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**Report to the Shareholders of Delek Royalties (2012) Ltd.**

We have audited the attached Statements on the Financial Status of Delek Royalties (2012) Ltd. (Hereinafter: "**the Company**") as at December 31, 2020 and 2019 and the statements on comprehensive earnings, the change of equity capital and cash flow statements for each of the three years in the period ending on December 31, 2020. These financial statements are the responsibility of the Company's Board of Directors and Executive. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit pursuant to generally accepted auditing standards in Israel including standards prescribed in the Auditors Regulations (Auditor's Modus Operandi), 5733– 1973. Pursuant to these standards, we are required to plan and execute the audit with the goal of attaining a reasonable degree of confidence that the financial statements contain no material erroneous presentation. The audit includes a sample examination of the evidence supporting the sums and data in the financial statements. The audit also includes an examination of the accounting rules applied, the material estimates made by the Company's Board of Directors and Executive and an assessment of the appropriateness of the general presentation in the financial statements. We are convinced that our audit provides a proper foundation for our opinion.

We believe that the aforementioned financial statement properly reflect the Company's financial status as at December 31, 2020 and 2019 as well as the results of its operations and changes in its equity and the cash flows, for each of the three years in the period ending on December 31, 2020. Pursuant to the International Financial Reporting Standards (IFRS) and the instructions in the Securities (Annual Financial Statements) Regulations, 5770 – 2010

Tel Aviv March 29, 2021.

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

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

## Statement on the Financial Status (in USD Thousands)

	Note	As at December 31	
		2020	2019
(In thousands of dollars)			
<b>Assets:</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15a	4,460	5,323
Short-term deposits	15a	4,130	6,230
Accounts receivable	4	2,107	2,567
		<u>10,697</u>	<u>14,120</u>
<b>Non-current assets:</b>			
Investments in oil and gas assets (right to receive royalties)	5	149,834	154,001
Deposit restricted for use	15a	8,444	6,599
Right of use asset		141	200
Fixed Assets		8	11
Deferred taxes	13r	2,555	366
		<u>160,982</u>	<u>161,177</u>
		<u>171,679</u>	<u>175,297</u>
<b>Liabilities and Equity</b>			
<b>Current Liabilities:</b>			
Current bond contingency	8	9,849	13,009
Accounts payable	6	2,969	3,769
Income tax payable		1,045	632
		<u>13,863</u>	<u>17,410</u>
<b>Non-Current Liabilities:</b>			
Bonds	8	69,943	79,792
Liabilities for leasing		109	169
		<u>70,052</u>	<u>79,961</u>
<b>Equity:</b>			
Share capital	9	5,595	5,595
Premium on shares		55,217	55,217
Earnings Balance		26,952	17,114
		<u>87,764</u>	<u>77,926</u>
		<u>171,679</u>	<u>175,297</u>

The attached notes constitute an integral part of the financial statements

March 29, 2021			
Date of approval of the financial statements:	Marim Gaz	Meir Menachem	Tomer Gordon
	Chairperson of the Board	CEO and Director	Comptroller

## Statement on Total Earnings

	Note	For the year ending December 31		
		2020	2019	2,018 (*)
		(In thousands of dollars)		
<b>Revenues:</b>				
Royalties from the sale of natural gas and condensates	10	21,388	28,946	16,205
<b>Expenses and Costs</b>				
Depletion expenses	5א	4,167	5,282	3,138
Tax on oil and gas earnings	7ב	137	-	-
Administrative and sundry expenses	11	1,448	1,048	552
<b>Total expenses and costs</b>		<u>5,752</u>	<u>6,330</u>	<u>3,690</u>
<b>Earnings from regular operations</b>		<u>15,636</u>	<u>22,616</u>	<u>12,515</u>
Financing expenses	12	(5,045)	(5,704)	(3,882)
Financing revenue	12	170	352	149
<b>Net financing expenses</b>		<u>(4,875)</u>	<u>(5,352)</u>	<u>(3,733)</u>
<b>Pre Taxes on Income Earnings</b>		10,761	17,264	8,782
Income Tax	13	(923)	(2,732)	(2,620)
<b>Total Comprehensive Net Earnings</b>		<u>9,838</u>	<u>14,532</u>	<u>6,162</u>
Earnings per ordinary share with a nominal value of NIS 1 (Basic and diluted) attributed to the Company's Shareholders (in dollars)	14	<u>0.49</u>	<u>0.73</u>	<u>0.54</u>

(\*) The Company commenced operations on June 7, 2018, as stated in Note 1b1b

The attached notes constitute an integral part of the financial statements

## Changes in Equity Statement

	<u>Share capital</u>	<u>Premium on shares</u>	<u>Earnings Balance</u>	<u>Total:</u>
<b>For the year ending December 31, 2020</b>				
<b>Balance as at January 1, 2020</b>	5,595	55,217	17,114	77,926
Net and comprehensive earnings	-	-	9,838	9,838
<b>Balance as at December 31, 2020</b>	<u>5,595</u>	<u>55,217</u>	<u>26,952</u>	<u>87,764</u>
<b>For the year ending December 31, 2019</b>				
<b>Balance as at Tuesday, January 1, 2019</b>	5,595	55,217	6,162	66,974
Net and comprehensive earnings	-	-	14,532	14,532
Dividend distributed (see Note 9d)	-	-	(3,580)	(3,580)
<b>Balance as at Tuesday, December 31, 2019</b>	<u>5,595</u>	<u>55,217</u>	<u>17,114</u>	<u>77,926</u>
<b>For the year ending December 31, 2018 (*):</b>				
<b>Balance as at Monday, January 1, 2018</b>	(**)	-	-	(**)
Net and comprehensive earnings	-	-	6,162	6,162
Issue of shares, net (see Note 3c)	5,595	55,217	-	60,812
<b>Balance as at Monday, December 31, 2018</b>	<u>5,595</u>	<u>55,217</u>	<u>6,162</u>	<u>66,974</u>

(\*) The Company commenced operations on June 7, 2018 as stated in Note 1b

[\*\*] Represents a sum lower than \$1,000.

