

**Delek Royalties (2012) Ltd.**  
**Condensed Interim Financial Statements as of March 31, 2021**  
**In thousands of US Dollars**  
**(Unaudited)**

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**Table of Contents**

	<b>Page</b>
Auditor's Review Report	2
<b>Financial Statements</b>	
Condensed Interim Statements of Financial Position	3
Condensed Interim Statements of Comprehensive Income	4
Condensed Interim Statements of Changes in Equity	5
Condensed Interim Statements of Cash Flows	6
Notes to the Condensed Interim Financial Statements	7 - 11

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

### **Introduction**

We have reviewed the attached financial information of Delek Royalties (2012) Ltd. (hereinafter: "**The Company**"), including the condensed statement of financial position as of March 31, 2021, as well as the condensed statements of comprehensive income, of changes in equity and of cash flows for the period of three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and are responsible for the preparation of the financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion regarding the financial information for these interim periods, based on our review.

### **Scope of the review**

We have conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, "Review of interim financial information by the entity's auditor". A review of interim financial information consists of inquiries, primarily with the individuals responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is significantly limited in scope compared to an audit, which is conducted in accordance with generally accepted auditing standards in Israel, and therefore it does not allow us to reach assurance that we have become aware of all material issues, which could have been identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

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

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

Tel-Aviv, May 26, 2021

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

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

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

	<u>31.3.2021</u> <u>(Unaudited)</u>	<u>31.3.2021</u> <u>(Unaudited)</u>	<u>31.12.2020</u> <u>(Audited)</u>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	1,325	3,815	4,460
Short-term deposits	1,800	1,702	4,130
Income tax receivable	-	51	-
Other receivables	1,194	1,282	2,107
	<u>4,319</u>	<u>6,850</u>	<u>10,697</u>
<b>Non-current assets:</b>			
Investments in petroleum and gas assets (rights to receive royalties)	148,960	149,264	149,834
Deposits, the use of which is restricted	8,455	7,882	8,444
Right of use asset	126	185	141
Fixed assets	7	10	8
Deferred taxes	1,662	43	2,555
	<u>159,210</u>	<u>157,384</u>	<u>160,982</u>
	<u>163,529</u>	<u>164,234</u>	<u>171,679</u>
<b>Liabilities and equity:</b>			
<b>Current liabilities:</b>			
Current maturities of bonds	7,579	12,050	9,849
Other payables	1,923	1,835	2,969
Income tax payable	723	-	1,045
	<u>10,225</u>	<u>13,885</u>	<u>13,863</u>
<b>Non-current liabilities:</b>			
Bonds	66,081	73,660	69,943
Leasing liability	80	149	109
	<u>66,161</u>	<u>73,809</u>	<u>70,052</u>
<b>Equity</b>			
Share capital	5,595	5,595	5,595
Share	55,217	55,217	55,217
Retained earnings	26,331	15,728	26,952
	<u>87,143</u>	<u>76,540</u>	<u>87,764</u>
	<u>163,529</u>	<u>164,234</u>	<u>171,679</u>

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

May 26, 2021

Date of the approval of  
the Financial Statements

Miryam Guez  
Chairwoman of the Board  
of Directors

Meir Menachem  
Chief Executive Officer

Tomer Gordon  
Chief Financial Officer

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

	<b>For the period of three months ended</b>		<b>For the year ended</b>
	<b>31.3.2021</b>	<b>31.3.2021</b>	<b>31.12.2020</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
Royalties from the sale of natural gas and condensate	3,615	5,239	21,388
<b>Expenses and costs:</b>			
Depletion expenses	874	1,018	4,167
Impairment in the value of petroleum and gas assets	-	3,720	-
Levy on petroleum and gas profits	1,149	-	137
Administrative and general expenses	372	364	1,448
<b>Total expenses and costs</b>	<b>2,395</b>	<b>5,102</b>	<b>5,752</b>
<b>Operating income</b>	<b>1,220</b>	<b>137</b>	<b>15,636</b>
Financing expenses	(1,103)	(1,299)	(5,045)
Financing income	145	74	170
<b>Financing expenses, net</b>	<b>(958)</b>	<b>(1,225)</b>	<b>(4,875)</b>
<b>Income before taxes on income</b>	<b>262</b>	<b>(1,088)</b>	<b>10,761</b>
Tax expenses on income	(883)	(298)	(923)
<b>Total comprehensive income (loss) for the period</b>	<b>(621)</b>	<b>(1,386)</b>	<b>9,838</b>
<b>Earnings (loss) per regular share of par value NIS 1 (basic and diluted), attributed to the shareholders in the Company (in Dollars)</b>	<b>(0.03)</b>	<b>(0.07)</b>	<b>0.49</b>

