Description of the Company's Business Summary as of March 30, 2020

This Document is a summary of the Company's operations and the development of its business .
For the full description of the Company's Business see the Hebrew version

1. **<u>The Company's operations and description of the development of its business[1]</u>**

1.1 The Company was incorporated on 6.11.2012 as a private company, pursuant to the Companies Law, 5759 – 1999 (hereinafter: "**The Companies Law**").

1.2 Pursuant to a supplementary prospectus, which also constitutes the Company's shelf prospectus, which was published on 23.5.2018 (Document No.: 2018-01-041451) (hereinafter: "**The prospectus**"), and the supplementary notification, which was published on 3.6.2018 (Document No.: 2018-01-046728), in June 2018 the Company issued shares and bonds (Series A) to the public, which have been listed for trading on the Tel-Aviv Stock Exchange Ltd. (hereinafter: "**The Stock Exchange**" and "**The bonds**" or "**The bonds (Series A**"), respectively) and subsequent to this, the Company became a public company, within the meaning of that term in the Companies Law and a reporting corporation, within the meaning of that term in the Securities Law, 5728 – 1968 (hereinafter: "**The Securities Law**").

1.3 Shortly before the publication of the prospectus, the Company entered into a commitment with Delek Energy Systems Ltd.[2] (hereinafter: "**Delek Energy**") under an agreement pursuant to which it acquired from Delek Energy a right to receive royalties at a rate of 1.125% before the return of the investment and 4.875 after the return of the investment from Delek Drilling Limited Partnership (hereinafter: "**Delek Drilling**") and from Tamar Petroleum Ltd. (hereinafter: "**Tamar Petroleum**") (Delek Drilling and Tamar Petroleum hereinafter, together: "**The payers of the royalties**"), in relation to petroleum and/or gas and/or other valuable materials, which may be produced and exploited from Delek Drillings at a rate of 22% (out of 100%), and Tamar Petroleum's rights at a rate of 9.25% (out of 100%), in the "Tamar" I/12 Lease and in the "Dalit" I/13 Lease (hereinafter: "**The Tamar Lease**" and "**The Dalit Lease**", respectively, and together: "**The Leases**") (hereinafter: "**The right to royalties**" and "**The agreement for the transfer of the royalties**", respectively).

On 7.6.2018, the right to the royalties was registered in the Company's name in the Petroleum Register, which is maintained pursuant to the Petroleum Law, 5712 – 1952 (hereinafter: "**The Petroleum Register**" and "**The Petroleum Law**", respectively).

1.4 As of the time of the publication of the report, the Company does not have a controlling interest within the meaning of that term in the Securities Law, where the largest shareholder in the Company is Delek Energy, which holds approximately 39.93% of the Company's issued share capital and does not hold voting rights in the Company as of the time of the publication of the report.

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[1] See the Definitions Appendix at the end of the Chapter for the definitions of some of the professional terminology that is included in this chapter.

[2] To the best of the Company's knowledge, as of the time of the publication of the report, Delek energy is a private company that is wholly owned by the Delek Group Ltd. (hereinafter: "**The Delek Group**"), which is a public company the controlling interest in which is Mr. Yitzhak Sharon (Tshuva), who holds approximately 61.12% of the issued share capital and approximately 64.27% of the voting rights in the Delek Group (approximately 58.43% and approximately 61.30%, respectively at full dilution). At the time of Delek Energy's commitment with the Company, as previously mentioned, Delek Energy was a public company.

2. **<u>The Company's field of operations</u>**

2.1 In accordance with the Company's articles of association (hereinafter: "**The articles**"), the Company's objectives are the holding or royalties of companies that are engaged in the petroleum and the gas fields.[3] Accordingly, the Company's sole field of activity at the reporting sate is the holding of a right to receive royalties in relation to petroleum and/or gas and/or other valuable materials that may be produced from the payers of the royalties' share in the Tamar and Dalit Leases (hereinafter: "**The field of operations**"). Accordingly, the Company's revenues are dependent upon revenues from petroleum and/or gas and/or other valuable materials that may be produced from the Tamar and Dalit Leases, insofar as they may be produced and on operations of the payers of the royalties and the other partners in the Leases.

2.2 The Company is not an operational petroleum and gas company and it does not bear any expenses and costs whatsoever in connection with the exploration, development and production of petroleum and gas assets operations. The Company intends to increase and to diversify its portfolio of assets by acquiring additional royalties from petroleum and gas assets, which are producing or which are in advanced stages of development, both in Israel and also outside of Israel

2.3 To the best of the Company's knowledge, Delek Drilling is a public limited partnership that is engaged in the exploration for, development and production of natural gas, condensate and petroleum (hereinafter: "**The petroleum and gas field**"), which holds rights at a rate of 22% (out of 100%) in the Tamar and Dalit Leases and approximately 22.6% of the capital rights in Tamar Petroleum and approximately 13.42% of the voting rights therein as of the time of the publication of the report. The general partner in Delek Drilling, Delek Drilling Management (1993) Ltd., is a private company that is owned and controlled by Delek Energy. The Company's right to royalties applies to all of Delek Drilling's rights in the Leases at the time of the publication of the report (22% out of 100%) and is at a rate of 1.125% before the return of the investment and 4.875% after the return of the investment from the said rights, which are subject to royalties. In accordance with the gas outline, Delek Drilling is to sell all of its rights in the Tamar and Dalit Leases to a third party that is not related to Tamar by the determining date (within 72 months from the time of the granting of the exemption pursuant to the Economic Competition Law.

2.4 To the best of the Company's knowledge, Tamar Petroleum is a public company that is engaged in the petroleum and gas field, which holds rights at a rate of 16.75% (out of 100%) in the Tamar and Dalit Leases. As of the time of the publication of the report, Tamar Petroleum does not have a controlling interest, as defined in the Securities Law. In July 2017 Tamar Petroleum acquired rights from Delek Drilling at a rate of 9.25% (out of 100%) in the Tamar and Dalit Leases, subject to Delek Drilling's existing commitments to pay royalties to related parties and to third parties, including the commitment to pay royalties to Delek Energy, which was transferred to the Company pursuant to the agreement for the transfer of royalties. The Company's right to royalties applies to rights in the Leases at a rate of 9.25% (out of 100%), which Tamar Petroleum acquired from Delek Drilling as mentioned above (and it does not apply in relation to the rest of Tamar Petroleum's rights in the Leases).

[3] The amendment of this provision requires the approval of a general meeting of the Company's shareholders with a majority of 95% of the shareholders.

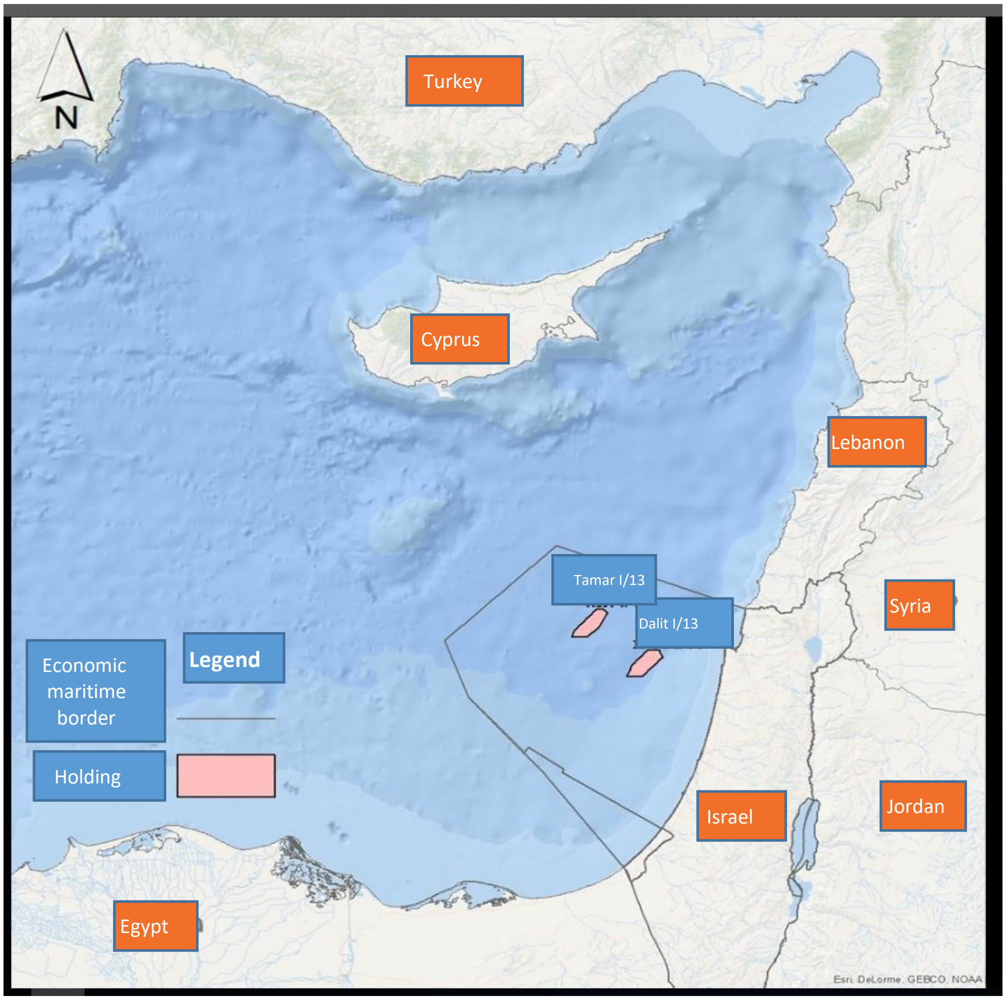
2.5 Details are provided in the following tables, regarding the petroleum assets in which the Company has benefit, as of December 31, 2019, as well as details regarding the best estimate of the quantities of the reserves, the conditional resources and the predicted resources in those assets.

<table>
<tr><th rowspan="2">Name of the petroleum asset and type of right</th><th rowspan="2">The party that is to pay the royalty</th><th rowspan="2">The party that is to pay the royalty's rights in the petroleum assets that are subject to a royalty</th><th rowspan="2">The royalty rate out of the total rights in the petroleum asset (100%)</th><th rowspan="2">Reservoirs that have been discovered in the area of the petroleum asset</th><th colspan="2">Best estimate of the quantity of the predicted resources (100%)</th><th colspan="2">Best estimate (2C) of the quantity of the contingent resources (100%)[4]</th><th colspan="2">Best estimate (2P) of the total quantity of reserves (100%)</th></tr>
<tr><th>Natural gas BCF</th><th>Condensate (millions of Barrels)</th><th>Natural gas BCF</th><th>Condensate (millions of Barrels)</th><th>Natural gas BCF</th><th>Condensate (millions of Barrels)</th></tr>
<tr><td rowspan="2">Tamar Lease</td><td>Delek Drilling</td><td>22%</td><td rowspan="4">Before the return of the investment – 0.35%

Before the return of the investment – 1.52%[6]</td><td rowspan="2">The Tamar reservoir and the Tamar South West reservoir (hereinafter: "Tamar SW")</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">10,771.1</td><td rowspan="2">14.0</td></tr>
<tr><td>Tamar Petroleum</td><td>9.25%</td></tr>
<tr><td rowspan="2">Dalit Lease</td><td>Delek Drilling</td><td>22%</td><td rowspan="2">The Dalit reservoir</td><td rowspan="2">267.6</td><td rowspan="2">-</td><td rowspan="2">270.7</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>Tamar Petroleum</td><td>9.25%</td></tr>
</table>

4 The predicted resources that are presented below are located in a number of break pockets and/or in various prospects, where the chances of success in finding them are different.

2.6 The following map includes the petroleum assets from which the Company has a right to royalties:



3. **Investments in the Company's capital and transactions in its securities**

The following are details regarding investments in the Company's equity that have been made as from the time of the initial issuance of the Company's securities to the public (June 2018) and regarding other significant transactions that have been made by interested parties in the Company in shares in the Company off the Stock Exchange, which are known to the Company:

3.1 The allocation of shares to Delek Energy pursuant to the agreement for the transfer of royalties, as well as the allocation of shares to investors who became interested parties in the Company, which were done pursuant to the prospectus.

3.2 Transactions by interested parties in shares in the Company off the Stock Exchange:

Name of the interested party	Date of the execution of the transaction	Type of transaction	Quantity of shares	Price per share (in NIS)	Total consideration (in NIS thousands)
The Further Training Funds for Teachers and Kindergarten Teachers – Management Company Ltd.	16.8.2018	Purchase	897,763	10.03	Approximately 9,004
Further Training Funds for High School Teachers, Seminar Teachers and Supervisors – Management Company Ltd.	16.8.2018	Purchase	343,135	10.03	Approximately 3,441

Name of the interested party	Date of the execution of the transaction	Type of transaction	Quantity of shares	Price per share (in NIS)	Total consideration (in NIS thousands)
Meir Menachem	4.12.2019	Purchase	2,834	7.598	Approximately 21.5
Meir Menachem	16.8.2018	Purchase	1,541	7.583	Approximately 11.7
Meir Menachem	9.12.2019	Purchase	2,090	7.509	Approximately 15.7

4. **Distribution of dividends**

4.1 It is determined in the Company's articles of association that the Company is to determine an amount of the profits each year, which is equivalent to 90% of the distributable profits, within the meaning of that term in the Companies Law, in reliance of the annual financial statements, subject to compliance with the distribution tests, within the meaning of that term in the Companies Law and subject to any law, and less that amounts that are required by the Company in the Board of Directors' opinion, for all of these:

a. The Company's compliance with its commitments and the restrictions that apply to it under the financing agreements that it is a party to at the time of the declaration, including the bonds.

b. Financing for the Company's operating activities, including its investment plan for the acquisition of royalties, including unexpected expenses.

4.2 See Note 8G to the financial statements (Chapter C of this Report) for details regarding restrictions on the distribution of profits, which are determined in the trust deed for the Company's bonds (Series A) (hereinafter: "**The trust deed**").

4.3 The distributable profits in the Company, within the meaning of that term in Section 302 of the Companies Law, amounted to approximately 17,114 thousand US Dollars (hereinafter: "**The Dollar**") as of December 31, 2019.