The attached notes constitute an integral part of the financial statements

## Cash Flow Statements

	For the year ending		
	December 31		
	2020	2019	2,018 (*)
	(In thousands of dollars)		
<b>Cash flow from regular operations:</b>			
Net Earnings	9,838	14,532	6,162
Adjustments for			
Depletion and depreciation	4,231	5,342	3,139
Taxes on income expenses	923	2,732	2,620
Net financing expenses	4,875	5,352	3,733
<b>Changes in the assets and liabilities entries</b>			
Reduction (increase) in trade receivables	460	(85)	(2,482)
Increase (reduction) trade payables	226	(72)	939
<b>Cash paid during the period for:</b>			
Income tax paid	(3,666)	(3,809)	(1,129)
Rebate received from income tax	-	686	-
	7,049	10,146	6,820
<b>Net cash deriving from regular operations</b>	16,887	24,678	12,982
<b>Cash flows from investment operations:</b>			
Acquisition of a right to receive royalties (see Note 3)	-	-	(137,874)
Deposits (payments) in current deposits	2,100	(2,004)	(4,226)
Payments in non-current deposits	(1,845)	(286)	(6,313)
Interest received	170	352	149
Acquisition of a fixed Asset	(2)	-	(18)
<b>Net cash derived from operations (used for Investment operations)</b>	423	(1,938)	(148,282)
<b>Cash flows from financing operations:</b>			
Issue of bonds (less the issue costs) (see Note 8)	-	-	118,067
Acquisition of bonds that were issued (see Note 8h)	-	-	(6,465)
Redemption of bonds	(13,164)	(13,531)	(5,740)
Interest paid	(4,942)	(5,705)	(1,561)
Issue of shares, net (see Note 3c)	-	-	36,531
Payment of liabilities for leasing	(63)	(62)	-
Dividend distributed (see Note 9d)	-	(3,580)	-
<b>Net cash derived from operations (used for financing operations)</b>	(18,169)	(22,878)	140,832
<b>Increase (decrease) in cash and cash equivalents</b>	(859)	(138)	5,532
<b>Cash and cash equivalents balance at the beginning of the year</b>	5,323	5,428	-
<b>Exchange rate differentials for the cash and cash equivalent balances</b>	(4)	33	(104)
<b>Cash and cash equivalents balance at the end of the year</b>	4,460	5,323	5,428
<b>Appendix – Financing and investment operations that are not included in the cash flow:</b>			
Issue of shares as a part of the consideration for acquiring rights to receive royalties	-	-	24,281
Increase (decrease) in liabilities relating to an effective royalty pursuant to the well that was recorded against oil and gas assets (rights to receive royalties)	-	(226)	469
Increase in the liability for leasing that was recorded against a right of use asset	-	33	-

(\*) The Company commenced operations on June 7, 2018 as stated in Note 1b1b  
The attached notes constitute 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 limited by shares.  
In June 2018, after the Company had made a public issue of bonds and shares, which were listed for trading on the Tel Aviv Stock exchange Ltd. (hereinafter: "TASE"), the Company became a public company in the sense of the Companies Law, 5759 – 1999 (hereinafter: "The Companies Law"), and a reporting company in the sense of the Securities Law, 5728 – 1968.
- b. The Company commenced its business operations on June 7, 2018, with the establishment of the prerequisites to the agreement signed between Delek Energy Systems Ltd. (hereinafter: "Delek Energy" and the Company, pursuant to which Delek Energy assigned its right to receive royalties at a rate of 1.125% prior to the refund of the investment and 4.875% after the refund of the investment in an absolute assignment (see note 3f for details) of Delek Drilling – Limited Partnership's share (22%) "a partnership under the control of Delek Energy, hereinafter: "Delek Drilling") and from its share debited with the payment of royalties of Tamar Petroleum Ltd. (9.25%) (hereinafter: "Tamar Petroleum") (hereinafter jointly: "the royalty payers") in oil and/or gas and/or other valuable materials, that will be produced and exploited from the oil assets leases i/12 "Tamar" and i/13 "Dalit" (hereinafter: "Tamar Lease" and "Dalit Lease", respectively) (hereinafter: "the rights to royalties").

On June 7, 2018, the rights to royalties that the Company acquired from Delek Energy were recorded in the Oil Register 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 leasing the rights to receive royalties of companies dealing in the oil and gas field. Accordingly, as at the date of approval of the report, the Company's only operational field is holding the right to receive royalties in relation to oil and/or gas and/or other valuable materials that will be produced and exploited from the shares of the royalty payers in the Tamar and Dalit Leases. Accordingly, the Company's revenues are dependent on revenues from oil and/or gas and/or other valuable materials that will be produced, should any be produced and on the operations of the royalties payers and the other partners in the rights that were acquired and/or will be acquired in the future.
- d. See Notes 3 and 8 below for details about the transaction for acquiring the rights to royalties and about the securities that were issued by the Company in its framework.
- e. On September 13, 2020, Delek Energy, a subsidiary under the full control of the Delek Group Ltd. (hereinafter: "**Delek Group**"), engaged in an agreement for the sale of all its holdings in the Company (39.93%, as at that date), subject to the conditions, which also included publication of a special acquisition offer for the acquisition of the Company's shares by Essence Royalties – Limited Partnership (hereinafter: "**Essence Royalties**"), which, as at the date of the publication of the report did exist. On December 29, 2020, Delek Group notified the Company that it had engaged in an out of the TASE transaction, in the framework of which it had sold the full balance of Delek Energy's holdings in the Company.  
As at the date of publishing the report, the controlling shareholder in the Company is Essence Partners Ltd., which serves as the General Partner in Essence Royalties, which, together with the interested parties in it, holds 50.79% of the Company's issued share capital.
- f. As at December 31, 2020, the Company has a working capital deficit of 3,166 thousand dollars. Within the frame of reference of a discussion that the Company's Board Of Directors held at its meeting on March 29, 2021, the Board determined that the working capital deficit does not indicate any liquidity problem, after examining the Company's forecast cash flows for the next two years, they are in a volume that covers the payment of its liabilities and financing its regular operations. It should be noted that, in the report period, the Company has a positive cash flow from regular operations and that, after payment of interest for the Series A bonds, the total net flow in the reporting period as aforementioned amounts to 11,945 thousand dollars