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

**Delek Royalties (2012) Ltd.****Condensed Interim Statements of Changes in Equity (in thousands of Dollars)**

	<u>Regular share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>(Unaudited)</u>			
<b>For the period of three months ended March 31, 2021:</b>				
<b>Balance as of January 1, 2021 (audited)</b>	5,595	55,217	26,952	87,764
Comprehensive loss	<u>-</u>	<u>-</u>	<u>(621)</u>	<u>(621)</u>
<b>Balance as of March 31, 2021</b>	<u>5,595</u>	<u>55,217</u>	<u>26,331</u>	<u>87,143</u>

	<u>Regular share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>(Unaudited)</u>			
<b>For the period of three months ended March 31, 2020</b>				
<b>Balance as of January 1, 2020 (audited)</b>	5,595	55,217	17,114	77,926
Comprehensive loss	<u>-</u>	<u>-</u>	<u>(1,386)</u>	<u>(1,386)</u>
<b>Balance as of March 31, 2020</b>	<u>5,595</u>	<u>55,217</u>	<u>15,728</u>	<u>76,540</u>

	<u>Regular share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>(Unaudited)</u>			
<b>For the year ended December 31, 2020</b>				
<b>Balance as of January 1, 2020</b>	5,595	55,217	17,114	77,926
Net income and comprehensive income	<u>-</u>	<u>-</u>	<u>9,838</u>	<u>9,838</u>
<b>Balance as of March 31, 2021</b>	<u>5,595</u>	<u>55,217</u>	<u>26,952</u>	<u>87,764</u>

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

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

	For the period of three months ended		For the year ended
	31.3.2021	31.3.2021	31.12.2020
	(Unaudited)		(Audited)
<b>Cash flows from operating activities:</b>			
Net income (loss)	(621)	(1,386)	9,838
Adjustments for:			
Depletion and depreciation	890	1,033	4,231
Impairment in the value of petroleum and gas assets	-	3,720	-
Tax expenses on income	883	298	923
Financing expenses, net	958	1,225	4,875
<b>Changes in assets and liabilities:</b>			
Decrease in other receivables	923	1,285	460
Increase in other payables	104	109	226
<b>Cash paid in the period for:</b>			
Income tax paid	(189)	(1,342)	(3,666)
	<u>3,569</u>	<u>6,328</u>	<u>7,049</u>
<b>Net cash generated by operating activities</b>	<u>2,948</u>	<u>4,942</u>	<u>16,887</u>
<b>Cash flows from investment activities</b>			
Deposits in (repayment of) current deposits, net	2,330	4,528	2,100
Repayments of non-current deposits	(11)	(1,283)	(1,845)
Interest received	18	70	170
Purchase of fixed assets	-	-	(2)
<b>Net cash generated by investment activities</b>	<u>2,337</u>	<u>3,315</u>	<u>423</u>
<b>Cash flows from financing activities</b>			
Repayment of bonds	(6,170)	(7,130)	(13,164)
Interest paid	(2,208)	(2,569)	(4,942)
Repayment of leasing liability	(38)	(18)	(63)
<b>Cash flows absorbed by financing activities</b>	<u>(8,416)</u>	<u>(9,717)</u>	<u>(18,169)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(3,131)</u>	<u>(1,460)</u>	<u>(859)</u>
<b>Balance of cash and cash equivalents at the beginning of the period</b>	4,460	5,323	5,323
<b>Exchange differences on cash and cash equivalents balances</b>	(4)	(48)	(4)
<b>Balance of cash and cash equivalents at the end of the period</b>	<u>1,325</u>	<u>3,815</u>	<u>4,460</u>