4.4 In the period from the time of the initial issuance of the Company's securities to the public (in June 2018) and up to the time of the publication of the report, the Company has declared distributions of profits as set forth below:

Date of the declaration	Timing of the distribution	Amount of the distribution per share	Overall amount of the distribution (in thousands of Dollars)	Immediate report
25.3.2019	11.4.2019	0.17899 Dollars	Approximately 3,580	Document Number: 2019-01-024354

5. **<u>Financial information in respect of the Company's field of operations</u>**

5.1 See the statements of comprehensive income, which are included in the Company's financial statements as of December 31, 2018 and as of December 31, 2019, which are attached as Chapter C of this Report for data regarding the field of operations' revenues, costs and operating income.

5.2 See the statements of financial position, which are included in the Company's financial statements, which are attached as Chapter C of this Report for data regarding the Company's assets and liabilities as of December 31, 2018 and as of December 31, 2019.

5.3 See the report of the Company's Board of Directors, which is attached as Chapter B of this Report for explanations regarding the abovementioned financial data.

6. **<u>Details regarding the Company's right to royalties</u>**

The following are details regarding the right to royalties, the source thereof and the main conditions thereof:

6.1 <u>General</u>

A. Pursuant to the agreement for the transfer of the royalties, the Company acquired the right to royalties from Delek Energy, as is, at the time of the signing of the agreement, and subject to the same terms as those at which Delek Energy held the right to the royalties at the time of the signing of the agreement.

B. The source of Delek Energy's right to the royalties, which was transferred to the Company, as mentioned above, lies in an agreement made in 1993 (hereinafter: "**The agreement for the transfer of the licenses**"), pursuant to which Delek Energy and "Delek" The Israel Fuel Corporation Ltd. transferred rights in a number of petroleum licenses to Delek Drilling, whereas Delek Drilling undertook to pay royalties from the maritime petroleum assets at a rate of 3% before the return of the investment and 13% after the return of the investment, out of Delek Drilling's share in the petroleum and/or natural gas and/or other valuable materials, which may be produced and exploited from the petroleum asset, in which Delek Drilling has or may have an interest in the future (before the deduction or royalties of any sort but after the deduction of the petroleum that is used for the purposes of the production itself)[9] in consideration (with a division between Delek Energy and "Delek" The Israel Fuel Corporation Ltd. of 75% and 25%, respectively).

Pursuant to the agreement for the transfer of the licenses, a royalties deed was signed between Delek Drilling and each of the transferors on March 3, 2003, which was amended on March 2, 2009, May 30, 2010 and on September 29, 2016, for the purpose of registering the royalties rights in the Petroleum Register (hereinafter: "**The royalties deed**"), pursuant to which, inter alia, Delek Energy's right to receive royalties at a rate of 2.25% before the return of the investment and at a rate of 9.75% after the return of the investment, from Delek Drilling's share in the Tamar and the Dalit Leases, was registered in the Petroleum Register.

9 "Delek" The Israel Fuel Corporation Ltd.'s right to royalties under the force of the abovementioned agreement, was transferred on March 30, 2000 to Delek Investments and Assets Ltd., which merged with and into the Delek Group, such that as a result of the merger, the right to the royalties was transferred to the Delek Group. To the best of the Company's knowledge, on December 26, 2019, the said right to the royalties was transferred from the Delek Group to The Further Training Funds for Teachers and Kindergarten Teachers – Management Company Ltd.

C. On May 17, 2017, Avner Petroleum Explorations – Limited Partnership (hereinafter: "**The Avner Partnership**") merged with and into Delek Drilling, such that all of the Avner Partnership's assets and liabilities, which included rights in the Tamar and Dalit Leases, at an identical rate to the rate of Delek Drilling's rights in the leases at that time, were transferred to Delek Drilling, such that after the completion of the merger Delek Drilling held rights at a rate of 31.25% (out of 100%) in the Leases. As a result of the completion of the merger, the rate of the royalties, which Delek Energy is entitled to receive from Delek Drilling in respect of its share in the Tamar and Dalit Leases, was reduced by half (50%) by comparison with the rate of the royalties immediately before the merger, and it was placed at a rate of 1.125% before the return of the investment and 4.875% after the return of the investment (such reduction in the royalty rate derives from the fact that the merged partnership's share in the Lease doubled and the reduction of the royalty rate by 50% was intended to endure that there will not be an economic change in the rights of the owners of the royalty following the merger).

D. On July 20, 2017, a transaction was completed, pursuant to which Delek Drilling sold rights to Tamar Petroleum at a rate of 9.25% (out of 100%) in the Tamar and Dalit Leases, subject to existing commitments to pay royalties to related parties and to third parties, including Delek Energy's right to royalties at a rate of 1.1.25% before the return of the investment and 4.875% after the return of the investment in respect of rights that had been transferred to Tamar Petroleum. After this transfer, Delek Drilling remained with 22% (out of 100%) of the rights in the Leases.

E. In accordance with the terms of the right to the royalties, as determined in the agreement for the transfer of the licenses and the royalties deed (hereinafter: "**The terms of the royalties**"), the owners of the royalties or whoever of them will be entitled to receive the abovementioned royalties or part of them in kind, i.e., to receive part of the petroleum and/or the gas and/or the other valuable materials that may be produced and exploited from the petroleum asset (up to the level of the rate that is mentioned above). If any of the owners of the royalties has elected to receive the royalties in kind, the parties are to arrange the manner and the times at which they will receive the royalty. If and in the event that any of the owners of the royalties does not elect to receive the royalties in kind, they are to be paid the market value, in Dollars (if under the law it will not be possible to pay other than in Israeli currency, then in Israeli currency), calculated in Dollars in accordance with the representative exchange rate of the Dollar at the time of the actual payment, at the wellhead, of the royalties that are due to them (hereinafter: "**The effective royalty rate**"). Such a payment is to be made once a month. The measurement of the quantities of petroleum and/or natural gas and/or the other valuable materials that may be produced and exploited from the petroleum asset for the purpose of the calculation of the royalties is to be done in accordance with principles that are customary in the petroleum sector.

F. According to the terms of the royalties, the party that is required to pay the royalties ("The payer") is to maintain full and exact records in respect of its share in the petroleum and/or the natural gas and/or the other valuable materials that may be produced and exploited from the petroleum asset. The holder of the right to the royalties will be entitled to appoint an auditor who will be entitled to review, to check and to copy the payer's records and the other documents and records relating to the right to the royalties, during regular working hours.

G. According to the terms of the royalties, the right to the royalties is linked to the share of the payer (Delek Drilling and/or Tamar Petroleum) in the petroleum asset (the Tamar and Dalit Leases). If the payer transfers its rights in the petroleum asset it is to so cause it that the recipient of the transfer takes all of the commitments for the payment of the royalties upon itself. The aforesaid will not apply in the event of the forfeiture and/or the return of the petroleum asset as a return of arrears on the payer's part (Delek Drilling and/or Tamar Petroleum) in respect of a breach of the Joint Operating Agreement in the Tamar Project. Accordingly, the impact of the Corona virus on the payers of the royalties' economic situation and on their compliance with agreements may have an implication for the royalties that the Company receives.

6.2 The manner of the calculation of the market value of the royalties at the wellhead

A. The payment of royalties from the Tamar Project

1. In accordance with the terms of the royalties, the payers of the royalties are committed to paying the market value of the royalties "at the wellhead" to the Company. The calculation of then market value of the royalties from the Tamar Project, at the wellhead, has actually been made up to now in accordance with the manner in which the market value of the royalties to the State are calculated, as detailed below.

   Accordingly, the manner of the calculation of the market value of the royalties to the State also affects the effective royalty rate for the Company's right to royalties.

   The Petroleum Law determines, inter alia, that the holder of the Lease is to pay the holder of a Lease is to pay a royalty to the State the at a rate of one eighth (12.5%) of the quantity of petroleum that has been produced and exploited from the area of the Lease, and that the holder of a Lease is to pay "the market value of the royalty, at the wellhead" to the State Treasury.

   As of the time of the approval of the publication of the Report, the partners in the Tamar Project are holding discussions with the Commissioner of Petroleum Affairs in respect of the manner of the calculation of the market value at the wellhead in the Tamar Project. Until the completion of the abovementioned discussions, the partners in Tamar are paying advances to the State, under protest, on account of the royalties, at the rate that the State is demanding, where in 2017 and 2018, the partners in Tamar paid royalties at an overall rate of approximately 11.65%, whereas in 2019, the partners in Tamar paid royalties at an overall rate of 11.3%

   In the opinion of the payers of the royalties and the other partners in the Tamar Project, the calculation of the market value of the royalties to the State at the wellhead must be based on the principles, pursuant to which the said market value was calculated in the Tethys Sea Project (The "English formula" principles), pursuant to which the partners in Tamar are supposed to pay royalties to the State at rates that are lower than the rates that were demanded by the State. It should be mentioned in the discounted cash flow information of the partners in the Tamar Reservoir and the Company, as of December 31, 2019, they have assumed a royalties rate of 11.5%. See Note 10B to the financial statements (Chapter C of this Report) for additional details regarding the market value of the royalty at the wellhead.

2. As mentioned above, the manner of the calculation of the market value of the royalties to the State at the wellhead, which are paid by the payers of the royalties to the Company, has been done up to now in accordance with the same principles as those in accordance with which they are required to pay royalties to the State, as aforesaid.

Accordingly, from the Company's perspective, pursuant to a decision that has been made in connection with the manner of the calculation of the market value of the royalty to the State at the wellhead in the Tamar Project, the effective rate of the royalties may change, and in such a case, it is possible that the Company will be required to repay the provisions in respect of the royalties that have been overpaid to it, or for it to be entitled to the differences between the royalties that have been underpaid to it.

It should be clarified that in accordance with the agreement for the transfer of the rights to royalties, if the return of the provisions in respect of royalties that were overpaid to Delek Energy in the period preceding January 1, 2018, which is the time of the entitlement to royalties pursuant to the agreement, is required, then the duty to pay the said differences will apply to Delek Energy, even if the duty crystalizes after the time of the transfer of the right to the royalties to the Company. In the same way, if differences are received in respect of royalties that were underpaid in the period preceding the time of the entitlement to royalties, then the entitlement to receive the said differences will belong to Delek Energy, even if the right crystalizes after the time of the transfer of the right to the royalties to the Company.

B. <u>The payment of royalties from the Dalit Lease</u>

As of the time of the publication of the report, commercial production has not yet started from the area of the Dalit Lease and there is no summary whatsoever with the Commissioner of Petroleum Affairs in respect of the actual manner of the calculation of the royalty to the State from the Dalit Lease, if and when the commercial production from that reservoir may start. Accordingly, it is not possible to assess how the market value at the wellhead of the royalties that will be payable to the Company from the Dalit Lease, if and when production may start.

6.3 <u>The determination of "the time of the return of the investment"</u>

The Company's right to the royalties is at a rate of 1.125% before the time of the return of the investment and 4.875% after the time of the return of the investment, from Delek Drilling's share (22%) and Tamar Petroleum's share (9.25%) of the Tamar Project. The following are additional details on this matter, in accordance with the terms of the royalties:

A. <u>Definitions</u>

The term "**time of the return of the investment**" means – the time after the signing of the agreement for the transfer of the licenses, in which the value of the receipts (net) (as defined below), which Delek Drilling or Tamar Petroleum, as the case may be, has received or is entitled to receive in respect of petroleum and/or natural gas and/or other valuable materials that have been produced and which have been exploited from the petroleum asset (i.e. – a license or a Lease) in which the finding was found, calculated in Dollars (in accordance with the representative exchange rate that is published by the Bank of Israel) will reach an amount that is equivalent to the full value of all of the expenses (as defined below) of Delek Drilling or Tamar's Petroleum, as the case may be, in that petroleum asset, calculated in Dollars (in accordance with the representative exchange rate, as mentioned above).

The term "**value of the receipt (net)**" means – the value of all of the receipts, as confirmed by the auditors of Delek Drilling or Tamar Petroleum, as the case may be, in respect of petroleum and/or natural gas and/or other valuable materials that have been produced and exploited from the petroleum asset (i.e. – a license or a Lease) (hereinafter: "**the value of the receipt (gross)**") after the deduction of all of the expenses for their production and royalties that have been paid in respect of them.

The term "**Value of all of the expenses**" means – all of the expenses that Delek Drilling or Tamar Petroleum, as the case may be, have expended in the petroleum asset (i.e. – a license or a Lease), in which petroleum and/or natural gas and/or other valuable materials that have been produced, expect for expenses (up to the level of the receipts (net)), which have been deducted from the value of the receipts (gross) for the purpose of the determination of the amount of the value of all of the receipts (net) and as confirmed by the auditors of Delek Drilling or Tamar Petroleum, as the case may be,

B. It should be mentioned that it is determined in the agreement for the transfer of the royalties that the royalties rate that the Company will be entitled to receive from the Tamar Lease, will, in any event, be the royalties rate after the time of the return of the investment, such that if it becomes apparent that the time of the return of the investment in the Tamar Lease has occurred after January 1, 2018 (the time of the entitlement to royalties), then Delek Energy is to indemnify the Company such that it will inject the royalty receipts that may be generated for the Company (including the indemnification, as aforesaid, from Delek Energy), will reflect the royalties rate after the time of the return of the investment in the Tamar Lease.

It should be mentioned that according to information that has been published by the Delek Group, which holds all (100%) of Delek Energy's share capital, on March 12, 2020, S&P Ma'alot, the rating company, announced that the Delek Group was being placed on the monitoring list with negative implications, as a result of uncertainty regarding the resources that will be available to it and on March 23, 2020, Midroog, the rating company announced the lowering of the rating for the Company's series of bonds from A2.il to Ca.il as a result of its assessment regarding expected insolvency with a high level of certainty (in accordance with Midroog's definitions). It should be mentioned in this connection, that on February 5, 2019, the Delek Group submitted a proposal for a merger to the Registrar of Companies, pursuant to which Delek Energy and an additional wholly owned subsidiary company will be merged with an into the Delek Group.