**Note 1 - General(continued)**

- g. At the end of 2019 and during Q1/20, the Corona virus 2019 (COVID 19) began spreading in China and, afterwards, throughout the world and, in March 2020 it was defined by the world health organization as a global pandemic (hereinafter: "the Corona pandemic " or "the Corona virus"). Following the spread of the Corona pandemic, many countries, including Israel, in 2020 adopted and are still adopting as at the date of publishing this report, extreme measures in an attempt to prevent the continuing spread of the virus, for example restricting the movement of citizens and assemblies, restricting transportation of passengers and goods, closure of borders between countries etc. This has resulted in the Corona virus causing a slowdown in global economic activity and damage to various sectors, including the energy sector, in which the royalties payers operate. Thus, during h1/20 the sharpest decline in oil and natural gas prices was recorded in the international markets, which, in the Company's opinion, can be attributed, inter alia, to the Corona virus and to additional reasons and factors that have an effect on the demand and supply of energy products. Furthermore, during h1/20 and primarily during q2/20, in the domestic economy and the export markets, a decline in the demand for natural gas was recorded, compared with the corresponding previous period, this, primarily in view of the effects of the Corona pandemic on the demand for electricity in these markets, as a result of closures and restrictions on economic activity. Toward the end of 2020 and during q1/21, there was a global recovery of energy products prices and in h2/20, a rise in demands for natural gas was recorded compared with the corresponding previous period. It should be noted that over recent months, many countries throughout the world have commenced inoculating their citizens against the Corona virus. However, the degree of efficacy of the inoculations is still being examined and, inter alia, is dependent on the rate and manner of the spread of various mutations of the virus. The restrictions and actions adopted by Israel and other countries for coping with the Corona virus are likely to have a material negative effect on the Tamarwell work programs. As a result of these measures, delays on the entry of foreign experts and the supply of designated equipment into the state of Israel are likely, in view of the restrictions that apply to the movement of citizens between sites and countries and restrictions on the production or conveyance that apply in various countries, which, is, inter alia, likely to disrupt the orderly production action and the work programs of Noble Energy Mediterranean Ltd.. (hereinafter: "Noble," which activates the project as well as to impose unexpected additional costs. In this regard, it should be noted that Noble, in coordination with the Supervisor of Oil Affairs and The Ministry of Health has consolidated a plan of action for dealing with the Corona virus, inter alia, in a trend to ensure, to the extent possible, that the manpower of the operator can reach the marine and continental project installations and continue executing essential actions in the aforementioned installations. To the best of the Company's knowledge, as at the date of publishing the report, the Corona virus did not cause any material damage to the operating setup in the Tamar Project. However, because there is uncertainty regarding the manner of the continued development of the Corona pandemic, there is a risk that, despite the preventative measures that have been adopted by the partners in the Tamar Project, operating the well will be prejudiced. As a part of the strategy for coping with the Corona pandemic, the Tamar Partners have acted to streamline and reduce the operating budget for 2020 and postponing the planned investment budgets to later years. As at the date of publishing the report, there is difficulty in assessing how the Corona pandemic will continue developing during 2021 and thereafter; what the scope of its effect would be on the global and domestic economies; and what the effect on the demand and sales from the Tamar well and/or on the financial strength would be, and, as a result of this, on the businesses of the royalties payers under these circumstances, the Corona pandemic constitutes a global macroeconomic risk and generates uncertainty regarding future global economic activity and the anticipated effects on the financial market from interest earnings, currency exchange rates, the levels of demands and the prices of commodities in the energy field and are likely to cause damage to many sectors, including the energy sector in which the royalties payers and the Company operate.



**Note 3:- Acquisition of the Rights to Receive Royalties**

- a. On June 7, 2018, all the prerequisites existed for the agreement signed between Delek Energy and the Company, pursuant to which Delek Energy assigned its rights to royalties in an absolute assignment to the Company As Is on the date of signing the agreement, at a rate of 1.12% prior to a refund of the investment and 4.875% after a refund of the investment (see Section f below for details) of Delek Drilling's share (22%) and its mandatory share in the payment of royalties of Tamar Petroleum (9.25%) in oil and/or gas and/or other valuable materials, that will be produced and exploited from the Tamar and Dalit lease oil assets and all the rights accompanying the rights to the royalties, including the registered encumbrance in favor of Delek Energy on the rights of Delek Drilling in the Tamar Lease that guarantees Delek Drilling's commitments to paying royalties against the banks that finance the Tamar Project, against payment of the consideration (see Section c below) to Delek Energy and subject to the same conditions according to which Delek Energy held the rights to royalties on the date of signing the agreement.
- b. All the rights and debts of the Company for the rights to royalties shall apply retrospectively as of January 1, 2018 (hereinafter: "**the date of eligibility for royalties**"). Included in this, the Company shall be entitled to any right and bear any indebtedness in relation to the royalties received for the oil and/or gas that were sold after the date of eligibility for royalties (including any debts for the repetition that were submitted on June 18, 2014 to the District Court in Tel Aviv to approve a class action by a consumer of the Electricity Corporation against the partners in the Tamar Project, should there be any assets, as provided in Note 7a1 below).

**Note 3:- Acquisition of the Rights to Receive Royalties (continued)**

- c. The value of the transaction for the right to royalties amounted to \$174 million. The Company paid Delek Energy a cash sum of \$139 million for the rights to the royalties, after deducting \$11 million equivalent to the royalty receipts for gas that were sold between the date of eligibility for royalties and the date of completing the transaction, which were actually received at Delek Energy prior to the date of completing the transaction. The consideration in cash was received from both a public issue of the Company's shares in the sum of \$37 million and the issue of the Company's Series A bonds in the sum of \$113 million (See Note 8 below). Furthermore, as a part of the consideration for the acquisition of the rights to royalties, the Company allocated 7,985,600 Ordinary Shares of the Company each with a nominal value of NIS 1 to Delek Energy, which constituted 39.93% of the Company's issued and paid up share capital after the allocation. On the date of the allocation, the value of allocated shares amounted to \$24 million.
- d. Delek Energy undertook to indemnify the Company for any damage or indebtedness caused to the Company in view of any claim, allegation or legal proceedings as a result of a breach of the presentations detailed in the agreement. Delek Energy shall not be liable for any damage caused to the Company as a result of a breach of the aforementioned presentations until the sum of the aforementioned damage exceeds \$500,000 (and in such an event, the liability is limited to the sum that exceeds the aforementioned sum). Delek Energy's maximum liability for a breach of the representations as aforementioned, shall not exceed the sum of the cash consideration received for the rights to royalties in any event.
- e. As a part of the agreements between Delek Energy and Delek Drilling, Delek Drilling undertook to pay Delek Energy royalties at the rates published below from any share of Delek Drilling in the oil and/or natural gas and/or other valuable materials, that will be produced and exploited from the oil assets in which Delek Drilling has or shall have an interest before deducting royalties of any kind, but after reduction of the oil used for the purposes of the production itself. Pursuant to these agreements, the aforementioned right of royalties is linked to Delek Drilling's share (22%) and the mandatory share in the royalties (9.25%) of Tamar Petroleum in each of the oil assets.

## Delek Royalties (2012) Ltd.

Even if Delek Drilling and/or Tamar Petroleum transfer their obligatory rights in the royalties in the oil asset, or receive the transfer it will accept all the liabilities for payment of the royalty as aforementioned. The Company is entitled to choose to receive the royalty in kind, i.e., to receive some from oil and/or natural gas and/or other valuable materials that will be produced and exploited from the oil asset. Should the Company not choose to receive the royalty in kind, the royalty payer must pay the market value, pursuant to the well, of the royalties owing to it. Should the Company choose not to receive the royalties from the Tamar Project in kind, then Delek Drilling and Tamar Petroleum must pay the market value of the royalties according to the well (see note 10b below).

- f. The royalty rights in the Tamar and Dalit leases to which the Company is entitled are up to the date of the return of the investment in the asset at a rate of 1.125% and after the date of the return of the investment at a rate of 4.875% of Delek Drilling's and Delek Drilling's share in the asset regarding which the right to a royalty applies as aforementioned.
  1. In an agreement to transfer the royalties, it was established that the rate of the royalties that the Company would be entitled to receive from the Tamar Lease would, in any event, be the rate of royalties after the date of refunding the investment, so that if it becomes clear that the investment refund date in the Tamar Lease occurs after January 1, 2018 (the date of eligibility for royalties), then Delek Energy must indemnify the Company in a manner so that the flow of royalty receipts to the Company (including the aforementioned indication from Delek Energy) will reflect the rate of royalties after the date of refunding the investment in the Tamar Lease. It should be noted that, pursuant to publications by Delek Group, which holds the full (100%) share capital of Delek Energy, on March 12, 2020, the rating company S&P Maalot (hereinafter: "**Maalot**") announced placing the Delek Group in the monitoring list with negative implications in view of the uncertainty regarding the sources at its disposal and, on April 1, 2020, May 5, 2020 and September 30, 2020 Maalot updated its forecast.. On January 31, 2021 because of the actions that the Delek Group adopted to reduce its debt and improve its sources, Maalot raised the Delek Group's rating to i1B with a developing forecast.

