed agreements between Energean and Rafek Energy.
- On January 14, 2021, Energean reported the adoption of a final investment decision (FID) in the “Karish North” reservoir amounting to approximately \$ 150 million. Energean estimates that the project will provide a return (IRR) of about 40% and that natural gas will be produced from this reservoir for the first time in the second half of 2023.
- On February 11, 2021, Energean published a Resource and Reserves Report for December 31, 2020, prepared by the consulting firm DeGolyer and MacNaughton, according to which the Karish, Karish North and Tanin reserves (P2) of natural gas and hydrocarbon liquids amount to approximately 98.4



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BCM and approx. 99.6 million barrels, respectively²⁰, as well as the forecasts of the rate of production of natural gas and hydrocarbons, the volume of capital investments, operating expenses, royalties, taxes and levies for each of the reservoirs. According to the information published by Energean, as of December 31, 2020, there were completed approx. 93% of the floating rig construction works (FPSO); about 90% of the shore works; about 76% of the underwater works; and 100% of the drilling works. It was also noted an increase is required in the workforce of TechnipFMC, which manages for it the construction of the FPSO in Singapore, in order to meet the expected start of production in the last quarter of 2021. However, insofar as the workforce remains at its current level this may delay the expected start of production from the Karish reservoir to early 2022.

²⁰ <https://www.energean.com/media/4751/energean-israel-2020-cpr.pdf>

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. However, Section 85 of the summary of considerations and the reasons for the conclusions set out in the Standard stated that: *"Theoretically, discounting post-tax cash flows, at the post-tax discount rate, and discounting pre-tax cash flows, at the pre-tax discount rate, should give the same result as long as the pre-tax discount rate is equal to the post-tax discount rate, when adjusted to reflect the specific amount and timing of cash flows, in respect of taxes."* Accordingly, the cash flows in this Opinion are post-tax and discounted at a post-tax discount rate.



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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.

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 market capitalization of the Company's shares immediately before the date of the statement of financial position was significantly 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, 2020, 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, 2020 was estimated by discounting the expected cash flows from the Asset (value in use), at a discount rate reflecting the inherent level of risk in the forecasts.



5. Estimate of the Recoverable Amount of Oil and Gas Assets

5.1 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 March 7, 2021, 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**")²¹. Below are the principal assumptions:

- Natural gas sales volumes of about 8.8, about 8.5, about 9.2, about 9.3 and about 10 BCM in the years 2021 to 2025, respectively. A gradual increase to approximately 11.65 BCM in 2032 and a stabilization on this amount until 2041. From this year, a gradual decrease in production quantities until the end of the project life²².
- Brent barrel average prices forecast (in US dollars)²³ of about \$ 52, about \$ 57, about \$ 61, about \$ 65, about \$ 68 and about \$ 71 US dollars per barrel in the years 2021 to 2026, respectively. Gradual increase until the price of about \$ 86.0 in 2030 and stabilization at this price until the end of the forecast period.
- The value in use is estimated by us based on the forecast of cash flows in the category 2P (Proved + Probable Reserves) which was published in the Reserve Report when the depreciation expenses were adjusted for tax purposes in accordance with the recoverable amount of the asset.

5.2 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 about 9.3% based on the parameters in the table below:

Parameter	Value	Note
Risk-free interest rate	0.84%	1
Beta	1.31	2
Market premium	5.4%	3
Specific risk premium	8.2%	4
Cost of equity capital of the Company	16.1%	
Cost of debt	6.2%	5
Tax rate	23.0%	6
Leverage ratio	60%	7

²¹ <https://maya.tase.co.il/reports/details/1273577/2/0>

²² According to the Probable Reserves+Proved category.

²³ Based on average third-party oil price forecasts that provide a long-term price forecast for the NYMEX ICE Brent Crude price - released near the date of the Opinion, as follows: US Department of Energy, World Bank, IHS Global Insights and Wood Mackenzie.



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Weighted cost of equity capital of the Company	9.3%	
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Notes to the table:

1. The yield on U.S. government bonds with average duration of cash flows (about 9 years).
2. Based on Unleveraged Beta of a sample of similar companies, as detailed in the table below:

Company	Unleveraged Beta
Isramco Negev 2 L.P.	0.63
Ratio Oil Exploration 1992 L.P.	0.91
Tamar Petroleum Ltd.	0.21
Delek Royalties (2012) Ltd.	0.41
Delek Drilling L.P.	0.87
Average for sample companies	0.61

The leveraged beta is estimated based on the average beta for the above sample companies, the normative leverage ratio (Note 7 below) and the statutory tax rate in Israel.