If it were to be determined in the future that the Company is to return royalties that have been overpaid to it as a result of the fact that the timing of the return of the investment has occurred after the timing of the entitlement to royalties, and Delek Energy were not to indemnify the Company pursuant to the said commitment, then the Company would have to pay substantial amounts of monies to the payers of the royalties.

It is clarified that the abovementioned commitment by Delek Energy does not apply in relation to the royalties from the Dalit Lease, if and when they may be paid in the future. See Note 3.F.2 to the financial statements (Chapter C of this report) for additional details.

See Note 7.A.2 to the financial statements (Chapter C of this Report) for details regarding legal proceedings on the subject of the time of the return of the investment in the Tamar project, to which the Company is a party.

6.4 Registration of the right to royalties and liens in the Petroleum Register

Pursuant to the agreement for the transfer of the royalties, on June 7, 2018, the right to the royalties was registered in the Company's name in the Petroleum Register. In parallel to this, an endorsement of a lien, which has been registered in support of Delek Energy on Delek Drilling's rights in the Tamar Lease, was registered in the Petroleum Register in favor or the Company, as collateral for Delek Drilling's commitments to pay royalties to the Company, within the framework of the arrangement of the relationship between the owners of Delek Drilling's royalties at that time (i.e.: the Delek Group and the Company) and Delek Drilling's financers. It is clarified that no lien was registered in the Petroleum Register in support of the Company in respect of its right to receive royalties from Tamar Petroleum's share, however, within the framework of the trust deed for Tamar Petroleum's bonds (Series A), restrictive conditions were set in connection with the Company's right to the royalties.

Pursuant to the terms of the trust deed, on September 13, 2018, the Commissioner of Petroleum Affairs gave his approval for the registration of a lien for the right to royalties from the Tamar reservoir alone in support of the trustee for the bonds (Series A). See the fourth part of the Board of Director's report for additional details regarding the bonds.

6.5 Agreement for the transfer of the royalties

The following is a description of the main points of the agreement for the transfer of the royalties that was signed between the Company and Delek Energy, as amended on 22.5.2018 (hereinafter, in this Section: "**The agreement**").

The transaction

A. Delek Energy has endorsed the right to royalties from the Tamar and Dalit Leases to the Company, under a final and irrevocable endorsement (hereinafter, in this Section: "**The property being sold**"), to which it is entitled under the force of the agreement for the transfer of the licenses and the royalties deed, as is at the time of the signing of the agreement, as well as all of the rights that are ancillary to the right to royalties, including the liens that are registered in support of Delek Energy on Delek Drilling's rights in the Leases, against the payment of the consideration from the property being sold to Delek Energy, and subject to the same conditions as thus under which Delek Energy held the right to the royalties at the time of the signing of the agreement.

B. All of the Company's rights and duties in respect of the right to royalties will apply retrospectively, as from January 1, 2018 (above and hereinafter: "**The time of the entitlement to royalties**"), including that the Company will be entitled to every right and will bear every duty in relation to royalties that have been received in respect of the petroleum and/or the gas that has been sold after the time of the entitlement to royalties (including every indebtedness in respect of the lawsuit that is described in Note 7.A.1 to the financial statements (Chapter C of this report), insofar as there may be any such).

The consideration for the property being sold

C. Pursuant to the agreement for the transfer of the royalties, the Company paid an amount of approximately NIS 533,329 thousand (approximately 149,530 thousand Dollars) in cash to Delek Energy, out of the consideration from the issuance of shares and bonds, which it has issued, and in addition to this, the Company allocated 7,985,600 regular shares to Delek Energy (hereinafter: "**The consideration in shares**") in addition to the 1,000 regular shares in the Company, which it held immediately before the issue. Taking the price of the shares in the Company, which was determined in the issue to the public, in an amount of NIS 10.87, the consideration that was paid by the Company for the right to royalties (including the consideration in shares) amounted to approximately NIS 620,143 thousand (approximately 173,814 thousand Dollars).

The parties' representations

D. Delek Energy declares and undertakes:

1. That the right to royalties is clean of any lien, charge, attachment, right of delay, right to offset or other right of any third party whatsoever, and it will be transferred to the Company, subject to and in accordance with the terms of the agreement, where it is clean of any lien, charge, attachment, right of delay, right to offset or other right of any third party whatsoever.

2. That there are no other claims, demands or legal proceedings that are pending and outstanding in connection with the right to the royalties that are not mentioned in the prospectus, and to the best of its knowledge, no such proceedings are expected that would have a significant adverse impact on the Lease in the property being sold.

3. That subject to the compliance with the crucial terms in the agreement, there is no restriction and/or prohibition and/or impediment pursuant to the provisions of the agreement or any law whatsoever to Delek Energy's commitment under the agreement and to its execution, and these do not constitute a breach of an agreement that Delek Energy is a party to or of any commitment whatsoever that Delek Energy has given to any third party whatsoever, whether under the law and whether pursuant to an agreement.

4. That it is committed to indemnifying the Company for any damage or indebtedness that may be caused for the Company as a result of any claim, complaint or legal proceedings, as a result of a breach of the representations that are detailed above. Delek Energy will not be responsible for damage that may be caused to the Company as a result of a breach of the said representations until the amount of the said damage exceeds 500 thousand Dollars (and in such a case, the responsibility will be limited solely to the amount that exceeds the abovementioned minimum amount). Delek Energy's maximum liability in respect of such a breach of the representations may not exceed the amount of the cash consideration that was received in respect of the property that has been sold, in any event.

E. The Company declares and undertakes that it has agreed to acquire the right to the royalties as is subject to Delek Energy's representations and commitments, which are detailed in paragraph D above, without having received any additional representation or commitment whatsoever.

Additional provisions

F. If and when a decision is made in connection with the manner of the calculation of the market value of the royalties to the State at the wellhead in the Tamar Project, then the manner of the accounting for the issue of the indebtedness or the right to repay or to receive, as the case may be, the royalties that have been overpaid or underpaid, as the case may be, will be as detailed in the said section.

G. Insofar as a decision has been made in the lawsuit that is described in Note 7.A.1 to the financial statements (Chapter C of this report), pursuant to which Delek Drilling will be entitled to the repayment of royalties that have been overpaid by it in a period preceding the time of the entitlement to royalties, Delek Energy alone will bear the said indebtedness.

H. Delek Energy will routinely transfer the information to the Company, which is required for the purpose of complying with the disclosure requirements regarding the entitlement to royalties, insofar as it may be required and so long as the said disclosure requirements will apply to Delek Energy as well. It should be mentioned in this connection that in November 2018 the Delek Group announced to the Company that it was prepared to take Delek Energy's place in the commitment to provide information to the Company.

I. The Company has signed on attachment to the lien holders agreement, and it has taken all of Delek Energy's rights and commitments under that agreement upon itself.

J. Delek Energy is entitled to request from the Company that it publish a shelf prospectus and a shelf offering report for the purpose of selling Delek Energy's holdings in shares in the Company, in whole or in part, within 90 days from the time of the receipt of a written request in this matter from Delek Energy. If at the time of the submission of such a request, the Company will have a shelf prospectus that is in effect, then the Company is to act to publish a shelf offering report within 30 days from the time of the receipt of a written request.

   Delek Energy will bear all of the expenses that are involved in the publication of such a shelf offering report, except in a situation in which the shelf offer report includes the offering of securities that are held by another body other than Delek Energy, in which case Delek Energy will bear a proportionate share of the said expenses. The Company will be entitled to hold up the publication of the shelf prospectus and/or of a shelf offering report if in the Company's Board of Directors' opinion such publication at that time might significant harm the Company or its shareholders (including in the event that the publication would significantly interfere with a significant acquisition transaction, re-organization or other transaction of the Company, the publication would require the exposure of significant information, which the Company has a business interest in maintaining the confidentiality of, or the publication of which will prevent the company from complying with the provisions of the Securities Law and the regulations that have been promulgated thereunder, for a period of 90 days, in the course of which the Company will not be entitled to offer securities to the public, which are held by any other body whatsoever.

   The Company will not be entitled to delay the publication of such a shelf prospectus or offering report more than once in a period of six months, unless the reason for the delay is that the publication would prevent the Company from complying with the provisions of the Securities Law and the regulations that have been promulgated thereunder. Delek Energy will be entitled to exercise its right to ask the Company to publish a shelf offering report, as mentioned above, from time to time, but not before the end of a blocking period, which will apply to the Shares under the force of the Stock Exchange Rules.

K. Each party will bear any tax, levy or charge, which is imposed upon it under any law in respect of its commitment under the agreement and the execution thereof. The Company bore all of the expenses that are connected to the issuance of the bonds. Delek Energy bore all of the expenses that are connected to the issuance of the shares.

L. The law that will apply to the agreement is the law of the State of Israel.

M. Additional provisions have been set in the agreement, as is customary in agreements of this sort, including regarding interpretation, the delivery of notifications, the making of changes in the agreement, accounting and etcetera.

6.6 <u>The completion of the transaction for the acquisition of the right to royalties.</u>

A. On 7.6.2018, the crucial terms that had been set in the agreement for the transfer of the royalties were complied with, after the right to the royalties was registered in the Petroleum Register in the name of the Company and the issuance of the securities pursuant to the prospectus had been completed. See the Company's immediate reports of 7.6.2018 (Document No.: 2018-01-048972) and of 10.6.2018 (Document No.: 2018-01-049209), the information in which is presented hereby by way of referral, for additional details.

B. Close to the time of the completion of the transaction, Delek Energy gave an irrevocable undertaking to waive the characteristics of control in the Company, including voting rights in general meetings and the right to appoint directors, in addition to which it has undertaken that despite what is stated in Section 8 of the Company's articles of association,[11] the waiver of the voting rights and the right to appoint directors will apply in relation to all of the shares in the Company, which are held or which may be held directly by it, or by another corporation that is controlled by it, and so long as they are held by them. It is clarified that all of the capital rights that are ancillary to such shares will remain in force, and that upon the transfer or the sale of the said shares to a third party, they will also afford the transferee the full voting rights that are attached to them. As of the time of the publication of the report, to the best of the Company's knowledge, Delek Energy holds 39.93% of the Company's issued share capital and it does not hold the voting rights in the Company.

6.7 <u>The absence of direct access to information regarding the petroleum assets, which is required for the Company for the purpose of its reports in accordance with the securities laws</u>

A. The Company, a reporting corporation, as defined in the Securities Law, is subject to the routine reporting requirement pursuant to the Securities Law and the regulations that have been promulgated thereunder, including the disclosure provisions that apply to a reporting corporation in respect of the holding of a right to royalties from petroleum assets, as they may be from time to time (hereinafter: "**The disclosure requirements**").

B. As mentioned above, the Company does not have direct rights in the Tamar and Dalit Leases, accordingly the disclosure requirements that apply to the Company under the Securities Law or the regulations that have been promulgated thereunder in respect of the right to royalties, the Leases or the field of activity include, inter alia, items that are not known to the Company at first hand.

C. Within the framework of the agreement for the transfer of royalties, Delek Energy has undertaken to pass the Company information, which is required by it for the purpose of complying with the disclosure requirements in respect of the right to royalties, as a matter of routine, insofar as this may be required and so long as the said disclosures requirements also apply to Delek Energy.

[11] Section 8 of the Company's articles of association determines that insofar as Delek Energy or another corporation that is controlled by Delek Energy holds more than 12% of the Company's issued and paid up share capital, then the shares that are held by it at a rate exceeding 12% will not afford it any voting rights whatsoever so long as they are held by it. This section of the articles of association may be changed by a general meeting of the Company's shareholders by a majority of 95% of the shareholders participating and voting in the meeting, and neither the shares that are held by Delek Energy and nor the shares held by another corporation that is controlled by it are to be taken into account in the count of the votes.

Following the full purchase offer that the Delek Group executed for shares in Delek Energy, Delek Energy became a private company in October 2018, all of the issued and paid capital in which is held by the Delek Group. Further to this, in November 2018, Delek Energy executed an early redemption of its marketable bonds and following this Delek Energy is no longer a "reporting entity", which is subject to the reporting duties pursuant to the Securities Law.

Following the events that are described above, the Delek Group informed the Company that it was prepared to take Delek Energy's place in connection with the commitment to provide information to the Company, i.e. – as from the time at which the disclosure requirement cease to apply to Delek Energy, the Delek Group will pass the information that is required to the Company as a matter of routine, for the purpose of complying with the disclosure requirements in respect of the right to royalties, insofar as may be required and sol long as the said disclosure requirements also apply to the Delek Group, and this under the force of its holding in rights that participate in the Tamar and/or the Dalit Leases, as the case may be, directly and/or indirectly through corporations under its control, and except under the force of its right to royalties, insofar as there may be such (it is clarified that this include Cohen Gas and Petroleum Development Ltd.).

D. If and insofar as any disclosure requirements whatsoever may apply to the Company in the future, including those that apply today and the Delek Group does not provide the said information to the Company, the Company is to take all of the action that is necessary in order to comply with the disclosure requirements that may apply to it, including, if necessary and as the case may be, the Company is to act with the objective of contacting any of the partners in the Lease in order to receive the information and/or it is to contact professional consultants and experts who are familiar with the local petroleum and gas industry and/or it is to take action to obtain the information that is required from official reports that have been published by the partners in the Leases (some of which are reporting corporations) and/or it is to refer with a demand for the receipt of the information that is required from Delek Drilling and Tamar Petroleum, to which the duty to pay the royalties applies (or whoever may replace them in the future). It should be mentioned on this matter that according to the initial advice, which the Company has received, the Company has a right, under the force of the provisions of the agreement and the law, to receive information regarding the petroleum assets from the bodies that are committed to paying the royalties in respect of the said assets.

E. As of the time of the publication of the report, the Company is examining activity on a number of planes in for the purpose of a long-term arrangement regarding the manner of the receipt of the information that is required for the purpose of the disclosure requirements.

6.8 <u>The absence of control in respect of the management of petroleum assets</u>

It should be emphasized that the Company, as the owner of the right to royalties, has no impact at all on the manner of the management of the petroleum assets and it is not able to ensure that the terms of the Leases will not be breached by the payers of the royalties and /or to prevent the forfeiture of the petroleum assets in such cases.