### Note 3:- Acquisition of the Rights to Receive Royalties (continued)

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

2. If, in the future, it is established that the Company must repay excess royalties that were paid to it because of the fact that the date of the investment refund applied after the date of the eligibility for royalties, Delek Energy must indemnify the Company for the aforementioned refund of the royalties, even if the obligation to indemnify as aforementioned occurs after the date of eligibility for royalties. Pursuant to updated assessments published by Delek Drilling and Tamar Petroleum, in September 2019 and July 2019, respectively, the investment refund date in the Tamar Project according to Delek Drilling took place on January 25, 2018 while in the opinion of Tamar Petroleum it took place on March 5, 2018. (instead of December 2017). Therefore, pursuant to the aforementioned indemnification, up to the date of publishing the report, Delek Energy paid an accumulated sum of \$3.1 million for royalties which, according to the royalty payers, were paid in excess due to the fact that the investment refund date occurred after the date of eligibility for royalties. Furthermore, the Company, the Delek Group and Delek Energy (hereinafter jointly in this section: "**the royalty owners**"), sent letters in which the royalty owners specified their objection to postponing the investment refund date as aforementioned and to the royalty payers' right to execute a set off, which was executed wrongfully.. It must also be specified that if the royalty payers do not transfer the sums that were set off, the royalty owners would consider their steps in relation to the proper manner for clarifying the aforementioned issue.

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

As at the date of publishing the financial statements, the aforementioned has had no effect on the Company's Comprehensive Earnings Statement. It must be specified that, according to the Company, if, in the future it is established that the Company must refund royalties that were paid to it in excess in view of the fact that the investment refund date occurred after the date of eligibility for royalties, and Delek Energy does not indemnify the Company pursuant to the aforementioned commitment, then the Company will be required to pay material sums to the royalty payers.

See Note 7a2 below for details about the legal proceedings on the subject of the investment refund date in the Tamar Project in which the Company is a party.

Note 5: - Investments in the Oil and Gas Assets (Rights to Receive Royalties)

## a. Composition:

	December 31	
	2020	2019
	(In thousands of dollars)	
<b><u>Cost:</u></b>		
Balance as at the beginning of the year	162,421	162,647
Update of the provision for an effective royalty according to the well for the period from January 1, 2018 until June 7, 2018 (see Note 10b below)	-	(226)
	<u>162,421</u>	<u>162,421</u>
<b><u>Accrued depreciation:</u></b>		
Balance as at the beginning of the year	8,420	3,138
Depletion in the period (*)	4,167	5,282
	<u>12,587</u>	<u>8,420</u>
<b>Reduced cost as at December 31</b>	<u>149,834</u>	<u>154,001</u>
(*) The depletion rate of the asset in the period	<u>2.5%</u>	<u>3.3%</u>

## b. Following are the main details regarding the Company's rights to royalties

Name of the lease	Type of right	Name of the right	The right is valid until (1)	Delek Drilling's share in the oil asset (2)	Tamar Petroleum's share in the oil asset (2)	The total share from which the Company is entitled to royalties from the oil asset (3)
Tamar	Lease	Tamar12/ I	December 1, 2038	22%	16.75%	31.25%
Dalit	Lease	Dalit 13/ I	December 1, 2038	22%	16.75%	31.25%

- (1) The validity of the oil rights is extended from time to time and is conditional on fulfilling certain commitments on the dates established in the conditions of the oil assets. In the event of noncompliance with the conditions, the oil right can be canceled.
- (2) See Note 3e above for additional details
- (3) The commitment to pay royalties to the Company applies to all Delek Drilling's rights in the oil assets (22%) and the rights in the oil assets that Tamar Petroleum acquired from Delek Drilling (9.25%) and does not apply to the rights that Tamar Petroleum acquired from Noble Energy Mediterranean Ltd. (hereinafter: "Noble") (7.5%)

- c. 1. Pursuant to the resources report dated March 14, 2021, prepared for Delek Drilling by Netherland Sewell & Associates Inc. (hereinafter: "NSAI") which is an authorized, expert and independent assessment of the reserves and resources pursuant to the SE-PRMS rules. The natural gas reserves in the Tamar Project (which includes the Tamar wellheads and Tamar SW), that are classified as reserves in production as at December 31, 2020 and classified as proved reserves, is 2019 BCM and the quantity of the reserves classified as proved + Probable Reserves is 297 BCM. Pursuant to the aforementioned report, the condensate reserves in the Tamar Well and Tamar SW, classified as reserves in production, as at December 31, 2020, classified as proved reserves is 10.0 million barrels and the quantity of reserves classified as proved + Probable Reserves is 13.6 million barrels.

**Note 5: - Investments in Oil and Gas Assets (right to receive royalties) (continued)**

The aforementioned results do not include the reserve that overflows into the Eran License. Pursuant to the public data of Delek Drilling and Tamar Petroleum, some of the reserves in the Tamar SW well overflow into the Eran area of the license which expired on June 14, 2013. Following the mediation proceedings conducted between the partners in the Eran license prior to its expiry (hereinafter: "The Eran Partners") with the Commissioner of Petroleum Affairs, the Parties reached agreements that are anchored in the framework of the mediation arrangement, to which all the Tamar Partners also gave consent, and pursuant to them the Tamar SW well will be divided between the Tamar Lease area (78%) and the Eran license area (22%). On April 11, 2019, the aforementioned mediation arrangement was given the force of a verdict. As at the date of publishing the report, the Parties have not yet reached the required agreements for the purposes of implementing the mediation arrangement and there is no certainty that they will reach any agreement as aforementioned.

