

**Delek Royalties (2012) Ltd.**  
**Condensed Interim Financial Statements as of June 30, 2019**  
**In thousands of US Dollars**  
**(Unaudited)**  
**Extracts**

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## **Auditor's Review Report to the Shareholders of Delek Royalties (2012) Ltd.**

### **Introduction**

We have reviewed the attached financial information of Delek Royalties (2012) Ltd. (hereinafter: "**The Company**"), including the condensed statement of financial position as of June 30, 2019, as well as the condensed statements of comprehensive income, of changes in equity and of cash flows for the six and three month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and are responsible for the preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion regarding the financial information for these interim periods, based on our review.

### **Scope of the review**

We have conducted our review in accordance with Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of interim financial information by the entity's auditor". A review of interim financial information consists of inquiries, mainly with the individuals responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is significantly limited in scope compared to an audit, which is conducted in accordance with generally accepted auditing standards in Israel, and therefore it does not allow us to reach assurance that we have become aware of all material issues, which could have been identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention, which would have caused us to believe that the aforementioned financial information has not been prepared, in all material respects, in accordance with IAS 34.

In addition to what is stated in the previous paragraph, based on our review, nothing has come to our attention which would have caused us to believe that the aforementioned financial information does not comply, in all material respects, with the disclosure provisions set forth in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, August 19, 2019

**Kost, Forer, Gabbay & Kasierer**  
**Certified Public Accountants**

**Ziv Haft**  
**Certified Public Accountants**



August 19, 2019

For the attention of

The Board of Directors of Delek Royalties (2012) Ltd. (hereinafter: "The Company")

Ladies and gentlemen,

Re: Letter of agreement, which is given in tandem with the publication with a periodic report in connection with the Company's shelf prospectus (hereinafter: "The offer document")

We hereby inform you that we agree to the inclusion (including by way of a referral) of our review report of August 19, 2019 on the Company's condensed financial information as of June 30, 2019 and for the periods of six months and of three months ended on that date, in connection with the offer document dated May 2018.

**Kost, Forer, Gabbay & Kasierer**  
**Certified Public Accountants**

**Ziv Haft**  
**Certified Public Accountants**

**Delek Royalties (2012) Ltd.****Condensed Statements of Financial Position (in thousands of Dollars)**

	<u>30.6.2019</u> <u>(Unaudited)</u>	<u>30.6.2018</u> <u>(Unaudited)</u>	<u>31.12.2018</u> <u>(Audited)</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4,506	8,694	5,428
Short-term deposits	3,263	-	4,226
Income tax receivable	-	-	587
Trade and other receivables	2,646	2,770	2,482
	<u>10,415</u>	<u>11,464</u>	<u>12,723</u>
<b>Non-current assets:</b>			
Investments in oil and gas assets (rights to receive ultimate royalties)	156,947	162,271	159,509
Deposits, the use of which is restricted	8,014	831	6,313
Usage right asset	230	-	-
Fixed assets	14	-	17
	<u>165,205</u>	<u>163,102</u>	<u>165,839</u>
	<u>175,620</u>	<u>174,566</u>	<u>178,562</u>
<b>Liabilities and equity:</b>			
<b>Current liabilities:</b>			
Current maturities of bonds	13,933	12,092	13,340
Trade and other payables	4,140	1,256	3,388
Income tax payable	1,058	-	-
	<u>19,131</u>	<u>13,348</u>	<u>16,728</u>
<b>Non-current liabilities:</b>			
Bonds	85,747	99,675	92,797
Deferred taxes	512	400	2,063
Leasing liability	193	-	-
	<u>86,452</u>	<u>100,075</u>	<u>94,860</u>
<b>Equity</b>			
Share capital	5,595	5,595	5,595
Share premium	55,217	55,217	55,217
Retained earnings	9,225	331	6,162
	<u>70,037</u>	<u>61,143</u>	<u>66,974</u>
	<u>175,620</u>	<u>174,566</u>	<u>178,562</u>

The attached notes form an integral part of the condensed interim financial statements.

August 21, 2019

Date of the approval of  
the Financial Statements

Asi Bartfeld  
Chairman of the Board of  
Directors

Meir Menachem  
Chief Executive Officer  
and Director

Ran Kreitzman  
Controller

**Delek Royalties (2012) Ltd.****Condensed Statements of Comprehensive Income (in thousands of Dollars, except for earnings per share)**