3. Market risk premium in Israel (Damodaran, January 2021²⁴).
4. The specific risk premium includes the following components:
 - Size premium of 0.7% (based on a value of \$5-6 billion for the Tamar reservoir);²⁵
 - Plus a 7.5% risk premium for the risk level inherent in the forecasts and the uncertainty regarding the consequences of the Corona virus, overcoming the competition from the start of production in the Leviathan project and progress in the development of the Karish reservoir.
5. Cost of the debt is estimated corresponding to the rate of leverage. For this purpose, we estimated the trend line of yield to maturity of the quoted bonds of the sample companies (for details see Appendix A).
6. According to the statutory tax rate in Israel.
7. Average leverage rate for the sample companies (see table in Section 2 above) as of December 31, 2020 is estimated at about 66% and was affected by the decrease in market value of the companies. In our estimation the long-term normative leverage ratio of the Asset is about 60%.

²⁴ <http://pages.stern.nyu.edu/~adamodar>

²⁵ Source: Duff & Phelps International Valuation Handbook 2018.

5.2.1 Findings

Based on the methodology and assumptions detailed above, the value in use the Asset is estimated at \$1,138 million, which is higher than the carrying amount as of December 31, 2020, which is \$962 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, 2020.

Following is a sensitivity analysis of value in use to changes in the discount rate and in the price curve of oil and condensate (in relation to the base scenario):

Rate of change in prices	Discount rate (WACC)							
		7.8%	8.3%	8.8%	9.3%	9.8%	10.3%	10.8%
	-15.0%	1,105	1,058	1,014	974	936	901	868
	-10.0%	1,168	1,118	1,071	1,028	988	951	916
	-5.0%	1,230	1,178	1,129	1,083	1,040	1,001	964
	0.0%	1,295	1,239	1,187	1,138	1,094	1,052	1,012
	5.0%	1,356	1,297	1,243	1,192	1,145	1,101	1,060
	10.0%	1,419	1,357	1,300	1,246	1,197	1,151	1,108
	15.0%	1,481	1,417	1,357	1,301	1,249	1,201	1,156

5.3 Value Derived from the Company's Quoted Securities

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 significantly lower than the carrying amount of its equity.

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, 2020:

\$ in Millions		Note
Market value of shares of the Company	75	
Assets and liabilities less carrying balance	649	1
Adjustments:		
Market value of bonds	(76)	2
Value of deferred taxes asset	70	3
Capitalized general and administrative expenses	32	4
Derived value for Oil Asset	750	
Carrying amount	963	5
Premium (discount) in relation to carrying amount	(22.1%)	
Value in use	1,138	
Premium (discount) in relation to value in use	(34.1%)	

Notes to the Table



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1. Carrying amounts of assets and liabilities other than investments in oil and gas assets and other long-term liabilities as of December 31, 2020.
2. Gap between the market value of the Company's Bonds (Series A and Series B) as of December 31, 2020 and the carrying balance (including interest payable) less tax protection.
3. The value is estimated by spreading the tax asset according to the depreciation and discount rate by 9.3%.
4. According to annual expenses of approximately \$ 4 million, less tax, capitalized at 9.3%.

According to the above analysis, the market value of the Asset as derived from the value of the Company's quoted securities as of December 31, 2020 is estimated at \$750 is about 22.1% lower in relation to the net carrying amount of the Asset (less retirement liability and other long-term assets) and about 34.1% in relation to the value in use at that time. It should be noted that, according to market data near the date of the Opinion, the discount in relation to the carrying balance and the value of use is estimated at approximately 15% and approximately 28%, respectively.

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, stemming from market expectations for the sale of assets associated with the Tamar reservoir by the Delek Group and the companies controlled by it (hereinafter together: "**Delek Group**")²⁶, both pursuant to the Gas Framework which requires Delek Group to sell all its holdings in those assets by the end of 2021, and as a result of the Corona crisis and its implications for the financial strength of the Delek Group. The excess supply in relation to the demand in the capital market has a negative effect on the market value of the assets related to the Tamar project, including the value of the securities of Tamar Petroleum. It should be noted that although the Delek Group is committed to selling its holdings in the Tamar project by the end of 2021, the number of assets, the financial scope and the immediate need to improve its financial position (including by realizing assets²⁷) means that there is a very short period of time to sell each asset. In light of the excess supply and the aforesaid timetable, it is not inconceivable that the market expects that the sale of the assets related to the Tamar project will take place "under constraint" and at a significant discount in relation to their fair value.