6.9 <u>The applicability of the Taxation of Profits from Natural Resources Law</u>

In accordance with the Taxation of Profits from Natural Resources Law, the royalties that are paid to the Company constitute a "derivative payment, within the meaning of that term in the Taxation of Profits from Natural Resources Law, and accordingly, a duty applies to the Company as the owner of a right to royalties to pay a levy in respect thereof, in an amount that is equivalent to the multiple of the derivative payment by the levy rate that applies in respect of an petroleum project in the tax year in which the payment is received.

6.10 <u>The impact of the project expenses in the petroleum assets on the right to royalties.</u>

Exploration, development and production expenses of any sort, which apply to the partners in projects to which the Company's right to the royalty applies (hereinafter: "**The project expenses**"), are not deducted from the Company's right to royalties. Even though the owner of the right to the royalties does not bear the project expenses, as mentioned above, the level and the timing of the project expenses have an indirect impact on the royalties that are paid, in a number of main parameters, as is detailed below:

A. In the Tethys Sea project, the Commissioner of Petroleum Affairs adopted the English formula principles, pursuant to which an increase in the project expenses will have an adverse impact on the Company, since it is a factor behind an increase in the expenses that are recognized for deduction as annual depreciation, and as a result of this the effective royalty rate is reduced. As of the time of the publication of the report, the partners in Tamar are holding discussions with the Commissioner of Petroleum Affairs in respect of the manner of the calculation of the market value of the royalty at the wellhead in the Tamar Project and therefore it is not possible to assess how the value at the wellhead of the royalty to the State will be calculated in the Tamar Project, and what the impact (if any) of the project expenses will be on the effective royalty rate.

B. As mentioned above, a duty to pay a levy applies to the Company as the owner of royalties pursuant to the Taxation of Profits from Natural Resources Law (hereinafter, in this Section: "**The levy**"), which is derived from the rate of the levy that applies in respect of the Tamar Project, and accordingly, the project investments and expenses may have an impact on the level of the levy that the Company pays and on the timing thereof. An increase in the project investments and expenses may have a positive impact on the Company since it moderates the pace of growth in the levy factor and the levy rates that are derived therefrom. It should be mentioned that this impact only exists in respect of a particular petroleum asset, but only so long as the levy that applies in that asset has not yet reached the maximum level of the levy.

6.11 The results of the transfer of the payers of the royalties rights in the petroleum assets to third parties

As stated above, pursuant to the agreement for the transfer of the licenses and the royalties deed, the right to the loyalties is linked to the payers of the royalties' share in the Tamar and Dalit Leases, and if one of the payers of the royalties transfers its rights in an petroleum asset, it is required to so cause it that the recipient of the transfer will take all of the commitments to pay the royalties upon itself, as aforesaid. In accordance with the joint operation agreement in the Tamar Project, the aforesaid will not apply in the event of the forfeiture of an asset as a result of an arrear by one of the payers of the royalties. Accordingly, it is clarified that in the event that Delek Drilling's and/or Tamar Petroleum's rights in the Tamar Lease and/or in the Dalit Lease are forfeited, then the Company's right to receive royalties from the said rights may expire. It should be mentioned that the impact of the Corona virus on the economic position of the payers of the royalties and on their compliance with the agreements may have implications for the royalties that the Company will receive. See above regarding the possible implications of the Corona virus.

It should be clarified that the payers of the royalties are entitled to transfer their rights in the petroleum asset to any third party whatsoever, in whole or in part, without the need for receiving the Company's agreement as the owner of the right to royalties, and solely that the transfer of the rights is to be subject to the right to the royalties and in accordance with the payers of the royalties commitments to the Company pursuant to the agreement for the transfer of the licenses, the royalties deed and the Company's rights.

6.12 The absence of a right to receive insurance receipts

Insurances that are acquired by the partners in the petroleum assets in which the right to the royalties applies, for the covering of certain insurance events that may occur within the framework of the exploration, development and production activities in the petroleum assets, do not afford the Company any rights whatsoever and they do not entitle it to any compensation whatsoever in respect of damages or losses that may be caused to it in such cases.

However, within the framework of the provisions of the trust deed for the bonds (Series A), the Company has undertaken to commit itself under an insurance policy to cover a decrease in production in the Tamar Lease as a result of physical, accidental and unexpected damage to property in the Tamar Lease, that is covered by an "all risks" type policy for property and a policy covering loss of control over a well as is customer in policies of the Israeli partners in Tamar.

6.13 Especial arrangements in respect of the right to receive royalties from the payers of the royalties in respect of the Tamar Lease

A. Within the context of the loans that Delek Drilling has taken up, which are collateralized by a first rankling fixed lien on its rights in the Tamar project, first ranking fixed liens were created and registered in the past in support of the owners of the royalties on Delek Drilling's rights in the Tamar Lease as collateral for the payment of the royalties in those petroleum assets, and agreements have been signed, which arrange the relationships between the owner of the royalties and the financers in relation to the liens and the exercise thereof. It is clarified that the registration of the lien in support of the owners of the royalties was done at the demand of the bodies that made the financing available to Delek Drilling, and it did not derive from a right that is afforded to the owners of the royalties. Accordingly, the registration of the liens, as stated in Section above, the Company has joined as a party to the abovementioned arrangements with the financers.

B. No lien has been registered in the Petroleum Registry in support of the Company in respect of its right to receive royalties from Tamar Petroleum's share in the Tamar Lease. However, within the framework of the trust deed for the bonds (Series A), it has been determined as follows: (1) in the order of payments, the royalties to the Company have precedence over payments of principal and interest to the holders of the bonds (Series A); (2) in the course of the enforcement of liens (which have been registered in support of the holders of the bonds (Series A)), on Tamar Petroleum's rights in the Tamar and the Dalit Leases, insofar as there may be any such, such rights may be transferred subject to the Company's rights to royalties, and no transfer of the Company's right to royalties will be permitted, except to a transferee who has taken all of Tamar Petroleum's commitment, pursuant to the royalties agreements under which the Company is entitled to royalties, upon itself, and that at any time up to the time of the sale of the charged assets, there shall be monies in Tamar Petroleum's accounts that derive from sales that have been made to consumers pursuant to the existing agreements and out of which the royalties are supposed to be paid to the Company, an officer who is to be appointed is to take all of the measures that are required in order for the royalties to continue to be paid to the Company. Such provisions may not be changes except with the Company's agreement.

7. Details regarding the petroleum assets that are held by the Company

7.1 The Tamar and Dalit Leases

The Company does not hold rights in the Tamar Reservoir directly, and the Company does not have any impact on the manner of the management of the Tamar Reservoir. Accordingly, the information and the assessments that are included in this Section are based on public data, which has been published by the partners in Tamar, up to the time of the publication of this report.

A. General

The Tamar Lease	
General details regarding the petroleum asset	
Name of the petroleum asset:	The Tamar Lease[15]
Location:	A maritime asset, approximately 90 kilometers to the West of the shoreline in Haifa, at a depth of 1,670 meters.
Area:	Approximately 250 square kilometers
Type of petroleum asset and description of the activities that are permitted for this type:	Lease; Activity that is permitted pursuant to the Petroleum – Explorations and Production Law.
Dates of the original grant of the petroleum asset:	21.12.2009

[15] Natural gas fields were found in the area of the Tamar holding – Tamar and Tamar SW in the years 2009 and 2013, respectively.

The Tamar Lease	
General details regarding the petroleum asset	
Date of the original expiry of the petroleum asset:	1.12.2038
Dates on which it was decided to extend the period of the petroleum asset:	-
Current date of the expiry of the petroleum asset:	1.12.2038
Mention whether an additional possibility exists for the extension of the period of the petroleum asset; if such a possibility exists, note the period of the possible extension.	Subject to the Petroleum Law, by an additional 20 years
Mention the name of the operator:	Noble Energy Mediterranean (hereinafter: "**Noble**")[16]
Mention the names of the direct partners in the petroleum asset and their direct share in the petroleum assert, and also, to the best of the Company's knowledge, the names of the controlling interests in the said partners.	▪ Isramco Negev 2, Limited Partnership (hereinafter: "**Isramco**") (28.75%) ▪ Noble (25%) ▪ Delek Drilling (22%) ▪ Tamar Petroleum (16.75%) ▪ For Gas Exploration, Limited Partnership (hereinafter: "**Dor**") (4%) ▪ Everest Infrastructures – Limited Partnership (hereinafter: "**Everest**") (3.5%)

The Tamar Lease	
General details regarding the Partnership's share in the petroleum asset	
For a Lease in an petroleum asset that has been acquired – mention the date of the acquisition	7.6.2018, in accordance with the agreement for the transfer of the royalties.
Description of the substance and the manner of the Company's Lease in the petroleum asset:	By means of the right to royalties.
Mention the actual part that is attributed to the Company in the revenues from the petroleum asset:	1.52% (i.e. the royalty rate that applies after the time of the return of the investment).

The Dalit Lease	
General details regarding the Partnership's share in the petroleum asset	
Name of the petroleum asset:	The Dalit Lease[22]
Location:	A maritime asset, approximately 50 kilometers to the West of the shoreline in Haifa.
Area:	Approximately 250 square kilometers
Type of petroleum asset and description of the activities	Lease;

[16] Noble is a wholly owned subsidiary of Noble Energy Inc. (hereinafter: "**Noble Energy**"), a public company whose shares are traded on the NYSE. To the best of the Company's knowledge, Noble Energy does not have a controlling interest

[22] The Dalit gas reservoir was discovered in the area of the Dalit Lease in the year 2009.

that are permitted for this type:	Activity that is permitted pursuant to the Petroleum – Explorations and Production Law.
Dates of the original grant of the petroleum asset:	21.12.2009
Date of the original expiry of the petroleum asset:	1.12.2038
Dates on which it was decided to extend the period of the petroleum asset:	-
Current date of the expiry of the petroleum asset:	1.12.2038
Mention whether an additional possibility exists for the extension of the period of the petroleum asset; if such a possibility exists, note the period of the possible extension.	Subject to the Petroleum Law, by an additional 20 years
Mention the name of the operator:	Noble

The Dalit Lease	
General details regarding the Partnership's share in the petroleum asset	
Mention the names of the direct partners in the petroleum asset and their direct share in the petroleum assert, and also, to the best of the Company's knowledge, the names of the controlling interests in the said partners.	▪ Isramco (28.75%) ▪ Noble (25%) ▪ Delek Drilling (22%) ▪ Tamar Petroleum (16.75%) ▪ Dor (4%) ▪ Everest (3.5%)

The Tamar Lease	
General details regarding the Partnership's share in the petroleum asset	
For a Lease in an petroleum asset that has been acquired – mention the date of the acquisition	7.6.2018, in accordance with the agreement for the transfer of the royalties.
Description of the substance and the manner of the Company's Lease in the petroleum asset:	By means of the right to royalties.
Mention the actual part that is attributed to the Company in the revenues from the petroleum asset:	Before the return of the investment – 0.35% After the return of the investment – 1.52%

B. The rate that is actually attributed to the Company in the revenues from the Tamar Project

As mentioned above, the Company does not hold a right directly in the payers of the royalties' petroleum assets and it does not bear any expenses whatsoever in connection with the exploration, development and production activities in the petroleum assets. The right to the royalties affords the Company certain percentages from the payers of the royalties' share of the petroleum and/or natural gas and/or other valuable materials, which may be produced and exploited from the Tamar and Dalit Leases.

1. Details are presented in the following table regarding the rate of the actual attribution to the Company out of the revenues from the Tamar Lease (the following date are calculated in accordance with the royalty rate after the return of the investment):

Item	**Percentage**	**Explanations**
Total revenues from the sale of gas in the Tamar Lease	100%	
The rate of Delek Drilling's rights in the Tamar Lease	22%	
The rate of Tamar Petroleum's rights in the Tamar Lease to which the right to royalties applies	9.25%	

Total revenues from the sale of gas in the Tamar Lease	31.25%	
The rate of the royalty to which the Company is entitled out of the payers of the royalties' shares	4.875%	
The rate that is actually attributed to the Company out of the revenues from the Tamar Lease project	1.52% (Of which Delek Drilling is committed to a payment of 1.07% and Tamar Petroleum is committed to a payment of 0.45%	Calculated in accordance with the royalty rate that the Company is entitled to out of Delek Drilling's share, as detailed above, multiplied by the rate of Delek Drilling's rights in the petroleum asset, as detailed above, with the addition of the rate to which the Company is entitled to out of Tamar Petroleum's share, as detailed above, multiplied by the rate of Tamar Petroleum's rights in the petroleum asset, which are subject to the right to royalties (i.e. 9.25%). It should be emphasized that the actual rate of the royalties that are paid to the Company is lower, as a result of the calculation of the payment in accordance with the value of the royalty at the wellhead, similarly to the manner in which the royalties to the State are calculated.

2. Details are presented in the following table regarding the rate of the actual attribution to the Company out of the revenues from the Dalit Lease:

Item	**Before the return of the investment**	**After the return of the investment**	**Explanations**
Total revenues from the sale of gas in the Dalit Lease	100%	100%	
The rate of Delek Drilling's rights in the Dalit Lease	22%	22%	
The rate of Tamar Petroleum's rights in the Dalit Lease to which the right to royalties applies	9.25%	9.25%	
	----------------	-----------------	
Total revenues from the sale of gas in the Dalit Lease	31.25%	31.25%	
The rate of the royalty to which the Company is entitled out of the payers of the royalties' shares	1.125%	4.875%	
The rate that is actually attributed to the Company out of the revenues from the Dalit Lease project	0.35% (Of which Delek Drilling is committed to a payment of 0.247% and Tamar Petroleum is committed to a payment of 0.104%	1.52% (Of which Delek Drilling is committed to a payment of 1.07% and Tamar Petroleum is committed to a payment of 0.45%	Calculated in accordance with the royalty rate that the Company is entitled to out of Delek Drilling's share, as detailed above, multiplied by the rate of Delek Drilling's rights in the petroleum asset, as detailed above, with the addition of the rate to which the Company is entitled to out of Tamar Petroleum's share, as detailed above, multiplied by the rate of Tamar Petroleum's rights in the petroleum asset, which are subject to the right to royalties (i.e. 9.25%). It should be emphasized that the actual rate of the royalties that are paid to the Company is lower, as a result of the calculation of the payment in accordance with the value of the royalty at the wellhead, similarly to the manner in which the royalties to the State are calculated.