- (a) Pursuant to the last resources report received by Delek Drilling from NSAI, in March 2018, pursuant to the PRE-PRMS, rules, the quantity of resources conditional on the "Dalit" lease which is classified in the (Development Pending Stage as at December 31, 2017, are between 6.1 BCM (the low estimate) and 9.5 BCM (the high estimate). Pursuant to public data of Delek Drilling, according to it, as at the date of publishing the report, there has not been any change in the details that were introduced in the aforementioned report. The resources report indicates that the pending resources are conditional on approval of the project, which includes an approved development program and a reasonable expectation for the sale of natural gas.
  - (b) The aforementioned assessment, regarding the natural gas and condensate reserve in the leases, are, inter alia, based on geological, geophysical, engineering and other information received from the drillings and from the operator in the aforementioned rights.. The aforementioned assessments are in the bounds of professional evaluations and assumptions of NSAI, regarding which there is no certainty. The natural gas and condensate quantities that will actually be produced could differ from the aforementioned assessments and assumptions, inter alia, as a result of operational 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 actual performances of the wells. The aforementioned assessments and assumptions could be updated to the extent that additional information is accumulated and/or as a result of a gamut of factors related to the exploration and production projects of oil and natural gas, including as a result of the continued production from the Tamar Project.
2. The Tamar Partners have an agreement for the sale of a significant part of the gas reserves in the well to the Israel Electricity Corporation Ltd. (hereinafter "**the Electricity Corporation**"), to additional electricity consumers and industrial and other customers. Generally, the agreements establish the minimum quantities that the customers have undertaken to acquire, the supply periods, the possibility of reducing the quantities in some instances and various mechanisms for updating and linking the prices that were established in the agreements
  3. On December 24, 2019, the partners in the Tamar Project reported that an agreement to export natural gas from the Tamar Project to Egypt, which was signed between the Tamar Project partners and Limited Holding Dolphinus (hereinafter: "**Dolphinus**") had come into force. The agreement is on a firm basis and it includes a commitment to take or pay. In July 2020, Dolphinus assigned the export agreement to an associated company, Blue Ocean Energy In July 2020, after a flow permit had been received from the Natural Gas Authority and running the compressor that had been installed at the Trans Israel Pipeline site in Ashkelon had been completed, the flow of gas from the Tamar well to Egypt commenced.

4. See Note 7a(1) in relation to confirmation of the class action that was submitted by a consumer of the Electricity Corporation.

**Note 5: - Investments in Oil and Gas Assets (right to receive royalties) (continued)**

- d. The Company has examined the refundable investment sum in the oil and gas assets (rights to receive royalties) as at December 31, 2020, the reduced cost of which in the books is \$149.9 million, in view of the fact that the Company's market value on the TASE is significantly lower than the Company's equity capital. The Company has examined the need for recording a provision for a value decrease through an external, independent assessor, who examined the refundable sum (value of use) via capitalizing the cash flow, this in relation to the Company's assumptions that were included in the framework of the Company's capitalized cash flow from the Tamar Project, as at December 31, 2020 (the natural gas sales volumes of 8.6, 9.2, 9.1, 9.5 and 10.4 BCM in 2021 to 2025 respectively. The gradual rise to 11.65 BCM in 2030 and stabilization on this quantity until 2041. As of that year, a gradual decrease in the quantities produced until the end of the project's life. The average Brent price forecast (in US dollars) of 52, 57, 61, 65, 68 and 71 USD per barrel in 2021 to 2026 respectively. A gradual rise up to a price of 86.0 in 2030 and stabilization on this price until the end of the forecast period) and use of the weighted capitalization (WACC) (after companies tax) of 7.7%.

Pursuant to the aforementioned assessment of the external independent assessor, it was found that the refundable sum, as aforementioned, is slightly higher than the reduced cost of the investment in the oil and gas assets in the books as at December 31, 2020 and, therefore, no reserve is necessary for a value decrease.

**Note 7 – Contingent Liabilities and Engagements**a. Legal Proceedings

1. Pursuant to public data of the royalties payers, on June 18, 2014, a petition was submitted to the District Court in Tel Aviv to approve a class action by a consumer of the Electricity Corporation against the Tamar Partners (hereinafter: "**the approval petition**"). The matter of the aforementioned petition is the price at which the Tamar Partners sell natural gas to the Electricity Corporation. In the approval petition it was claimed that the gas price to the Electricity Corporation is an unfair price and constitutes a detrimental exploitation of the status of the Tamar Partners as the monopoly owners in the natural gas supply field in Israel, in a manner that violates Section 29a of the Economic Competition Law, 5748 – 1988 (hereinafter: "**the Competition Law**").

The relief requested in the approval petition are: Compensation of all the electricity consumers in the difference between the price that the Electricity Corporation paid for natural gas that was supplied by the Tamar Partners and its fair price, which has been estimated at a sum of NIS 2.5 billion (in 100% terms), and declarative order, pursuant to which the Tamar Partners must avoid selling the natural gas from the Tamar Project at a sum that exceeds the sum established in the approval petition and its sale at a higher price constitutes detrimental exploitation of the monopolistic power.

As at the date of publishing the financial statements, the testimony hearings have been completed, in the framework of which were interrogated there was a hearing in the court in which the Parties completed the oral summations that were submitted on their behalf

**Note 7:- Contingent Liabilities and Engagements (continued)**

On July 27, 2020, the Court agreed with the Tamar Partners request to submit the opinion the Attorney General in relation to his interpretation of Section 29a(b)(2) of the Economic Competition Law, 5748 – 1988, that was recently submitted to the Supreme Court in other proceedings (hereinafter in this section: "The Attorney General's opinion). Accordingly, on July 29, 2020, the Tamar Partners submitted the Attorney General's opinion.

Pursuant to public data of the royalties payers, which were published by the date of publishing the Financial Statements, according to them, based on assessments of legal advisors who are handling the claim on their behalf, the chances of the approval petition being accepted are lower than 50%.

2. a. On January 6, 2019, inspectors on behalf of the participation unit holders in Delek Drilling submitted a Statement of Claim and a petition for an urgent Temporary Order to the District Court in Tel Aviv (the Economic Department) (hereinafter in this section: "**the Statement of Claim**" and "**the Petition for a Temporary Order**" respectively), pursuant to Section 65w(b) of the Partnership's Ordinance [New Version] 5735 – 1975, against Delek Drilling, the General Partner and the royalties owner, including the Company.

In the Statement of Claim, the inspector has petitioned the Court, inter alia: To declare that, in the framework of the calculation of "the investment refund date" in the "Tamar" Project, the payments that Delek Drilling must pay to the state according to the tax must be included; to declare that the investment refund date in the Tamar Project has not yet arrived; to determine what the date from which the royalties owners are entitled, including the Company to receive the surplus royalty at an increased rate (a rate of 6.5% instead of a rate of 1.5%); and to declare that the owners of the royalty, including the Company must refund Delek Drilling with the surplus payments that were received with attachment of linkage differentials and interest. Furthermore, as a part of the petition for a Temporary Order, the inspector has requested the Court to grant an order that will prevent any actions that could freeze the rights of the participation unit holders in Delek Drilling.

On January 22, 2019 a reply to the petition for a Temporary Order was submitted to the Court on behalf of the Respondents, including the Company. Within the frame of reference of the replies submitted by Delek Drilling and the General Partner in Delek

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

Drilling, it was claimed that the petition must be rejected, inter alia, because it does not meet the tests of the verdict for granting temporary relief and is stricken with heavy laches. It was also clarified that the claim cannot be mediated unless before an arbitration level.

Within the frame of reference of the reply submitted by the owners of the royalties, it was claimed that, for the purposes of establishing an investment refund date, payments for the tax that will be made by Delek Drilling in the future cannot be taken into account. Furthermore, inter alia, it was claimed that, according to an alternative calculation that experts prepared on behalf of the royalties owners, the investment refund date already passed during 2015, as of that date, they were entitled to receive royalties at their increased rate.