	For the period of six months ended		For the period of three months ended		For the year ended
	30.6.2019	*30.6.2018	30.6.2019	*30.6.2018	*31.12.2018
	(Unaudited)		(Unaudited)		(Audited)
Royalties from the sale of natural gas and condensate	13,575	1,940	6,440	1,940	16,205
<b>Expenses and costs:</b>					
Depletion expenses	2,563	377	1,228	377	3,138
Administrative and general expenses	552	103	277	103	552
<b>Total expenses and costs</b>	<b>3,115</b>	<b>480</b>	<b>1,505</b>	<b>480</b>	<b>3,690</b>
<b>Operating income</b>	<b>10,460</b>	<b>1,460</b>	<b>4,935</b>	<b>1,460</b>	<b>12,515</b>
Financing expenses	(2,928)	(740)	(1,452)	(740)	(3,882)
Financing income	176	11	78	11	149
<b>Financing expenses, net</b>	<b>2,752</b>	<b>729</b>	<b>1,374</b>	<b>729</b>	<b>3,733</b>
<b>Income before taxes on income</b>	<b>7,708</b>	<b>731</b>	<b>3,561</b>	<b>731</b>	<b>8,782</b>
Taxes on income	1,065	400	553	400	2,620
<b>Total comprehensive income for the period</b>	<b>6,643</b>	<b>331</b>	<b>3,008</b>	<b>331</b>	<b>6,162</b>
<b>Earnings per regular share of par value NIS 1 (basic and diluted), attributed to the shareholders in the Company (in Dollars)</b>	<b>0.33</b>	<b>0.12</b>	<b>0.15</b>	<b>0.06</b>	<b>0.54</b>

\* The Company commenced its operations on June 7, 2018, as stated in Note 1C.

**The attached notes form an integral part of the condensed interim financial statements.**

**Delek Royalties (2012) Ltd.****Condensed Statements of Cash Flows (in thousands of Dollars)**

	For the period of six months ended		For the period of three months ended		For the year ended
	30.6.2019	*30.6.2018	30.6.2019	*30.6.2018	*31.12.2018
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash flows from operating activities:</b>					
Total comprehensive income for the period	6,643	331	3,008	331	6,162
Adjustments for:					
Depletion and depreciation	2,589	377	1,241	377	3,139
Deferred taxes, net	1,065	400	553	400	2,620
Financing expenses, net	2,752	789	1,374	789	3,733
<b>Changes in assets and liabilities:</b>					
Increase in other receivables	(164)	(2,264)	(201)	(2,264)	(2,482)
Increase in other payables	838	152	145	152	939
<b>Cash paid in the period for:</b>					
Income tax paid	(986)	-	(473)	1	(1,129)
	6,094	(546)	2,639	(546)	6,820
<b>Net cash generated (absorbed) by operating activities</b>	<b>12,737</b>	<b>(215)</b>	<b>5,647</b>	<b>(215)</b>	<b>12,982</b>
<b>Cash flows from investment activities</b>					
Acquisition of right to receive royalties	-	(138,381)	-	(138,381)	(137,874)
Investment in a restricted deposit, net	(738)	(831)	(2,194)	(831)	(10,539)
Interest received	175	-	77	-	149
Purchase of fixed assets	-	-	-	-	(18)
<b>Net cash absorbed by investment activities</b>	<b>(563)</b>	<b>(139,212)</b>	<b>(2,117)</b>	<b>(139,212)</b>	<b>(148,282)</b>
<b>Cash flows from financing activities</b>					
Issuance of bonds (less issuance expenses)	-	118,154	-	118,154	118,067
Purchase of bonds that have been issued	-	(6,465)	-	(6,465)	(6,465)
Repayment of bonds	(6,571)	-	-	-	(5,740)
Interest paid	(2,946)	-	-	-	(1,561)
Issuance of shares, net	-	36,531	-	36,531	36,531
Repayment of leasing liability	(26)	-	(14)	-	-
Dividend distributed	(3,580)	-	(3,580)	-	-
<b>Cash flows generated (absorbed) by financing activities</b>	<b>(13,123)</b>	<b>148,220</b>	<b>(3,594)</b>	<b>148,220</b>	<b>140,832</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(949)</b>	<b>8,793</b>	<b>(64)</b>	<b>8,793</b>	<b>5,532</b>
<b>Balance of cash and cash equivalents at the beginning of the period</b>	<b>5,428</b>	<b>-</b>	<b>4,573</b>	<b>-</b>	<b>-</b>
<b>Exchange differences on cash and cash equivalents balances</b>	<b>27</b>	<b>(99)</b>	<b>(3)</b>	<b>(99)</b>	<b>(104)</b>
<b>Balance of cash and cash equivalents at the end of the period</b>	<b>4,506</b>	<b>8,694</b>	<b>4,506</b>	<b>8,694</b>	<b>5,428</b>

\* The Company commenced its operations on June 7, 2018, as stated in Note 1C.

The attached notes form an integral part of the condensed interim financial statements.

**Delek Royalties (2012) Ltd.**

**Condensed Statements of Cash Flows (in thousands of Dollars) (Continued)**

	For the period of six months ended		For the period of three months ended		For the year ended
	<u>30.6.2019</u>	<u>*30.6.2018</u>	<u>30.6.2019</u>	<u>*30.6.2018</u>	<u>*31.12.2018</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
<b>Appendix A – Financing and investment activities not involving cash flows:</b>					
Issuance of shares as party of the consideration for the acquisition of rights to receive royalties	-	24,281	-	24,281	24,281
Increase in liability in connection with an effective royalty by well that has been recorded against oil and gas assets (rights to receive royalties)	-	506	-	506	469
Increase in leasing liability recorded against a usage right asset	254	-	33	-	-

\* The Company commenced its operations on June 7, 2018, as stated in Note 1A.

The attached notes form an integral part of condensed interim financial statements.