C. Reserves, conditional and predicted resources in the Tamar Project

1. Reserves in the Tamar Lease

(a) Quantitative data

For details regarding the natural gas and condensate reserves in the Tamar Project, as of 31.12.2019, see the Tamar Project's reserves report, which was prepared for Delek Drilling by NSAI, which is attached as an appendix to Delek Drilling's immediate report of 10.1.2020 (Document No.: 2020-01-004515), and the immediate report of 6.3.2019, the information in both of which is presented hereby by way of the referral. NSAI's agreement to the inclusion of this reserves report (including by way of referral) as well as a letter dated 30.3.2020, which the Company had received from NSAI regarding the absence of significant changes in the production profile in the Tamar Project, is attached as an Appendix to this report.

(b) Discounted cash flows and production data

For details regarding the estimated discounted cash flows, which are attributed to the Company's revenues from the royalties from the natural gas and condensate reserves in the Tamar Project, as of 31.12.2019 and the production data in the Tamar Project, which are attributed to the Company, see the immediate report of 10.1.20, the information in which is presented hereby by way of the referral. It should be clarified in relation to the discounted cash flows that for the purpose of the calculation of the forecasts regarding the prices in the immediate report of 10.1.2020, the payers of the royalties have made use of assumptions, which are based on data that have been received from a consultancy company, which are based on the weighting of data from a number of public and private bodies.

(c) Additional sensitivity analyses for the discounted cash flows in the Tamar Project

It should be mentioned that in the recent period, sharp declines have been recorded in the financial markets as well as very sharp falls in the prices of petroleum and natural gas in the international markets. It should further be mentioned that the financial markets and the prices of the abovementioned commodities have been subject to very high levels of fluctuation in recent weeks, which has been because of the high level of uncertainty that is prevalent regarding the extent of the negative impact of the Corona pandemic on the global and local.

Accordingly, in the Company's assessment, it is not yet possible to assess the extent of the impact of the abovementioned events on the discounted cash flows. However, in light of the sharp falls and the fluctuations in the prices of Brent petroleum, which have occurred in the period that started after the publication of the discounted cash flows and up to a time shortly before the publication of the report, sensitivity analyses for the discounted cash flows in relation to the Company's revenues from the Tamar Project in connection with the Brent price are presented below[23]:

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[23] Regarding the abovementioned sensitivity analyses, it should be mentioned as follows:

A. Except for the change in the Brent price, no changes have been made in the other parameters in the forecast cash flows.

(1) Data on forecast cash flows as appeared in the report dated 10.1.2020 (in thousands of Dollars):

Sensitivity/ Category	Present value discounted at 0%	Present value discounted at 5%	Present value discounted at 10%	Present value discounted at 15%	Present value discounted at 20%
P1 Proved Reserves	303,131	190,251	132,991	100,728	80,878
Probable Reserves	111,522	36,552	12,704	4,474	1,442
P2 Total Proved + Probable Reserves	414,653	226,803	145,694	105,202	82,321
Possible Reserves	99,564	23,116	5,882	1,622	479
P3 Total Proved + Probable + Possible Reserves	514,217	249,918	151,576	106,824	82,799

B. As a result of the change in the Brent price, it has been assumed that there will be a reduction in the forecast quantities that will be sold pursuant to the amended Tamar- Dolphinus agreement to the minimum that is binding under the agreement, which enables Dolphinus, inter alia, to reduce the take or pay quantity in a year in which the daily average Brent price (as defined in the agreement) has fallen below 50 dollars, such that it will stand at 50% of the forecast annual sales. It should be mentioned that within the framework of the sensitivity analysis that has been done for the conditional resources, (which include reserves), it has been assumed that part of the quantities of natural gas that will not be sold to Dolphinus as a result of the reduction of the quantities will be sold in the local market, including relating to BDO's demand forecasts.

C. The impact of the change in the Brent price derives primarily from protections relating to the sale of natural gas under the existing and future agreements regarding the Tamar Reserve, in which there is linkage to the Brent price, with an emphasis on the Tamar- Dolphinus agreement and subject to a "floor price", as well as revenues from the sale of condensates.

(2) Sensitivity analysis on the Brent price curve (in thousands of Dollars)[24]:

Sensitivity/ Category	Present value discounted at 0%	Present value discounted at 5%	Present value discounted at 10%	Present value discounted at 15%	Present value discounted at 20%
P1 Proved Reserves	276,859	175,946	124,235	94,830	76,593
Probable Reserves	92,686	30,344	10,465	3,601	1,078
P2 Total Proved + Probable Reserves	369,545	206,290	134,701	98,430	77,671
Possible Reserves	80,172	18,638	4,736	1,295	372
P3 Total Proved + Probable + Possible Reserves	449,718	224,928	139,437	99,725	78,043

(3) Sensitivity analysis in accordance with a Brent price of 25 Dollars a barrel, fixed for the entire length of the production period (in thousands of Dollars):

Sensitivity/ Category	Present value discounted at 0%	Present value discounted at 5%	Present value discounted at 10%	Present value discounted at 15%	Present value discounted at 20%
P1 Proved Reserves	276,525	175,681	123,996	94,608	76,389
Probable Reserves	92,106	30,148	10,393	3,572	1,066
P2 Total Proved + Probable Reserves	368,631	205,829	134,389	98,181	77,456
Possible Reserves	79,690	18,522	4,705	1,285	368
P3 Total Proved + Probable + Possible Reserves	449,718	224,928	139,437	99,725	78,043

2. Conditional and predicted resources in the Dalit Lease

For details regarding conditional and predicted reserves in the Dalit Lease, as of 31.12.2017, see the conditional and predicted reserves report, which was prepared for Delek Drilling by NSAI (hereinafter in this Section: "**The resources report**"), which is included in Delek Drilling's periodic report as of 31.12.2017, as published on 21.3.2018 (Document No.: 2018-01-022209), and Section 6.8.1.F.2 of the prospectus, the information in which is presented herby by way of the referral. In Delek Drilling's assessment, as of 31.12.2019, no change whatsoever has occurred in the abovementioned details. NSAI's agreement to the inclusion of this resources report in this report (including by way of referral) is attached as an appendix to this report.

[24] The updated Brent price curve is based on the forward prices for the Brent, as of 17.3.2020. The forward prices that have been taken into account are approximately 34.8 Dollars a barrel in 2020, approximately 41.1 Dollars a barrel in 2021, approximately 44.8 Dollars a barrel in 2022, approximately 47.7 Dollars a barrel in 2023, approximately 49.8 Dollars a barrel in 2024 and 50 Dollars a barrel throughout the remaining period.

8. Business targets and strategy

The Company intends to continue to operate in the field if engagement of the holding of rights to receive royalties from corporations that are engaged in the petroleum and gas field, with an emphasis on producing assets and those that are in advances stages of development, and it is ambitious to increase and to diversify its holdings in this field, both in Israel and also outside of Israel.

9. Insurance cover

From time to time, the Company arranges insurances in the energy field and cover for exposure in respect of loss of profits in the event that there may be a halting of or reduction in the production of natural gas in the Tamar Lease. The loss of profits cover has only been arranged against the possible risks, as is customary in the gas and petroleum production sector.

Within the framework of the Company's commitments pursuant to the trust deed for the bonds (Series A), the Company has undertaken to commit itself under an insurance policy covering a reduction in the output in the Tamar Lease as a result of accidental and unexpected damage to the property in the Tamar Lease, which is covered by an "all risks" type policy for property and a policy covering loss of control over a well, as is customary in the Israeli partners in Tamar's policies. The period in which the policy covers a decrease in production is to be in effect is an indemnification period of 12 months after a self-deductible as detailed below. The amount of the insurance may not be less than the amount that is required to service the debt (principal and interest) to the holders of the bonds (Series A) in the indemnification period (except for the last year of the life of the bonds, in which the amount of the insurance is to cover an amount for interest and for principal, which is equivalent to the amount of the principal in the previous year). The insurance receipts in the policy have been charged in support of the trustee. In the event that an insurance event has occurred in a policy, which has been arranged by the Company, as mentioned above, the Company is to open an especial account in which the insurance receipts, which may be received from the insurers in connection with such insurance events are to be deposited, which is to be charged under a first ranking fixed lien in support of the trustee for the bonds. The self-deductible in the policy is at the level of 60 days from the day on which the insurance event occurred. The Company undertakes to re-operate the effectiveness of the policy for an additional period, however this is subject to the availability of insurance in the energy insurance and of reasonable economic terms and with the agreement of the partners in Tamar.

In addition, because of the very dependency of the Company on the actual production from the Tamar Lease, the Company is dependent upon the maintenance of appropriate insurance by the partners in Tamar, which will enable the return to operations following an insurance event, including the re-establishment of facilities that have suffered physical damage and cover for liability to a third party. There is no certainty that the partners in Tamar will purchase such insurance or that it will even be possible to purchase such insurance.

Delek Royalties (2012) Ltd.

Financial Statements as of December 31, 2019

In thousands of US Dollars

<u>Delek Royalties (2012) Ltd.</u>

<u>Financial Statements as of December 31, 2019</u>

<u>In thousands of US Dollars</u>

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

We have audited the accompanying consolidated statements of financial position of Delek Royalties (2012) Ltd. (hereinafter – "**The Company**") as of December 31, 2019 and 2018 and the statements of comprehensive income, changes in equity and the statements of cash flows for each of the three years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was made in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 Company's Board of Directors and Management as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, the abovementioned consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018 and the results of its operations, the changes in its equity and its cash flows for each of the three years for the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS), and the provisions of the Securities Regulations (Annual Financial Statements) – 2010.

Tel-Aviv, March 30, 2020

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

Delek Royalties (2012) Ltd.

Statements of Financial Position (in thousands of Dollars)

	Note	As of December 31 2019	As of December 31 2018
Assets			
Current assets:			
Cash and cash equivalents	15A	5,323	5,428
Short-term deposits	15A	6,230	4,226
Income tax receivable		-	587
Trade and other receivables	4	2,567	2,482
		14,120	12,723
Non-current assets:			
Investments in petroleum and gas assets (rights to receive ultimate royalties)	5	154,001	159,509
Deposits, the use of which is restricted	15A	6,599	6,313
Right of use asset		200	-
Fixed assets		11	17
Deferred taxes	13G	366	-
		161,177	165,839
		175,297	178,562
Liabilities and equity:			
Current liabilities:			
Current maturities of bonds	8	13,009	13,340
Trade and other payables	6	3,769	3,388
Income tax payable		632	-
		17,410	16,728
Non-current liabilities:			
Bonds	8	79,792	92,797
Deferred taxes	13G	-	2,063
Leasing liabilities		169	-
		79,961	94,860
Equity	9		
Share capital		5,595	5,595
Share premium		55,217	55,217
Retained earnings		17,114	6,162
		77,926	66,974
		175,297	178,562

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

March 30, 2020			
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.

Statements of Comprehensive Income (in thousands of Dollars, except for earnings per share)

	Note	For the year ended December 31 2019	(*) 2018	(*) 2017
Royalties from the sale of natural gas and condensate	10	28,946	16,205	-
Expenses and costs:				
Depletion expenses	5A	5,282	3,138	-
Administrative and general expenses	11	1,048	552	-
Total expenses and costs		6,330	3,690	-
Operating income		22,616	12,515	-
Financing expenses	12	(5,704)	(3,882)	-
Financing income	12	352	149	-
Financing expenses, net		(5,352)	(3,733)	
Income before taxes on income		17,264	8,782	-
Taxes on income	13	(2,732)	2,620	-
Total net and comprehensive income		14,532	6,162	-
Earnings per regular share of par value NIS 1 (basic and diluted), attributed to the shareholders in the Company (in Dollars)	14	0.73	0.54	-

(*) The Company commenced its operations on June 7, 2018, as stated in Note 1B.

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

Delek Royalties (2012) Ltd.

Statements of Changes Equity (in thousands of Dollars)

	Regular share capital	Share premium	Retained earnings	Total
For the year ended December 31, 2019:				
Balance as of January 1, 2019	5,595	55,217	6,162	66,974
Net and comprehensive income	-	-	14,532	14,532
Dividend distributed (see Note 9D)	-	-	(3,580)	(3,580)
Balance as of December 31, 2019	5,595	55,217	6,162	77,926

	Regular share capital	Share premium	Retained earnings	Total
For the year ended December 31, 2018 (*):				
Balance as of January 1, 2018	(**)	-	-	(**)
Net and comprehensive income	-	-	6,162	6,162
Issuance of shares, net (see Note 3C)	5,595	55,217	-	60,812
Balance as of December 31, 2018	5,595	55,217	6,162	66,974

	Regular share capital	Share premium	Retained earnings	Total
For the year ended December 31, 2017:				
Balance as of January 1, 2017	(**)	-	-	(**)
Net and comprehensive income	-	-	-	-
Balance as of December 31, 2017	(**)	-	-	(**)

(*) The Company commenced its operations on June 7, 2018, as stated in Note 1B.

(**) Represents an amount of less than one thousand Dollars.

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

Delek Royalties (2012) Ltd.