On April 1, 2019, a notice was submitted to the Court on behalf of the aforementioned litigants, that received the validity of the Court, pursuant to which the Parties reached an arrangement regarding providing a written undertaking to be given by Delek Energy which makes the debate on the petition for a Temporary Restrictive Injunction unnecessary.

On April 3, 2019, Statements of Defense and the Statement of Claim against the royalties owners were submitted. The Counter Statement of Claim, included the allegations regarding advancing the date of the investment refund in the Tamar Lease. On May 12, 2019, a reply document was submitted on behalf of the inspectors in Delek Drilling.

On June 16, 2019, the inspectors in Delek Drilling submitted a Statement of Defense relating to the royalty owners claim to advance the investment refund date. On June 24, 2019, a decision was given that rejects the petition for a stay of proceedings and, therefore, the claim will continue to be heard before the Court and not before an arbitrator. On October 2, 2019, Delek Drilling submitted the official Statement of Defense and a Statement of Defense in the framework of the counterclaim and, on December 15, 2019 the royalties owners, including the Company, submitted a reply document.

On May 12, 2020, the inspectors of Delek Drilling submitted a petition to grant temporary relief pursuant to which the Court was requested to order Delek Drilling and the General Partner in Delek Drilling to avoid and desist from transferring surplus royalties at the increased rate to Delek Energy, Delek Group and the Company and, alternatively to order Delek Drilling and the General Partner in Delek Drilling to transfer

### **Note 7:- Contingent Liabilities and Engagements (continued)**

The surplus royalties at the increased rate to the trust account under the ownership of Delek Drilling and this, at the least, until a decision on the claim in relation to the investment refund date in the Tamar Project.

On June 23, 2020, the inspectors submitted a request and a notice agreed upon with the royalties owners, pursuant to which agreement had been reached between the inspectors and the royalties owners that, at that time obviated the need for a decision in the matters that were under dispute between the Parties in the petition. Furthermore, on the same date, the Court confirmed the agreement as aforementioned and canceled the arranged debate. As at the date of publishing the report, evidence has been submitted on behalf of the plaintiffs and defendants, both in the claim of the inspectors and in the claim of the royalties owners, including the Company. A pretrial hearing was set for April 5, 2021.

As at the date of publishing the financial statements, the Company believes, based on the evaluations of the legal consultants handling the Statement of Claim on behalf of the royalties owners, including the Company, that the chances of the claim being accepted are lower than its chances of being rejected.



- b. On August 4, 2019, the Company, the Delek Group and Delek Energy engaged with Tamar Petroleum in an agreement according to which they would refer to mediation proceedings before the Honorary Judge (retired) Yoram Danziger in the matter of the mutual dispute regarding the date on which the investment refund takes place in the Tamar Project.
- Should the mediation proceedings as aforementioned fail, the Parties have agreed to appoint a retired judge as a single arbitrator between them. Simultaneously with signing the agreement, Delek Energy signed a written undertaking, pursuant to which, if in the arbitration decision, it is decided that the Company or anyone succeeding it must refund excess royalties that were paid to it to Tamar Petroleum as a result of non-inclusion of the Sheshinsky tax in the calculation of the investment refund data, Delek Energy would bear this payment within 14 days of the date of the judgment. As at the date of publishing the financial statements, the mediation proceedings are continuing and the Parties meet with the mediator separately and jointly
- c. The Company believes, reliant on its legal consultants, taking the early stage of the mediation proceedings into account, should Tamar Petroleum's claim in relation to the Sheshinsky tax be identical to the inspectors' claim in this matter, as stated in Note 7a2b above, surely it is similar, in view of the professional opinion that was given to the Company that the chances of the Tamar Petroleum claim against the Company being accepted are lower than the chances of it being rejected.
- d. In relation to the proceedings detailed in Sections 2(b) - 2(c), it should be noted that, pursuant to the royalty transfer agreement that was signed between the Company and Delek Energy, as detailed in Note 3f above, Delek Energy has undertaken that the royalties rate to which the Company shall be entitled to receive shall, in any event be the royalties rate after the investment refund date. Thus, if it becomes clear that the investment refund date falls after January 2018 (the date of the Company's eligibility), then Delek Energy will indemnify the Company in a manner that the royalty receipt flow deriving for the Company (including the aforementioned indemnity from Delek Energy) will reflect the royalties rate after the investment refund date. See Note 3f above for additional details.
- e. On July 20, 2020, a demand was received at the Company to furnish documents, this in the framework of the administrative investigation proceedings that the Securities Authority is conducting (hereinafter: "**the demand**"). Within the frame of reference of the aforementioned demand, for furnishing documents, the Company was requested to furnish the Securities Authority with material regarding the possibility of reducing the quantity of the annual take or pay, signed between the partners in the Tamar Project with Dolphinus (see Note 3c6 above for additional details). On October 11, 2020, the Company submitted a reply to the demand to the Securities Authorities. At this early stage of the administrative investigation, the Company does not have any ability to assess the nature of continuing the administrative investigation and its results.

**Note 7:- Contingent Liabilities and Engagements (continued)**

- b. The Earnings Taxation and Natural Resources Law, 5771 – 2011
- a. In April 2011, the Knesset passed the Earnings Taxation and Natural Resources Law, 5771 – 2011 (hereinafter "the law"). Implementation of the Law has resulted in a change in the taxation rules

that are, inter alia, applicable to the Company's revenues. The taxation instructions include, inter alia, initiating an oil and gas earnings tax according to a mechanism established in the Law and calculation of the depletion deduction. As aforementioned, this law applies to the Company's revenues from royalties.

The main points of the instructions of the Law include collecting an oil and gas earnings tax at a rate to be established as provided below. The tax rate will be calculated according to the proposed r factor type mechanism, pursuant to the ratio between the net accumulated revenues from the project and the accumulated investments as defined in the law. A minimum tax of 20% will be collected as of the stage in which the r factor ratio reaches 1.5 and when the ratio rises the tax will rise progressively to a maximum rate of 50% until reaching a ratio of 2.3. Furthermore, it was established that the tax rate as aforementioned, will be reduced as of 2016 by a multiplier of 0.64 of the difference between the companies tax rate as established in section 126 of the Income Tax Ordinance regarding each tax year and the tax rate of 18% pursuant to the Company's tax rate established as of 2016 onwards, the maximum rate will be 46.8%..