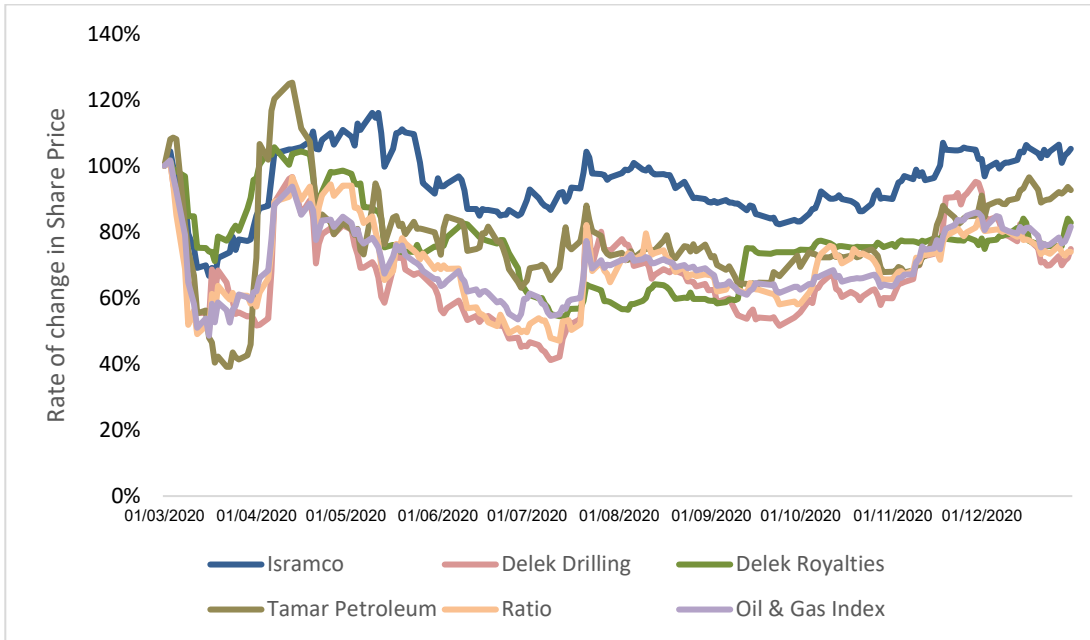
²⁶ Realization of Delek Drilling leases in the Tamar reservoir and in Tamar Petroleum.

²⁷ According to the Report of the Auditors to Delek Group's shareholders for the year 2019, there are significant doubts about the Group's continued existence as a going concern and that the completion of the Group's plans depends, among other things, on realizing assets and receiving dividends from subsidiaries and in particular in formulating binding agreements with the Bondholders and financial institutions.



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Below is a graph describing the development of the securities prices of the public companies operating in the gas sector in Israel from the beginning of March 2020 (near the beginning of the significant price declines on the Stock Exchange) until the date of the valuation (December 2020):



The data in the chart below shows that companies' securities prices recovered relative to the bottom measured in mid-March, but market volatility continues, so at this time it is difficult to deduce from market prices about the fair value of securities.



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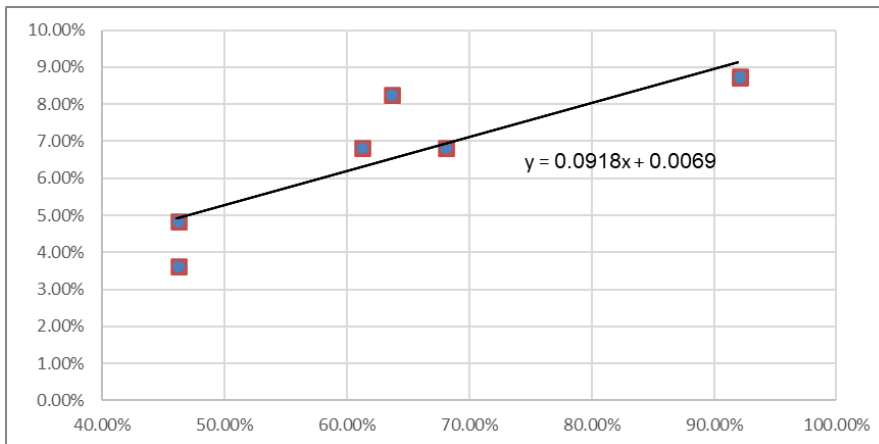
6. Appendices