Statements of Cash Flows (in thousands of Dollars)

	For the year ended December 31		
	2019	**(*) 2018**	**(*) 2017**
Cash flows from operating activities:			
Total comprehensive income for the period	14,532	6,162	-
Adjustments for:			
Depletion depreciation	5,342	3,139	-
Deferred taxes, net	2,732	2,620	-
Financing expenses, net	5,352	3,733	-
Changes in assets and liabilities:		-	
Increase in other receivables	(85)	(2,482)	-
Increase (decrease) in other payables	(72)	939	-
Cash paid in the period for:		-	
Income tax paid	(3,809)	(1,129)	-
Refund received from the Tax Authorities	686	-	
	10,146	6,820	-
Net cash generated (absorbed) by operating activities	24,678	12,982	-
Cash flows from investment activities			
Acquisition of right to receive royalties (see Note 3)	-	(137,874)	-
Deposit in deposits, net	(2,290)	(10,539)	-
Interest received	352	149	-
Purchase of fixed assets	-	(18)	-
Net cash absorbed by investment activities	(1,938)	(148,282)	-
Cash flows from financing activities			
Issuance of bonds (less issuance expenses) (see Note 8)	-	118,067	-
Purchase of bonds that have been issued (see Note 8H)	-	(6,465)	-
Repayment of bonds	(13,531)	(5,740)	-
Interest paid	(5,705)	(1,561)	-
Issuance of shares, net (see Note 3C)	-	36,531	-
Repayment of leasing liabilities	(62)	-	
Dividend distributed (see Note 9D)	(3,580)	-	
Cash flows generated (absorbed) by financing activities	(22,878)	140,832	-
Increase (decrease) in cash and cash equivalents	(138)	5,532	-
Balance of cash and cash equivalents at the beginning of the year	5,428	-	-
Exchange differences on cash and cash equivalents balances	33	(104)	-
Balance of cash and cash equivalents at the end of the year	5,323	5,428	-
Appendix A – Financing and investment activities not involving cash flows:			
Issuance of shares as party of the consideration for the acquisition of rights to receive royalties	-	24,281	-
Increase (decrease) in liability in connection with an effective royalty at the wellhead that has been recorded against petroleum and gas assets (rights to receive royalties)	(226)	469	-
Increase in leasing liability recorded against a right of use asset	33	-	

(*) The Company commenced its operations on June 7, 2018, as stated in Note 1B.

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

Note 1 – General

A. Delek Royalties (2012) Ltd. (hereinafter: "**The Company**") was established on November 6, 2012 as a private company that is limited by shares. In June 2018, after the Company had issued bonds and shares to the Company, which have been listed for trading on the Tel-Aviv Stock Exchange Ltd. (hereinafter: "**The Stock Exchange**"), the Company became a public company within the meaning of that term in the Companies Law, 5759 – 1999 (hereinafter: "**The Companies Law**"), and a reporting corporation, within the meaning of that term in the Securities Law, 5728 – 1968.

B. The Company commenced its business operations on June 7, 2018, upon the compliance with the crucial terms for an agreement that was signed between Delek Energy Systems Ltd. (hereinafter: "**Delek Energy**") and the Company, pursuant to which, Delek Energy irrevocably endorsed its right to receive royalties at a rate of 1.125% before the return of the investment and 4.875% after the return of the investment (see Note 3G for details), from Delek Drilling Limited Partnership's share (22%) (a partnership that is under the control of Delek Energy, hereinafter: "**Delek Drilling**") and from Tamar Petroleum Ltd.'s share that is chargeable with royalties (9.25%) (hereinafter: "**Tamar Petroleum**") (hereinafter, together: "**The payers of the royalties**") in petroleum and/or gas and/or in other valuable materials, which may be produced and exploited from the petroleum asset from the I/12 leases "Tamar" and from the I/13 leases "Dalit" (hereinafter: "**The Tamar Lease**" and "**The Dalit Lease**", respectively) (hereinafter: "**The Rights to Royalties**").

On June 7, 2018, the Rights to Royalties that had been acquired by the Company from Delek Energy were registered in the Petroleum Register, which is maintained pursuant to the Petroleum Law, 5712 – 1952 (hereinafter: "**The Petroleum Register**").

C. Pursuant to the Company's articles of association (hereinafter: "**The articles**"), the Company's objective is to hold rights to receive royalties of companies that are engaged in the petroleum and gas field. Accordingly, as of the time of the approval of the report, the Company's sole field of activity is the holding of a right to receive royalties is relation to petroleum and/or gas and/or other valuable materials, which may be produced and utilized from the payers of the royalties shares in the Tamar and Dalit leases. Accordingly, the Company's revenues are dependent on the revenues from petroleum and/or gas and/or other valuable materials, which may be produced, if any are produced, and from the payers of the royalties' and the other partners in the rights that have been acquired and/or which may be acquired in the future's operations.

D. See Notes 3 and 8 below for additional details regarding the acquisition of the Rights to Royalties and regarding the securities that have been issued by the Company in that framework.

E. Delek Energy holds approximately 39.93% of the Company’s issued and paid-up share capital, where Delek Energy has waived the characteristics of control in the Company, including voting in general meetings and the right to appoint directors. It is clarified that all of the capital rights that are ancillary to the shares, as aforesaid, will remain in force and that upon the transfer or the sale of the said shares to a third party, they will also afford the transferee the full voting rights that are attached to them. See Note 9C below for additional details.

F. As of December 31, 2019, the Company had a working capital deficit of approximately 3,290 thousand Dollars. Within the context of a discussion that the Company's Board of Directors held in its meeting on March 30, 2020, the Board of Directors determined that the working capital deficit does not indicate a liquidity problem, which it determined after examining the Company's forecast cash flows for the next two years, according to which, as part of the Company's routine activity, it expects to receive ultimate royalties in respect of the Tamar Project, on a scale that will cover, inter alia, the settlement of its liabilities and the financing of its operating activities. It should be mentioned that the Company had positive cash flows from operating activities in the reporting period and that after the payment of interest on the bonds (Series A), such total net cash flows amounted to approximately 18,973 thousand Dollars in the reporting period.

Note 1 – General (Continued)

G. Following the outbreak of the Corona virus in China in December 2019, and its spread to numerous additional countries, including Israel, during the first quarter of 2020, there has been a decrease in the volume of economic activity in many areas of the world, including in Israel. The decrease has been expressed in a slow-down in production, delays in shipments, a decrease in the global volume of transportation in general and in Israel in particular, which has been, inter alia, as a result of the "closure of the skies" of the State of Israel and as a result of this there has been a reduction in demand for energy, including natural gas. In addition, it is expected that, at least in the short term, there will be a depression in the prices of liquid natural gas in light of the global decline in demand and the increase in supply, primarily as a result of the cessation of the purchase of liquid natural gas by governmental energy companies in China. These events have caused, inter alia, sharp falls in the securities markets across the globe and in Israel. See Note 5D for details regarding the testing of the recoverable amount of the investments in petroleum and gas assets (rights to receive royalties) as of December 31, 2019, in light of the fact that the stock exchange, market value of the Company is significantly lower than the Company's shareholders' equity.

If the decrease in the volume of economic activity were to continue in the short-term, there may be a limited impact on the Company's results, however if such decrease in the volume of activity continues, that would have a negative impact on the Company's results and on the value of its assets.

In the Company's assessment, based on information published by the payers of the royalties, as of the time of the approval of the financial statements, taking into account the limited exposure to falls in the prices of the energy as a result of the existence of "floor" prices in respect of the prices of natural gas in most of the contracts for the sale of natural gas and also taking into account the commitments to purchase or pay (take or pay) minimal quantities of natural gas in the agreements for the sale of natural gas on a binding (firm) basis, the Company is expected to meet its financial commitments in the coming year at the least.

In the Company's assessment, if the Corona event were to continue in the long-term, this could cause an economic slow-down and even a global recession, which might have an impact on activity in the entire economy, including impairment of the economic resilience (and even the collapse) of the payers of the royalties' customers and suppliers and cause in increase in the prices of financing or effect its availability, which would have an adverse impact on the Company's activity and in the value of its assets.

As of the time of the approval of the financial statements, the Company is unable to assess the length of time and/or the possible impact on the Company's operating results and on the value of its assets.

Note 3 – Acquisition of rights to receive royalties

A. On June 7, 2018 all of the crucial terms were met for an agreement that was signed between Delek Energy and the Company, pursuant to which, Delek Energy irrevocably endorsed its right to receive royalties, as is, at a rate of 1.125% before the return of the investment and 4.875% after the return of the investment (see Section F below for details), from Delek Drilling Limited Partnership's share (22%) and from Tamar Petroleum Ltd.'s share, which is chargeable with royalties (9.25%) in petroleum and/or gas and/or in other valuable materials, which may be produced and exploited from the petroleum asset from the Tamar and Dalit Leases as well as all of the rights that are ancillary to the royalties rights, including the lien that has been registered in support of Delek Drilling in the Tamar Lease, which collateralizes Delek Drilling' commitments to pay royalties opposite the banks that are financing the Tamar Project, against the said payment (see Section C below) to Delek Energy, and subject to the same terms that Delek Energy held in the Rights to Royalties at the time of the signing of the agreement.

B. All of the Company's rights and indebtedness in respect of the Rights to Royalties will apply retrospectively, as from January 1, 2018 (hereinafter: "**The time of the entitlement to royalties**"), which includes that the Company will be entitled to every right and will bear every duty in relation to royalties that have been received in respect of petroleum and/or gas that has been sold after the Time of the Entitlement to Royalties (including any duty in respect of a petition that was submitted to the District Court in Tel-Aviv on June 18, 2014 for the approval of a class action by a consumer of the Electricity Corporation against the Partnership in the Tamar Project, insofar as there may be any, as stated in Note 7A1 below).

C. The value of the transaction in respect of the right to royalties amounted to approximately 174 million Dollars.

The Company paid cash of approximately 139 million Dollars to Delek Energy for the rights to the royalties, after deducting an amount of approximately 11 million Dollars, which is equivalent to the receipts from royalties in respect of gas that was sold between the Time of the Entitlement to Royalties and the time of the completion of the transaction, which were actually received by Delek Energy before the time of the completion of the transaction. The cash consideration was received both from the issuance of shares in the Company to the public, in an amount of approximately 37 million Dollars and also from the issuance of the Company's bonds (Series A) in an amount of approximately 113 million Dollars (see Note 8 below).

In addition, as part of the consideration for the acquisition of the rights the Company allocated 7,985,600 regular shares of par value NIS 1 each in the Company, constituting approximately 39.93% of the Company's issued and paid-up share capital after allocation, to Delek Energy. These shares did not afford Delek Energy voting rights in the Company (see Note 1E above for details). The value of the shares allocated amounted to approximately 24 million Dollars at the time of the allocation.

D. Delek Energy has undertaken to indemnify the Company for any damage or indebtedness that may be caused to the Company as a result of any claim, complaint or legal proceedings as a result of a breach of the representations that are detailed in the agreement. Delek Energy will not be liability for damages that may be caused to the Company as a result of a breach of the abovementioned representations until such damage exceeds 500 thousand Dollars (and in such a case, the liability will be limited to the amount that exceeds the abovementioned amount). Delek Energy's maximal liability in respect of the breach of such representations may not exceed the amount of the cash consideration that has been received for the rights to the royalties in any event.

E. Within the framework of the agreements between Delek Energy and Delek Drilling, Delek Drilling undertook to pay royalties to Delek Energy at the rates that are detailed below out of Delek Drilling' entire share of the petroleum and/or the natural gas and/or other valuable materials, which may be produced and may be exploited from the petroleum assets, in which Delek Drilling has or may have an interest in the future, before the deduction of royalties of any sort, but after the deduction of the petroleum, which may be used for the purposes of the production itself.

Note 3 – Acquisition of rights to receive royalties (Continued)

E. (Continued)

The abovementioned right to a royalty is attached, pursuant to those agreements, to Delek Drilling's share (22%) and Tamar Petroleum's share (9.25%), which are chargeable with royalties, in each of the petroleum assets. Even if Delek Drilling or Tamar Petroleum were to transfer their rights, which are chargeable with royalties in the petroleum asset, then the recipient of the transfer will take all of the commitments to pay such royalty upon itself.

The Company is entitled to elect to receive the royalty in kind, i.e., to receive part of the petroleum and/or of the natural gas and/or of the other valuable materials, which may be produced and which may be exploited from the petroleum asset. If the recipient of the royalty does not elect to receive the royalties in kind, the payer of the royalty is to pay the market value, at the wellhead, of the royalties that are due to it. Since the Company has elected not to receive the royalties from the Tamar Project in kind, Delek Drilling and Tamar Petroleum are paying it (the market value of the royalties, at the wellhead (see Note 10B below).

F. The rights to royalties in the Tamar and Dalit Leases to which the Company is entitled, are at a rate of 1.125% up to the time of the repayment of the investment and at a rate of 4.875% after the return of the investment, of Delek Drilling's and Tamar Petroleum's share in the asset, in respect of which the right to a royalty applies, as described above.

1. It has been determined in the agreement for the transfer of royalties that the royalties rate that the Company will be entitled to receive from the Tamar Lease will be in any event the royalties rate after the time of the return of the investment, such that if it becomes apparent that the time of the return of the investment in the Tamar Lease has occurred after January 1, 2018 (the Time of the Entitlement to Royalties), then Delek Energy will indemnify the Company, such that it will inject the royalty receipts that may be generated for the Company (including the indemnification, as aforesaid, from Delek Energy), will reflect the royalties rate after the time of the return of the investment in the Tamar Lease. It should be mentioned that after the date of the statement of financial position, on March 23, 2020, Midroog lowered the rating for the bonds issued by the Delek Group, which holds all (100%) of Delek Energy's share capital, from A2.il to Ca.il as a result of its assessment of a settlement default that is expected at a high level of certainty. It should be mentioned, in this connection, that on February 5, 2019, the Delek Group submitted a merger proposal to the Registrar of Companies, pursuant to which Delek Energy and an additional wholly owned subsidiary company will be merged with and into the Delek Group.

   It is clarified that the abovementioned commitment by Delek Energy does not apply in relation to the royalties from the Dalit Lease, if and when they may be paid in the future.

2. If it may be determined in the future that the Company is to return royalties that have been overpaid to it because the time of the return of the investment has occurred after the time of the entitlement to the royalties, Delek Energy will indemnify the Company for the said return of the royalties, even if such duty to indemnify crystallizes after the Time of the Entitlement to Royalties. In accordance with the updated evaluations, which have been published by Delek Drilling and Tamar Petroleum, in August 2019 and July 2019, respectively, the time of the return of the investment in the Tamar Project, on January 25, 2018 according to Delek Drilling, whereas according to Tamar Petroleum, it occurred on March 5, 2018 (and this instead of December 2017). Accordingly, and pursuant to the abovementioned indemnification, as of the time of the publication of the report, Delek Energy has paid a cumulative amount of approximately 3.1 million Dollars in respect of royalties, which according to the payers of the royalties' opinion, have been overpaid because the time of the return of the investment occurred after the Time of the Entitlement to Royalties,.