- b. Additional instructions regarding the tax were also established. Inter alia, the tax will be recognized as an expense for calculating income tax; the limits of the tax will not include export installation; the tax will be calculated and imposed in relation to each well separately (ring fencing).
  - c. Furthermore, rules were established in the law to combine or separate oil ventures for the purposes of the law.
  - d. The instructions regarding imposing the oil and gas earnings tax are, at the beginning from April 10, 2011 and they include transition instructions regarding ventures that commenced commercial production by January 1, 2014, regarding which, inter alia, it was established that, in the proportionate taxation coefficient calculation, the proportionate tax coefficient range will be between a rate of 2 to 2.8 instead of a rate of 1.5 to 2.3. The Tamarwell is within the incidence of the transition instructions.
  - e. Pursuant to the law, the royalties paid to the Company constitute "a derivative payment" and, therefore, the Company, as the owner of the right to the royalties has the obligation of paying the tax for them, in a sum equivalent to the multiplier of the derivative payment at the tax rate applicable regarding to the oil venture in the tax year in which the payment was received. The royalties payers must deduct a sum constituting 50% of them from the royalties payments prior to the transfer (or less, if the assessment officer has been convinced that the tax rate that will apply regarding the oil venture in the oil venture will be lower than 50%), on account of the tax that the payment recipient must pay and must be transferred to the Assessment Officer.
  - f. The Company recognized the expense of the oil and gas earnings tax for the Tamar Project. As at the date of publishing the financial statements, pursuant to publications by the royalties payers, there are a number of disputes between the royalties payers and the taxation authorities regarding primarily the manner of recognizing and classifying data in the tax returns that they submitted and which have an effect on the tax rate applicable in the reporting year. The Company does not have any data, pursuant to which the royalties payers calculate the tax and, therefore, the Company estimates the expense reliant, inter alia, on tax advance payments that it pays pursuant to the taxation authority's demands and the data included in the reports that were published by the Tamar Partners.
- C. Natural Resources Earnings Taxation (Advance Payments in View of the Oil Earnings Tax) Regulations, 5780 – 2020 (hereinafter in this section "the Regulations")
- a. On December 2, 2020, the regulations were published, in the framework of which the subject of the advance payment to be paid by the owners of the oil rights of an oil venture and the derivative payment recipients as defined in the law were arranged, including the manner of calculating the advance, dates of payment and reporting them.
  - b. Following is a summary of the main provisions included in the regulations
    1. The owner of an oil right of an oil venture (hereinafter in this section: "the owner of the oil right") must pay an advance on account of the tax for that tax year, when the payment will commence from the tax year which follows the tax year in which there was a tax coefficient of 1 or more with the addition of linkage differentials and interest from the date established for payment until payment of the advance sum.

2. An equation for calculating the sum of the advance, its rate, the date of its payment and the manner of reporting the sum paid were also determined. Pursuant to the regulations anyone who is the owner of an oil right is obliged with payments of advances

**Note 7:- Contingent Liabilities and Engagements (continued)**

According to his proportionate share in the oil right. It was also established that, during the first three tax years commencing from the tax year following the tax year in which there was a tax coefficient of 1 or more or commencing from the 2021 tax year whichever is the later the advance rate would be: in the first tax year – 21%; in the second tax year – 30% and in the third tax year 37%

3. According to Section 9(b)(1) of the law, the derivative payment is the payment calculated at the rate from the oil that was produced in the oil venture field, from the venture receipts or oil earnings of the venture. The derivative payment recipient is obligated with payment of the tax (hereinafter: “the participation sum”). The section establishes that the participation sum will be deducted from the tax sum that the oil rights owner has to pay. Therefore, the regulations have established that the participation sum that was withheld at the source by the oil right owner as payment on account of advances to which he is obligated deduction as aforementioned is conditional on the existence of all the following: (1) the oil right owner transferred the sum of the tax deducted to the assessment officer no later than the advance payment date for the determining monthly; (2) the sum deducted that was transferred was not set off in the past; (3) the determining month for which has been required place in the same tax year in which he derivative payment was received.
  4. The Assessment Officer shall be entitled to decrease or increase the rate of the advance determined for a particular tax year if it is proven to his satisfaction that the tax for the tax year is higher or lower than the advances sum that was calculated for that tax year.  
The advance rate that was established as aforementioned in section 2, applies to the owners of oil assets and the tax rate that applies to the owners of the royalties has been established by the Assessment Clerk as derived from the tax rate on the owners of the oil assets and that should be established at a higher rate.
- d. On January 7, 2021, the Ministry of Justice published in public notice a memorandum of the earnings from natural resources law (amendment), 5781 – 2021 the law memorandum is intended to arrange a number of subjects in the field of inspection and collection of the tax. The amendments in the framework of the proposed memo includes advancing the payment of the tax under dispute, integrating the assessment clerk’s decision in objecting to the assessment and measures for increasing enforcement in the field. Furthermore, in the framework of the memo, it was specified that actions for clarifying the taxation rules on the subject would be promoted. On March 8, 2021, the law as aforementioned was approved in the Knesset in the first reading.
  - e. The unique issues of the tax relating to the Company’s operations, including the tax pursuant to the natural resources earnings taxation law, have not yet been debated in the courts in Israel and it is impossible to anticipate or determine how they will be adjudicated in the courts if and when the aforementioned issues are introduced for their decision.

**Note 8: The Issue of Series A Bonds**

- A. On May 29, 2018, the Company completed a raising of NIS 425,498 thousand (119,388 thousand dollars), prior to the raising costs which amounted to \$1.3 million, through a public issue of bonds with a nominal value of NIS 425,498,000 (Series A). The bonds (Series A) are linked (principal and interest) to the dollar exchange rate as was at the end of the forex trading day on the date of the institutional tender and bear fixed annual interest of 5.48%. 76.19% of the bonds principal have been placed for redemption in 20 unequal semiannual payments, commencing from August 2018 until February 2028. The balance of the bond principal of 23.81%

## Delek Royalties (2012) Ltd.

will be redeemed in August 2028. The interest is paid in semiannual payments commencing from August 2018 until the date of the final settlement of the principal. The effective annual interest rate of the bonds is 5.73%.

The trust deed includes instructions regarding debiting the interest-rate up to an accrued increment of 1.25% above the annual interest rate established as aforementioned, in the event in which the bond rating of the Company will be lower than two ratings from the rating of Aa3.il and/or in the event that the economic equity capital is lower than a sum of \$60 million.

Bonds rated by Midroog Ltd. with a rating of Aa3.il with a stable forecast.

### Note 8: Issue of Series A Bonds (continued)

#### b. Redemption Dates

	December 31	
	2020	2019
	(In thousands of dollars)	
First year - current maturity	9,849	13,009
The second year:	7,149	9,849
The third year:	6,430	7,149
The fourth year:	6,063	6,430
The fifth year onwards	<u>50,301</u>	<u>56,364</u>
	<u>79,792</u>	<u>92,801</u>

#### c. To guarantee its commitments to the bondholders, the Company has encumbered the assets and rights in favor of the trustee (in trust for the bondholders) in a single first fixed lien and without restriction as to sum as follows:

- (1) All the Company's rights in the rights acquired that relate to the royalties that are received from the Tamar Lease. On September 30, 2018, the Commissioner of Petroleum Affairs at the Ministry of Energy gave his approval for registering the aforementioned lien in the Petroleum Register and, on September 16, 2018 the lien was registered in the Companies Registrar's records.
- (2) The Company's rights in the bank account in which all its revenues from royalties will be deposited, including in cash, deposits and securities that will be in it, and all the prophets deriving from the cash or these rights (hereinafter: "**the activity account**").
- (3) The Company's rights of any kind whatsoever, that exist or that shall exist in the future in the security cushion account for the payment of the principal.
- (4) All the Company's rights in the policy for insuring a decrease in production at the Tamar Lease.