Appendix A – Cost of Normative Debt

As stated in section 5.2, the price of the debt is estimated in accordance with the normative leverage rate (approximately 60%). For this purpose, we have estimated a trend line for the yield rates to maturity of the quoted bonds of the sample companies as of December 31, 2020, as detailed in the table below:

Company	Tamar Petroleum	Tamar Petroleum	Delek Royalties	Delek Drilling	Isramco	Ratio
Leverage	91.9%	91.9%	61.1%	68.0%	46.1%	63.5%
Bonds	Series A	Series B	Series A	Series A	Series A	Series C
Rating	A1	A1	Aa3	A2	AA	
Yield	8.1%	8.1%	6.1%	5.6%	3.8%	7.1%
Average Duration	4.54	4.76	4.07	0.99	2.38	1.57
Adjusted Yield to Average Duration (9)	8.8%	8.7%	6.8%	6.8%	4.8%	8.2%

The trend line is estimated based on the yield data above and is depicted in the chart below:



Appendix B – Cash Flow Forecast

Year	Total/ Average	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Rate of natural gas production (BCM) (100% of the asset)	297	8.82	8.46	9.20	9.33	9.99	10.14	10.35	10.98	11.07	11.12	11.46	11.65	11.65	11.65	11.65	11.65	11.65
Revenues attributed to the Company (USD thousands)	9,693,684	243,169	233,310	261,461	263,942	281,243	284,729	295,902	316,482	323,101	330,378	344,783	355,552	361,062	366,666	372,383	378,213	384,160
After-tax cash-flow of the Company (USD thousands)	3,173,490	116,665	108,454	112,585	109,171	90,498	89,627	97,095	108,623	110,935	113,449	118,583	122,184	123,981	125,776	127,279	105,811	115,972

Year	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054
Rate of natural gas production (BCM) (100% of the asset)	11.65	11.65	11.65	11.65	11.20	9.75	8.44	7.31	6.33	5.48	4.75	4.11	3.56	3.08	2.67	2.31	0.39
Revenues attributed to the Company (USD thousands)	390,226	396,414	402,725	410,653	402,567	357,355	315,440	278,594	246,001	217,167	191,951	169,365	149,596	131,981	116,671	102,934	17,504
After-tax cash-flow of the Company (USD thousands)	107,289	109,500	133,030	135,377	132,349	116,749	102,301	89,601	78,361	67,662	58,554	50,009	42,767	36,600	21,705	17,041	(22,094)



Tamar Petroleum Ltd.

Chapter E

Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure

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

Tamar Petroleum Ltd.

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**

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

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

For this purpose, the members of Management are:

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

Internal control over financial reporting and disclosure consists of existing controls and procedures within the Company that were designed by, or under the supervision of, the CEO and the most senior 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 CEO and the most senior 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 close processes, entity level controls (ELCs) and IT general controls (ITGCs), as well as key processes involving net revenue, cash and bond management and settling of accounts 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 Management of the Company have concluded that the internal control over financial reporting and disclosure within the Company, as of December 31, 2020, is effective.

Statement of CEO pursuant to Regulation 9B(d)(1):

Statement of Managers

Statement of CEO

I, Liami Vaisman, hereby certify that:

- (1) I have reviewed the periodic report of Tamar Petroleum Ltd. ("**the Company**") for 2020 ("**the Reports**");
- (2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports;
- (4) I have disclosed to the Company's independent auditors, Board of Directors, Audit Committee and Financial Statement Review Committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and
 - (b) Any fraud, whether or not material, that involves the CEO or anyone directly or indirectly subordinate thereto, or other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Company:
 - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and
 - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, and presented in these Reports the conclusions of the Company's Board of Directors and Management about the effectiveness of said internal control as of the date of the Reports.

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

March 18, 2021

Liami Vaisman
CEO

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

Statement of Managers

Statement of the most senior financial officer

I, Yuval Raikin, hereby certify that:

- (1) I have reviewed the financial statements and other financial information included in the reports of Tamar Petroleum Ltd. ("**the Company**") for 2020 ("**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 auditors, Board of Directors, Audit Committee and Financial Statement Review Committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure as it relates to the 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 CEO or anyone directly or indirectly subordinate thereto, or other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Company:
 - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and
 - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles;
 - (c) 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. My conclusions pursuant to my said evaluation were presented to the Company's Board of Directors and Management and are integrated in these Reports.

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

March 18, 2021

Yuval Raikin
CFO