   Accordingly, the Delek Group Ltd. (hereinafter: "**The Delek Group**") and Delek Energy (hereinafter, together in this Section: "**The owners of the royalty**") have sent letters to the Company, in which the owners of the royalty have mentioned their objection to the deferral of the Time of the Return of the Investment, as aforesaid, and the payers of the royalties' right to make an offset, which has been done unlawfully.

Note 3 – Acquisition of rights to receive royalties (Continued)

F. (Continued)

2. (Continued)

It is further mentioned that if the payers of the royalties do not transfer the amounts that have been offset, the owners of the royalty will consider their steps in relation to the appropriate manner in which the abovementioned issue can be clarified.

As of the time of the approval of the financial statements, the aforesaid has not had an impact on the Company's statement of comprehensive income. It should be mentioned that if in the future it were to be determined that the Company is to return royalties that have been overpaid to it because the Time of the Return of the Investment ha occurred after the time of the entitlement to royalties, and Delek Energy were not to indemnify the Company in accordance with the said commitment, then the Company would be required to pay amounts on a significant scale to the payers of the royalties.

See Note 7A2 below, for details regarding legal proceedings on the subject of the timing of the return of the investment in the Tamar Project, which the party is a party to.

Notes to the Financial Statements as of December 31, 2019 (in thousands of Dollars)

Note 5 – Investments in petroleum and gas assets (rights to receive royalties)

A. **Composition:**

	2019	(**) 2018
Cost:		
Balance at the beginning of the period	162,647	-
Acquisition of Rights to Royalties in the Tamar and Dalit Leases (see Note 3 above)		162,178
Update of the provision for the effective royalty per wellhead for the period from January 1, 2018 to June 7, 2018 (see Note 10B below) (**)	(226)	469
Balance at the end of the period	162,421	162,647
Accumulated depreciation:		
Balance at the beginning of the period	3,138	-
Depletion in the period (*)	5,282	3,138
Balance at the end of the period	8,420	3,138
Net book value as of December 31	154,001	159,509
(*) Depletion rate of the asset in the period	3.3%	1.9%

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

B. **The following are main details regarding the Company's Rights to Royalties**

Name of the Lease	Type of right	Name of the right	Right effective until (1)	Delek Drilling's share in the petroleum asset (2)	Delek Drilling's share in the petroleum asset (2)	Total share from which the Company is entitled to royalties from the petroleum asset (3)
Tamar	Lease	Tamar I/12	1.12.2038	22%	16.75%	31.25%
Dalit	Lease	Dalit I/13	1.12.2038	22%	16.75%	31.25%

(1) The period of effectiveness of the petroleum rights is extended from time to time and it is conditional upon the fulfillment of certain commitments at times that are set in the terms of the petroleum asset. In the event of the non-fulfillment of the terms, the petroleum right may be cancelled.

(2) Delek Drilling's and Tamar Petroleum's share as of December 31, 2019 and 2018. See Note 3E above for additional details.

(3) The commitment to pay royalties to the Company applies to all of Delek Drilling's rights in the petroleum asset (22%) and to the rights in the petroleum asset, which Tamar Petroleum acquired from Delek Drilling (9.25%) and it does not apply to the rights that Tamar Petroleum acquired from Noble Energy Mediterranean Ltd. (hereinafter: "**Noble**") (7.5%).

C. 1. In accordance with a report dated January 10, 2020, which was prepared for Delek Drilling by Netherland Sewell & Associates Inc. (hereinafter: "**NSAI**"), which is an authorized appraiser of reserves and resources and an independent expert, in accordance with the SPE-PRMS principles, the natural gas reserves in the Tamar Project (which includes the Tamar and the Tamar SW reservoirs), which are classified as reserves on production, as of December 31, 2019, and which are classified as proved reserves, is approximately 219 BCM and the quantity of proved reserves + probable reserves is approximately 305 BCM.

Note 5 – Investments in petroleum and gas assets (rights to receive royalties) (Continued)

C. 1. (Continued)

In accordance with the abovementioned report, the reserves of condensate in the Tamar and Tamar SW reservoirs, what are classified as reserves on production, as of December 31, 2019, which are classified as proved reserves amount to approximately 10.1 million barrels and the quantity in the reserves that are classified as proved + possible reserves is approximately 14.0 million barrels.

The abovementioned reserves do not include the reserves that overlap with the Eran license. Pursuant to the data regarding Delek Drilling and Tamar Petroleum in the public domain, part of the reserves in the Tamar SW Reservoir overlap with the Eran License, which expired on June 14, 2013. Within the framework of the arbitration process involving the partners in the Eran license (hereinafter: "The partners in Eran") prior to its expiration, the partners in Eran approached the partners in Tamar with a request to receive their agreement to the distribution of the rights in the Tamar SW reservoir in a ratio of 78% for the Tamar Lease and 22% for the Eran license. In March 2019, the partners in Tamar gave their agreement to the said division based on assessments by Novel, NSAI and a reserves appraiser from the Ministry of Energy. On April 11, 2019, the effect of a ruling was given to the arbitration arrangement between the partners in Eran and the State, pursuant to which the Tamar SW reservoir will be divided between the area of the Tamar Lease (78%) and the area of the Eran license (22.%). As of the time of the publication of the report, the parties are working to formulate the agreements that are required in order to implement the arbitration arrangement.

(a) In accordance with the last resources report that has been received by Delek Drilling from NSAI, in March 2018, in accordance with the PRE-PRMS principles, the quantity of the conditional resources in the "Dalit" lease, which are classified as being at the development pending stage, as of December 31, 2017, ranges between approximately 6.1 BCM (the lower estimate) and approximately 9.5 BCM (the higher estimate). In accordance with Delek Drilling's data in the public domain, in its assessment, as of the time of the approval of the report, no change has occurred in the details that were presented in the abovementioned report. It is mentioned in the resources report that the conditional resources are conditional upon the approval of the Project, which includes an approved development plan and a reasonable explanation for the sale of the natural gas.

(b) The abovementioned assessments regarding the natural gas and condensate reserves in the leases are based, inter alia, on geological, geophysical, engineering and other information, which has been received from the drillings and from the operator of the abovementioned rights. The abovementioned assessments are within the bounds of NSAI's professional assessments and assumptions, in respect of which no certainty exists. The quantities of natural gas and condensate that may actually be produced, may be different from the abovementioned estimates and assessments, inter alia, as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or as a result of the actual performances of the reservoirs. The abovementioned estimates and assumptions may be updated if additional information is accumulated and/or as a result of an array of factors that are connected to petroleum and natural gas exploration projects, including as a result of the continuation of the production from the Tamar Project.

2. The partners in Tamar have agreements for the sale of a significant part of the gas reserves in the reservoir to the Israel Electricity Corporation, Ltd. (hereinafter; "The Electricity Corporation") to additional electricity generators and to industrial and other customers. Minimum quantities, which the customers commit to purchasing, the supply periods, the possibility of reducing quantities in some cases and various mechanisms for updating and linking the prices that have been set in the agreements are generally set in the agreements.

Note 5 – Investments in petroleum and gas assets (rights to receive royalties) (Continued)

C. 3. Further to the Electricity Corporation's request to receive offers from the partners in the Tamar project and from the partners in the Leviathan Project for the supply of natural gas beyond the Electricity Corporation's consumption from its present agreement opposite the partners in the Tamar Project, on April 4, 2019, the partners in the Tamar Project received notification from the Electricity Corporation, pursuant to which its offer had not been selected by the Electricity Corporation.

On April 18, 2019, the partners in the Tamar Project, who are not holders in the Leviathan Project (i.e. Tamar Petroleum, Isramco Negev 2 – Limited Partnership, Dor Gas Exploration – Limited Partnership and Everest Infrastructures – Limited Partnership (hereinafter: "**Isramco**", "**Dor Gas Exploration**" and "**Everest**", respectively) (hereinafter, together: "**The appellants**")), submitted an administrative appeal in the Tel-Aviv-Jaffa District Court against the Electricity Corporation, Delek Drilling, Nobel and Ratzio Petroleum Exploration (1992) – Limited Partnership (the Electricity Corporation and the partners in Leviathan will hereinafter, together, be called "**The respondents**" in this section), pursuant to which Court was requested to declare that the decision by the Electricity Corporation's Tenders Committee (hereinafter: "**The Committee**") on April 4, 2019 to declare the win by the partners in the Leviathan Project in the competitive process, is invalid and unlawful and accordingly it should be annulled. Alternatively, it should be returned to the Committee for a decision and to instruct it to consider other possibilities, as set forth in the said appeal, and as an alternative to the alternative, to instruct the cancellation of the competitive process. On July 7, 2019, a ruling was handed down by the Tel-Aviv District Court, dismissing the said administrative appeal. On August 19, 2019, the appellants submitted an appeal against the District Court's ruling in the Supreme Court. As of the time of the publication of the financial statements, the appeal has not yet been heard.

4. The partners in the Tamar Project who do not have holdings in the Leviathan Project (i.e. Tamar Petroleum, Isramco, Dor Gas Exploration and Everest) reported on September 24, 2019, that they are conducting conversations opposite the Electricity Corporation's management within the context of which the possibility is being examined of a possible amendment to the agreement covering the supply of gas from the Tamar Reservoir to the Electricity Corporation.

To the best of the Company's knowledge, based on the reports of the partners in Tamar, the possibility of the amendment of the agreement is being examined by the Competition Commissioner and by other government officials. The amendment of the agreement is to be signed by all of the partners in the Tamar Project and by the Electricity Corporation and will be subject to the receipt of all of the regulatory approvals that are required and there is no certainty that the amendment of the agreement will be signed on the outline that has been presented and/or under any other outline.

5. On December 24, 2019, the partners in the Tamar Project reported that an agreement for the exporting of natural gas from the Tamar Project to Egypt, which has been signed between the partners in the Tamar Project and Dolphinus Holding Ltd. has entered force. The supply of the gas will begin on June 30, 2020. The agreement is on a binding (firm) basis and it includes a commitment to purchase or to pay (take or pay).

6. See Note 7A(1) in connection with the approval of a class action, which has been submitted by a consumer of the Electricity Corporation.

Note 5 – Investments in petroleum and gas assets (rights to receive royalties) (Continued)

D. The Company has examined the recoverable amount of the investments in petroleum and gas assets (rights to receive royalties) as of December 31, 2019, the net book value of which was approximately 154.0 million Dollars, which is in light of the fact that the Company's stock exchange market value is significantly lower than the Company's shareholders' equity.

The Company has tested the need for the recording of a provisions for impairment in value by means of an independent, external appraiser, which stood at the lower bar of the recoverable amount (the value in use) by means of discount cash flows, using a conservative scenario for determining the lower bar, which combines a reduction in the pace of the annual production of natural gas and condensate by 10% in 2020 and by 20% in 2021 and thereafter and a reduction of 10% in the vector for the prices of gas and condensate as from 2021, and this in relation to the Company's assumptions that were included within the framework of the Company's discounted cash flows from the Tamar Project as of December 31, 2019 (an annual pace of production of approximately 8.4 BCM in 2020, approximately 7.1 BCM in 2021, approximately 8 BCM in 2022 and approximately 8.5 BCM to 9.3 BCM in the years 2023 – 2050, where as from 2051 the pace of production has been reduced gradually until the end of the production in 2054 and of the gas prices of approximately 5.1 Dollars in 2020 and approximately 4.4 US Dollars as from 2021, with a gradual increase) and the use of a weighted discount rate (WACC) (after corporate income tax) of approximately 6.9%.

It should be emphasized that the forecasts of the cash flows that are expected for the Company in respect of the royalties asset in the appraisal was estimated by the appraiser under conservative assumptions and it has been used for the estimate of the lower bar of the range of amounts of the recoverable amount, and accordingly it does not reflect the Company's assessment in respect of the cash flows that are expected from the royalties asset, and furthermore, it does not reflect the Company's and/or the appraiser's assessments of the fair value of the said asset.

Pursuant to the said assessment by the independent, external appraiser, it was found that the recoverable amount at the lower bar, as mentioned above, is higher than the net book value of the investment in the petroleum and gas asset in the accounting records as of December 31, 2019 and accordingly no provision for impairment in value is required.

See Note 1G above for details regarding the outbreak of the Corona virus after the date of the statement of financial position.

Notes to the Financial Statements as of December 31, 2019 (in thousands of Dollars)

Note 8 – Issuance of bonds (Series A)

A. On May 29, 2018, the Company completed the recruitment of an amount of NIS 425,498 thousand (approximately 119,388 thousand Dollars), before recruitment costs, which amounted to approximately 1.3 million Dollars, by issuing NIS 425,498,000 par value of bonds (Series A) to the public. The bonds (Series A) are linked (principal and interest) to the exchange rate of the Dollar, as it was at the end of the foreign currency trading day at the time of the institutional tender and bears interest at a fixed rate of 5.48% a year. Approximately 76.19% of the principal of the bonds is repayable in 20 unequal, semi-annual payments, starting in August 2018 and ending in February 2028. The balance of the principal of the bonds, amounting to approximately 23.81% will be repayable in August 2028. The interest is paid in semi-annual payments starting in August 2018 and ending at the time of the final settlement of the principal. The effective annual interest rate on the bonds is approximately 5.73%.

The trust deed contains provisions regarding the adjustment of the interest rate up to a cumulative addition of 1.25% above the annual interest rate that is set as aforesaid, in a case in which the rating for the Company's bonds will be 2 rating levels lower than a rating of Aa3.il and/or in the event that the economic shareholders' equity is lower than an amount of 60 million Dollars.

The bonds have been rated at a rating of Aa3.il with a stable outlook by Midroog Ltd.

B. Repayment times:

	2019	2018
In the first year – current maturities	13,009	13,340
In the second year	9,849	13,009
In the third year	7,149	9,849
In the fourth year	6,430	7,149
In the fifth year and thereafter	56,364	62,790
	92,801	106,137

C. As collateral for its commitments to the holders of the bonds, the Company has charged the following assets and rights under a single first ranking lien, in an unlimited amount, in support of the trustee (as trustee for the holders of the bonds):

(1) All of the Company's rights in the rights being acquired, which relate to royalties that will be receivable from the Tamar Lease. On September 13, 2018, the Commissioner of Petroleum Affairs in the Ministry of Energy gave his approval for the registration of the abovementioned lien in the Petroleum Register and the lien was registered in the registers maintained by the Registrar of Companies on September 16, 2018.