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

## Delek Royalties (2012) Ltd.

### Notes to the Condensed Interim Financial Statements as of March 31, 2021

#### 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 September 2018, after the Company had issued bonds and shares to the public, which were 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 (hereinafter: "**The Securities Law**").
- B. These financial statements have been prepared in a condensed format as of March 31, 2021 and for the period of three months ended on that date (hereinafter: "**The condensed interim financial statements**"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020 and the accompanying notes thereto (hereinafter: "**The annual financial statements**").
- C. The Company commenced its business operations on June 7, 2018, when the crucial terms for the agreement that had been signed between Delek Energy Systems Ltd. (hereinafter: "**Delek Energy**") a wholly owned subsidiary company of the Delek Group Ltd. (hereinafter: "**Delek Energy**") and the Company, pursuant to which Delek Energy 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 from its share of Delek Drilling – Limited Partnership (22%) (a partnership that is wholly controlled by Delek Energy, hereinafter: "**Delek Drilling**") and of Tamar Petroleum Ltd.'s share (9.25%) that is chargeable with the payment of royalties (hereinafter together: "**The payers of the royalties**") in petroleum and/or in gas and/or in other valuable materials, which may be produced and which may be utilized from the petroleum assets in the I/12 "Tamar" and I/13 "Dalit" lease (hereinafter: "**The Tamar lease**" and "**The Dalit lease**", respectively (hereinafter: "**The rights to royalties**") under an irrevocable endorsement.
- On June 7, 2018, the rights to royalties that has 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**").
- D. Pursuant to the Company's articles of association (hereinafter: "**The articles**"), the Company's objective is to hold rights for the receipt of royalties of companies that are engaged in the petroleum and gas field. Accordingly, as of the time of the approval of the financial statements, the Company's sole field of activity is the holding of a right to receive royalties in relation to petroleum and/or gas and/or other valuable materials, which may be produced and which may be utilized from the Tamar and Dalit leases., Accordingly, the Company's revenues are dependent from the revenues from petroleum and/or gas and/or other valuable materials, which may be produced, insofar as they may be produces and on the operations of the payers of the royalties and the other partners in the rights that have been acquired and that may be acquired in the future.
- E. On September 13, 2020, the Delek Group announced that Delek Energy has made a commitment under an agreement for the sale of its entire holdings in the Company (approximately 39.93% as of that time), subject to conditions, which also include the publication of a special purchase offer for the purchase of shares in the Company by Essence Royalties Limited Partnership (hereinafter: "**Essence Royalties**"), and in November 2020, the said conditions were made, following which Essence Royalties acquired approximately 32% of the shares in the Company.
- On December 29, 2020, the Delek Group informed the Company that it had made a commitment in a transaction off the Stock Exchange, within the framework of which it had sole the entire balance of Delek Energy's holdings in the Company.
- As from November 16, 2020 and as of the time of the publication of the financial statements, to the best of the Company's knowledge, the controlling interest in the Company is Essence Partners Ltd., which serves as the general partner in Essence Royalties, which together with interested parties therein holds approximately 50.79% of the Company's issued share capital.



## **Delek Royalties (2012) Ltd.**

### **Notes to the Condensed Interim Financial Statements as of March 31, 2021**

#### **Note 1 – General (Continued):**

- F. On March 31, 2021, the Company had a working capital deficit of 5,906 thousand Dollars. Within the framework of a discussion that was held by the Company's Board of Directors at its meeting on May 26, 2021, the Board of Directors determined that the working capital deficit does not indicate a liquidity problem, after the examination of the Company's forecast cash flows for the coming two years, pursuant to which, the Company's cash balances and the royalties that are expected to be received by the Company are at an extent that covers the repayment of its liabilities and the financing of its operating activities. It should be mentioned that the Company had positive cash flows of 14,893 thousand Dollars from operating activities in the 12 months ended March 31, 2021. After the payment of the interest on the bonds (Series A), the net amount of such cash flows amounted to 10,312 thousand Dollars.
- G. The condensed interim financial statements comply with the provisions of International Accounting Standard IAS 34 "Financial statements for interim periods".
- H. The condensed interim financial statements comply with the disclosure provision pursuant to Part D of the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970.
- I. See Note 1G to the annual financial statements for a comprehensive description of the possible implications of the outbreak of the Coronavirus on the payers of the royalties' and the Company's operations. As of the time of the publication of the report, it is difficult to estimate how the Corona crisis will continue and develop over the coming years, what the extent of its impact on the global economy will be and what its impact on demand and on sales from the Tamar reserve will be in the coming years.

#### **Note 2 – Principal accounting policies:**

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies and calculation methods as were employed in the annual financial statements, except as stated below:

Disclosure regarding new IFRS standards in the period before their implementation:

Revision to IAS 8 – Accounting policy, changes in accounting estimates and errors

In February 2021, the IASB published a revision to IAS 8 – Accounting policy, changes in accounting estimates and errors (hereinafter: "The revision"). The objective of the revision is to present a new definition of the term "accounting estimates". Accounting estimates are defined as "Monetary amounts in financial statements that are subject to measurement uncertainty". The revision clarified what changes in accounting estimates are and how they are differentiated from changes in accounting policies and from corrections of errors. The revision is to be implemented prospectively for annual periods commencing on January 1, 2023 and it applies to changes in accounting policy and in accounting estimates that occur at the beginning of that period or thereafter. The earlier implementation is possible.