(2) The Company's rights in the bank account in which all of its revenues from royalties are to be deposited, including in monies, in deposits and in securities that may be in it, and all of the fruits that may derive from those monies or rights (hereinafter: "**The operations account**").

(3) All of the Company’s rights, of any sort, whatsoever, whether existing at present or which may exist in the future in the security cushion account for the payment of the principal.

(4) All of the Company's rights in insurance policies covering a decrease in output in the Tamar Lease.

D. Furthermore, breach events have been defined, in respect of which the trustee and the holders are entitled to make the uncleared balance of the bonds repayable immediately if they occur, of which the main events are:

(1) If the Company has not settled any payment whatsoever that is to be paid pursuant to the terms of the bonds or the trust deed;

Note 8 – Issuance of bonds (Series A) (Continued)

D. (Continued)

(2) Non-compliance with financial covenants, including its commitments, as set forth below:

(a) A cover ratio for the expected servicing of the bonds, which may not be less than 1:1.05. For the test period of 12 months, commencing on January 1, 2020, the said ratio stands at 1:1.30. Up to the time of the financial statements as of December 31, 2018, the Company did not include the impact on the Company's financing expenses in respect of the bonds on the Company's tax liability (hereinafter; "**The tax shield**"), which is included in the calculation of the expected debt service cover ratio in these financial statements, in the calculation in the expected debt service cover ratio. The inclusion of the tax shield increases the expected debt service cover ratio for the service of the expected debt for a period of 12 months commencing on January 1, 2020 by approximately 0.07.

In accordance with the provisions of the trust deed, the Company deposits surplus amounts, in excess of the security cushion that is required, from time to time.

(b) Economic shareholders' equity, which may not be less than an amount of 51 million Dollars throughout two consecutive quarters (as of December 31, 2019, the economic shareholders' equity stands at an amount of approximately 108.9 million Dollars).

(3) A breach of representations and commitments.

(4) Insolvency events.

(5) If real concern exists that the Company will not meet its significant commitments vis-à-vis the bondholders.

(6) If the rating of the bonds will be lower than a rating of Baa3.

(7) If a significant worsening has occurred in the Company's business as compared with its state at the time of the issue and the existence of real concern that the Company will not be able to repay the bonds on time.

(8) Other debts of the Company, in an extent that has been determined in the deed, have been made repayable immediately.

(9) A "going concern" comment has been added in the Company's financial statements in two consecutive quarters.

As of the date of the statement of financial position and as of the time of the publication of the report, the Company is in compliance with such commitments.

E. The Company has undertaken that at any time, as from the time of the completion of the agreement for the transfer of the rights and up to the time of the full, final and exact repayment of the debt, in accordance with the terms of the bonds, it will deposit all of the revenue that it may receive in respect of royalties from Rights to Royalties into the operations account.

F. The Company may not have any credit facility on the operations account and it may not take up a loan or additional liabilities in it. Furthermore, it has been determined that all such receipts are to be used for the repayment of amounts in accordance with the order of priority as determined in the trust deed. Furthermore, the Company will be entitled to transfer monies from the operations account, subject to the terms of the trust deed.

Note 8 – Issuance of bonds (Series A) (Continued)

G. The Company will be entitled to execute a distribution of a dividend subject to the conditions that were set in the trust deed, of which the main ones are: the determining day for a distribution by the Company in accordance with the Stock Exchange guidelines, will occur at a time that may not be later than 60 days from the time at which the payment of the principal and/or interest to the bondholders, the cover ratio for the expected servicing of the debt may not be less than 1:1.20 (see Section D(2)(a) above) in addition to which the historical cover ratio for the servicing of the debt may not be less than 1:1.20 in at least one of two last period checks (for the period of one year ended December 31, 2019, the said ratio stands at 1:1.37), as a result of the distribution, the Company will not be in breach of its commitment to meet the required amount of the economic shareholders' equity and also there is no reasonable concern that the distribution will prevent the Company's ability to meet its duties to repay the bonds.

H. Within the context of the acquisition of the Rights to Royalties, the Company undertook to issue bonds to the public and the transfer an amount of 113 million Dollars to Delek Energy. It is further determined in trust deed that all of the amount that might be raised, if it were to be raised, in the issuance of bonds in excess of an amount in Shekels that is equivalent to 113 million Dollars will be transferred by the Company to a separate account, which will be charged under a single fixed and first ranking lien in support of the trustee (hereinafter, in this section: "**The separate account**") and the Company will be entitled, at its discretion, to use the monies in the separate account for the purchase of the bonds.

On June 21, 2018, the Company's Board of Directors approved a self-purchase plan for NIS 22,766,000 par value of bonds, representing the amount that was recruited in excess of the amount of 113 million Dollars, as stated above. In June 2018, pursuant to the purchase plan, the Company purchase the full abovementioned amount of the bonds, in transactions on and off the Stock Exchange, in an overall amount of approximately NIS 23.6 million (an amount of approximately 6.5 million Dollars, out of the separate account, as aforesaid. As a result of the purchase, the Company recognized a loss of approximately 50 thousand Dollars on the early redemption of the bonds in 2018.

I. The bonds were listed for trading on the Stock Exchange on June 6, 2018.

Notes to the Financial Statements as of December 31, 2019 (in thousands of Dollars)

Note 9 – Share capital

A. **The composition of the share capital**:

	As of December 31, 2019		As of December 31, 2018	
	Registered	Issued and paid-up	Registered	Issued and paid-up
	Number of shares			
Regular shares of par value NIS 1	100,000,000	20,001,000	100,000,000	20,001,000

The shares afford their holders voting rights, rights to receive dividends and rights to participate in the distribution of the Company's assets in the event of its liquidation.

B. **The share capital:**

1. On May 21, 2018, the Company's general meeting passed a resolution to increase the Company's registered share capital by NIS 99,999,000, such that the registered share capital would stand at NIS 100,000,000 divided into 100,000,000 regular shares of NIS 1 each.
2. On June 7, 2018, the Company issued 20,000,000 regular shares of par value NIS 1 each, of which 12,014,400 shares were issued to the public for consideration of approximately NIS 130,597 thousand (approximately 36,531 thousand Dollars), and the balance of the shares were issued to Delek Energy as part of the consideration for the acquisition of the Rights to Royalties, as stated in Note 3D above.

C. **Voting rights:**

Delek Energy has undertaken in an irrevocable commitment to waive the characteristics of control in the Company, including voting rights in general meetings and the right to appoint directors, in addition to which it has undertaken that the waiver of the voting rights and the right to appoint directors will apply in relation to all of the shares in the Company, which are held or which may be held directly by it, or by another corporation that is controlled by it, and so long as they are held by them. It is clarified that all of the capital rights that are ancillary to such shares will remain in force, and that upon the transfer or the sale of the said shares to a third party, they will also afford the transferee the full voting rights that are attached to them. As of the time of the approval of the financial statements, Delek Energy holds 39.93% of the Company's issued share capital and it does not hold the voting rights in the Company.

In relation to Section 86 of the Company’s articles of association which determines that on December 17, 2021 (hereinafter: "**The determining date for Tamar**"), if the Company is holding rights in the Tamar Lease (including an ultimate royalty) no "prohibited representative" (as defined in the abovementioned Section 86) may hold office. It is clarified that from the Company's perspective, the significance of this article is that if at the determining time there is a forbidden representative holding office in the Company, then his period of office will expire immediately at that time. As of the time of the approval of the financial statements, Mr. Asi Bartfeld, the Chairman of the Company's Board of Directors, is such a "forbidden representative.

D. **Dividends:**

1. It is determined in the Company's articles of association that the Company is to distribute profits every year in an amount that is equivalent to 90% of the distributable profits, within the meaning of that term in the Companies Law, in reliance on the annual financial statements, subject to compliance with the distribution tests, within the meaning of that term in the Companies Law and subject to any law and after deducting amounts that are required by the Company in the Board of Directors' opinion, for all of these:

    a. The Company's compliance with its commitments and the restrictions that apply to it under the financing agreements that it is a party to at the time of the declaration, including the bonds.

Note 9 – Share capital

D. **Dividends:** (Continued)

1. (Continued)

   b. Financing for the Company’s operating activities, including its investment plan for the acquisition of royalties, including unexpected expenses.

2. See Note 8C above for details regarding restrictions on the distribution of profits, which are determined in the trust deed for the Company's bonds (Series A).

3. On March 24, 2019, the Company's Board of Directors approved the distribution of a dividend to the Company's shareholders in an amount of 3,580 thousand Dollars (approximately 0.17899 Dollars a share), which was distributed on April 11, 2019.

Note 10 – Royalties from the sale of natural gas and condensate

A. The Company's revenues from royalties from the Tamar Lease amounted to approximately 28.9 million Dollars in the year 2019 and to approximately 16.2 million Dollars in the period from June 7, 2018 (the time of the completion of the acquisition of the rights to receive royalties, as stated in Note 3 above) and until December 31, 2018.

B. The royalties are calculated in accordance with the royalties rate after the time of the return of the investment (4.875% of the payers of the royalties' share of the asset in respect of which a right to a royalty applies. See Note 3G above for additional details). The Company’s revenues in the years 2019 and 2018, as aforesaid, are at an effective rate of approximately 4.4% of the payers of the royalties share of the revenues from the sale of gas from the Tamar Project, when taking sales of the natural gas at the wellhead into account, similarly to the calculation of the royalty to the State.

Pursuant to the terms for the royalty, Delek Drilling and Tamar Petroleum are committed to paying the market value of the royalties to the Company at the wellhead. The calculation of the market value of the royalties from the Tamar Project at the wellhead, has been made up to now, in practice, in accordance with the manner in which the effective royalty rate for the Company's right to royalties is calculated.

The Petroleum Law determines, inter alia, that a holder of a lease is to pay the State a royalty at a rate of one eighth (12.5%) of the quantity of petroleum that has been produced and exploited from the area of the lease, and that the holder of a lease is to pay "the market value of the royalty, at the wellhead" to the State Treasury.

According to information that has been published in the public domain by the payers of the royalties, in the course of the years from 2013 to 2019 inclusive, the partners in Tamar paid advances to the State, under protest, on account of the royalties, in accordance with the rates that were set from time to by the Ministry of Energy. Accordingly, in accordance with a demand from the Ministry of Energy the partners in Tamar paid royalties at a rate of 11.30% in 2019 and at a rate of 11.65% in 2018 respect of the revenues from the Tamar Project.

In the opinion of Tamar Drilling, Tamar Petroleum and the other partners in the Tamar Project, the calculation of the market value of the royalties to the State at the wellhead must be based on the principles, pursuant to which the said market value was calculated in the Tethys Sea Project (an additional project in which Delek Drilling has leases, on the revenues of which royalties are paid to the State) i.e. in accordance with the "English formula" principles, in accordance with which, from the partners in Tamar's perspective they were supposed to pay royalties to the State at rates that are lower than the rates that were demanded by the State. In accordance with a calculation under the English formula, which in the payers of the royalties' opinion is the closest estimate to the agreement that was signed with the State in the Tethys Sea Project, the effective rate of the royalty to the State in the Tamar Project on which the payers of the royalties based themselves in their financial statements was approximately 11.16% in 2018.

Note 10 – Royalties from the sale of natural gas and condensate (Continued)

B. (Continued)

After the date of the statement of financial position, on February 9, 2020, the Ministry of Energy published general directives, detailing the principles for the calculation of the royalty per wellhead in connection with maritime petroleum rights (hereinafter: "**The directives**"), with details being provided of the expenses that are allowable and which are not allowable for the purposes of such calculation, as well as the manner of the recognition of expenses, for comments from the public. It was determined in the draft directives, inter alia, that the Commissioner of Petroleum is to send specific instructions to every holder of a lease in which the expenses that are allowable as a deduction for the purpose of the calculation of the royalty are, in accordance with the characteristics of that lease. Pursuant to the payers of the royalties' public reports, the partners in the Tamar Project submitted their comments on the directives on March 15, 2020.

Based on the directives and in accordance with the assessments and the estimates made by the payers of the royalties, the manner of the calculation of the royalty rate for the years 2018 has been updated and its rate for the year 2019 is approximately 11.3%, based on the updated calculation.

The manner of the calculation of the market value of the royalties to the State at the wellhead, which are paid by Delek Drilling and Tamar Petroleum to the Company, has been done up to now in accordance with the same principles as those in accordance with which royalties to the State are charged, as aforesaid. Accordingly, pursuant to a decision that is to be made in connection with the manner of the calculation of the market value of the royalty to the State at the wellhead in the Tamar Project, the effective rate of the royalties may change, and in such a case, it is possible that the Company will be required to repay the provisions in respect of the royalties that have been overpaid to it, or for it to be entitled to the differences between the royalties that have been underpaid to it. It should be clarified that in accordance with the agreement for the transfer of the Rights to Royalties, if the return of the provisions in respect of royalties that were overpaid to Delek Energy in the period preceding the Time of the Entitlement to Royalties, is required, then the duty to pay the said differences will apply to Delek Energy, even if the duty crystalizes after the time of the transfer of the right to the royalties to the Company. In the same way, if differences are received in respect of royalties that were underpaid in the period preceding the Time of the Entitlement to Royalties, then the entitlement to receive the said differences will belong to Delek Energy, even if the right crystalizes after the time of the transfer of the right to the royalties to the Company.

The Company has recorded a liability under "other payables" in the statement of financial position in respect of the difference between the royalties that have been paid to it and the amount of the royalties that have been recognized as revenue and which is based on the effective royalty rate on which the payers of the royalties base themselves in their financial statements.

Delek Royalties (2012) Ltd.

Notes to the Financial Statements as of December 31, 2019 (in thousands of Dollars)

Note 14 – Earnings per share:

	For the year ended December 31		
	2019	***2018**	**2017**
The income used in the calculation of the earnings per share	14,532	6,162	-
Weighted number of shares used in the calculation of the earnings per share (in thousands)	20,001	11,430	-
Earnings per share (basic and diluted) (in Dollars)	0.73	0.54	- -

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