#### **Note 3 – Additional information:**

- A. The following are details in respect of certain financial covenants, which were determined in the trust deed for the bonds (Series A):
1. The cover ratio for the expected debt servicing may not be less than a ratio of 1:1.05 and in relation to restrictions on the distribution of a dividend it may not be less than 1:1.30 or than 1:1.20, as the case may be, as set in the trust deed. The said ratio was 1:1.55 for the checking period of 12 months commencing on April 1, 2021.

Pursuant to the provisions of the trust deed, the Company deposits surplus amounts, from time to time, in excess of the amount security cushion that is required (as defined in Section 1 of the trust deed).

**Delek Royalties (2012) Ltd.**

**Notes to the Condensed Interim Financial Statements as of March 31, 2021**

**Note 3 – Additional information (Continued):**

A. The following are details in respect of certain financial covenants, which were determined in the trust deed for the bonds (Series A) (Continued):

2. The economic share capital may not be less than an amount of 51 million Dollars for two consecutive quarters. As of March 31, 2021, the economic shareholders' equity stands at an amount of approximately 96.2 million Dollars.

As of the date of the condensed interim statement of financial position and as of the time of the publication of the financial statements, the Company is in compliance with the financial covenants that were set in the trust deed for the bonds (Series A).

B. The fair value of the financial instruments that are presented in the condensed interim financial statements accords with or approximates to their carrying value in the accounting records, except for bonds (Series A), which bear interest at a fixed rate and which are traded on the Stock Exchange.

The following are data regarding the fair value of the bonds (Series A) (including interest payable), as of:

31.3.2021		31.3.2020		31.12.2020	
Unaudited		Unaudited		Audited	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
In thousands of Dollars		In thousands of Dollars		In thousands of Dollars	
74,005	77,587	86,123	78,321	81,284	80,448

The fair value of the bonds (Series A) is stated in accordance with the quoted price on the Stock Exchange (level 1).

C. The Company has tested the recoverable amount of the investments in petroleum and gas assets (rights to receive dividends) as of March 31, 2021, the carrying amount of the amortized cost of which is approximately 148.96 million Dollars, which was done in light of the fact that the Company's market value on the Stock Exchange is significantly lower than the Company's shareholder's equity and in light of the sale of Delek Drilling's holdings in the Tamar reserve (see Note 4A).

The Company has tested the need for the recording of a provision for impairment in value by means of an external, independent appraiser, who estimated the recoverable amount (the value in use) by means of discounting cash flows, which was done in relation to the Company's assumptions, which were included within the framework of the Company's discounted cash flows from the Tamar project, as at December 31, 2020, which was published on March 22, 2021 (sales of natural gas of approximately 8.6, approximately 9.2, approximately 9.1, approximately 9.5 and approximately 10.4 BCM in the years 2021 to 2015, respectively, a gradual increase to 11.65 BCM in 2030, with stabilization at that annual quantity until 2041. As from 2042, a gradual decrease is expected in the quantities until the end of the project's lifetime.

The forecast for the average prices of a barrel of Brent (in US Dollars) is approximately 52, approximately 57, approximately 61, approximately 65, approximately 68 and approximately 71 US Dollars a barrel in the years 2021 – 2026 respectively, with a gradual increase to approximately 86.0 Dollars in 2030 with stabilization at that price until the end of the period of the forecast and the use of a weighted discount rate (WACC) (after corporate income tax) of approximately 7.8%.

In accordance with this assessment by the independent external appraiser, it was found that the recoverable amount, as mentioned above, is almost identical to the amortized cost of the investment in the petroleum and gas assets in the accounting records as of March 31, 2021 and accordingly no provision for impairment in value is required.

**Note 3 – Additional information (Continued):**

D. Further to what is stated in Note 10B to the annual financial statements, as of the time of the publication of the condensed interim financial statements, to the best of the Company's knowledge, the effective royalty rate at the wellhead that is paid to the State as an advance payment stood at 11.30% in 2021. Accordingly, the receipts that have actually been paid in the reporting period by the payers of the royalties reflect a royalties rate of approximately 4.4% on the payers of the royalties' share that is chargeable with royalties.

The Company has recorded a liability in its financial statements in respect of the gap between the royalties that have actually been paid to it and the amount of the royalties that has been recognized as income and based on the effective royalties rate on which the payers of the royalties based themselves their financial statements.

E. In March 2021, the Remunerations Committee and the Board of Directors approved the awarding of a bonus in an amount of NIS 137 thousand (43 thousand Dollars) to the Company's Chief Executive Officer for the year 2020.

F. The Company has recognized an expense in the reporting year in respect of a levy on petroleum and gas profits in respect of the royalties from the Tamar project. As of the time of the publication of the financial statements, pursuant to what has been published by the payers of the royalties, there are a number of disputes between the payers of the royalties and the Taxes Authority, which relate primarily to the manner of the recognition and classification of amounts in the levy reports, which have been submitted by them and which affect the rate of the levy that will apply to the Company.

The Company does not have the information pursuant to which the payers of the royalties calculate the levy and therefore the Company has estimated the expense in reliance, inter alia, on the advance tax payments, which it pays in accordance with demands from the Taxes Authority (at a rate of 23.443% in the reporting period) and also in relation to estimates that have been recorded in the discounted cash flows that was published on March 22, 2021 and information that is included in reports that have been published by the Tamar Partners. Accordingly, the levy amounts to an expense of 1,149 thousand Dollars in the reporting period. It should be mentioned that the actual levy is derived from the royalties that have actually been received in the reporting period.

G. Further to what is stated in Notes 3F and 7A2 to the annual financial statements, regarding the timing of the return of the investment, a pre-trial hearing was held on April 5, 2021, within the context of which it was agreed that the parties will refer the dispute between the parties to a mediation process before a mediator, the retired judge Yoram Danziger.

On May 5, 2021, a mediation meeting was held in the process of the parties, before the mediator, the retired judge Yoram Danziger. It was agreed at the meeting that separate meetings would be held by the mediator with each of the parties. The first meeting with the commissioners was held on May 9, 2021 and meetings with the rest of the parties have been set for the coming weeks.

As of the time of the publication of the financial statements, in the Company's assessment, based on the assessment of the legal advisors who are handling the statement of claim on behalf of the owners of the royalties, including the Company, the changes that the claim will be accepted are lower than the chances that it will be dismissed.

H. Further to what is stated in Note 3F(1) to the annual financial statements, regarding a commitment by Delek Energy (a 100% subsidiary company of the Delek Group) to provide indemnification to the Company in connection with the timing of the return of the investment in the Tamar lease, it should be mentioned that a referral is included in the auditors' opinion on the latest financial statements that were published by the Delek Group (as of December 31, 2020), drawing attention to the existence of significant doubts concerning the continued existence of the Delek Group as a going concern.

**Note 4 – Events after the date of the condensed interim financial statement of financial position:**

A. On April 26, 2021, Delek Drilling announced its commitment under a non-binding memorandum of understanding with investors headed by Mubadala Petroleum in connection with the sale of all of its rights in the Tamar project, at a rate of 22%. It is mentioned in Delek Drilling's report that the binding agreement in connection with the abovementioned sale will be subject to a commitment by the purchasers to bear the existing royalties in respect of the partnership's rights in the Tamar Project.

B. On May 4, 2021, an agreement for the provisions of directors' services between the Company and the controlling interest in the Company, Essence Partners Ltd, entered force for a period of three years commencing on December 30, 2020 (hereinafter, in this section: "**The agreement**").

Pursuant to the agreement, the controlling interest will make the services of directors available to the Company in consideration for remuneration that is equivalent to the amounts that are determined in the second addition and the third addition, pursuant to the ranking at which the Company may be classified from time to time, in accordance with its shareholders' equity, all of which in accordance with the Companies Regulations (Principles regarding remuneration and expenses for external directors), 5760 – 2000, and this for each director who may serve on the Company's Board of Directors on its behalf (hereinafter: "**The remuneration that has been set**" and "**The provider of the services**", respectively).

The providers of the services' identity will be determined by the controlling interest, at its discretion, and may change from time to time in accordance with its decisions, and this subject to the receipt of the approvals that are required pursuant to the law in the Company. It should be mentioned that as of the time of the publication of this quarterly report, all of the directors in the Company receive the remuneration that has been set.

C. On May 4, 2021, the general meeting's approval was received for the changing of the Company's name to Tomer Royalties Ltd. (or any similar name). As of the time of the publication of the financial statements, the change in the Company's name has not yet been approved by the Registrar of Companies.

D. Pursuant to what has been published by the Tamar partners, the operator in the Tamar project, on May 11, 2021, notification was received from the authorized bodies, that in light of the security situation it was required to hold the process of the production of natural gas from the Tamar reservoir and accordingly the production of natural gas from the Tamar reservoir was halted. The production from the Tamar reservoir was restarted on May 21, 2021.