#### d. Furthermore, events of a breach were defined, on the incidence of which the trustee and the holders will be entitled to place the unpaid balance of the bonds for immediate settlement. Following are the main events:

- (1) If the Company does not make any payment whatsoever that must be paid pursuant to the conditions of the bonds or the trust deed.
- (2) Failure to comply with the financial criteria as detailed below – –
  - a. The cover to debt service ratio that is expected not to be less than 1:1.05. For the inspection period of 12 months commencing on January 1, 2020 the aforementioned ratio was 1:1.27. Pursuant to the instructions in the trust deed, from time to time, the Company deposits surplus sums beyond the aforementioned security cushion sum. Anticipated revenues that were taken into the aforementioned account, derive from the flow statements that the Company published on March 22, 2021.
  - b. Economic equity capital that shall not be less than \$51 million for two consecutive quarters. As at December 31, 2020, the economic equity capital was \$94.4 million.

- (3) A breach of presentations and commitments.
- (4) Insolvency events.
- (5) If there is a real fear that the Company will not meet its material commitments. To the bondholders.

**Note 8:- Issue of Series A Bonds (continued)**

- (6) The bond rating will be lower than a rating of Baa3.
- (7) If there was a material deterioration in the Company's businesses compared with its status on the date of the issue and there is a real fear that the Company will not be able to redeem the bonds on time.
- (8) Other Company's debts in a volume as established in the deed placed for immediate settlement.
- (9) A note of a "going concern" has been added in the Company's financial statements for two consecutive quarters.

On the date of the Financial Status Statement and the date of publishing the Report the Company complied with its commitments as aforementioned.

- e. The Company undertook that, at any time, as of the date of completing the transfer of rights agreement until the date of full, final and exact settlement of the debt pursuant to the bond conditions, it will deposit any revenue received for the royalties from the right to royalties into the activity account.
- ו. The Company will not have any credit facilities in the activity account and will not take any loans or additional commitments in it. Furthermore, it was established that all the royalties as aforementioned, will be used for settling the sums pursuant to the order of preference as established in the trust deed. Furthermore, the Company shall be entitled to transfer money from the activity account subject to the conditions in the trust deed.
- g. The Company shall be entitled to execute a dividend distribution under the conditions established in the trust deed, the main points of which are: The determining date for the distribution as shall be established by the Company pursuant to the TASE's instructions, shall be on the date that shall not be later than 60 days from the date on which the principal and/or interest payment is made to the bondholders, the anticipated cover to debt service ratio shall not be less than 1:1.20 on at least one of the last two inspection dates (for a period of a year ending on December 31, 2020 the aforementioned ratio was 1:1.15, as a result of the distribution, the Company did not breach its commitment to comply with the required economic equity sum and there is no reasonable fear that the distribution will impede the Company's ability to meet its commitments for redeeming the bonds.
- h. As a part of the acquisition of the royalty rights, the Company undertook to issue bonds to the public and transfer a sum of \$113 million to Delek Energy. It was also established in the trust deed that any sum raised, should there be a raising, in the bond issue beyond the shekel sum equivalent to \$130 million must be transferred to a separate account by the Company, which would be encumbered with a single fixed and first lien in favor of the trustee (hereinafter in this section: "The separate account") and the Company will be entitled, at its discretion, to use the money in the separate account for acquiring bonds.

On June 21, 2018, the Company's Board of Directors approved a buyback program of bonds with a nominal value of NIS 22,766,000, which constitute the sum raised beyond the aforementioned \$113 million. In June 2018, pursuant to the acquisition program the Company acquired all the bonds as aforementioned in a transaction on and off the TASE, in a total sum of NIS 23.6

million (a sum of about \$6.5 million), out of the aforementioned separate account. As a result of the aforementioned acquisition, in 2018, the Company recognized a loss from early settlement of the bonds of \$50,000.

- i. On June 6, 2018 bonds were registered for trading on the TASE.

**Note 9:- The Company's Equity**

a. Share Capital Composition:

	December 31, 2020		Tuesday, December 31, 2019	
	Registered	Issued and paid up	Registered	Issued and paid up
	Number of Shares			
Ordinary Shares each with a nominal value of NIS 1	100,000,000	20,001,000	100,000,000	20,001,000

The shares impart their holders with voting rights, rights to receive dividends and right to participate in a distribution of the Company's assets in the event of dissolution.

b. Share Capital

- On May 21, 2018, the Company's General Meeting adopted a resolution to increase the Company's registered capital by NIS 99,999,000, so that the Company's registered capital would be NIS 100 million divided into 100 million Ordinary Shares each with a nominal value of NIS 1.
- On June 7, 2018, the Company issued 20 million Ordinary Shares each with a nominal value of NIS 1, of which a total of 12,014,400 shares were issued to the public in consideration for NIS 130,597 thousand (about 36,531 thousand dollars), and the balance of the shares were issued to Delek Energy as a part of the consideration for acquiring the rights to the royalties as aforementioned in Note 3c.

c. Voting Rights

Delek Energy undertook in an irrevocable undertaking to waive features of control in the Company, including the right of voting at the General Meeting and the right to appoint directors and it also undertook that the waiver on the right of voting and the right to appoint directors shall apply in relation to all the Company's shares held or that shall be held indirectly by it or by another corporation under its control and for as long as they are held by those. It must be clarified that all the capital rights accompanying the shares as aforementioned shall remain valid and that, on the transfer or sale of the aforementioned shares to a third party, they will impart the transferee with the full voting rights attached to them As specified in Note 1e above, as at the date of publishing the financial statements, Delek Energy does not hold the Company's shares.

d. Dividends

1. The Company's Articles of Association have established that, every year, the Company will distribute an earnings sum equivalent to 90% of the distributable earnings, in the sense of this term in the Companies Law, reliant on the annual financial statements, subject to complying with distribution tests, in their sense in the Companies Law and subject to any law and deducting the mandatory sums for the Company at the Board of Directors discretion for the purposes of all of the following:
  - a. The Company's compliance with its commitments and the restrictions applicable to it by virtue of the financing agreements to which it is a party on the date of the declaration, including the bonds series.
  - b) Financing the Company's regular operations, including its investment programs for the acquisition of royalties and including unexpected expenses.
2. See Note 8g for details about restrictions on the earnings distribution established in the trust deed for the bonds (Series A) of the Company.
3. On March 24, 2019, the Company's Board approved a dividend distribution to the Company's Shareholders of 3,580 thousand dollars (about \$0.17899 per share) that were distributed on April 11, 2019.

**Note 10:- Royalties from the Sale of Natural Gas and Condensates**

- a. The Company's revenues from royalties from the Tamar Lease amounted to \$21.4 million in 2020 and in 2019 \$28.9 million and in 2018 \$16.2 million.
- b. The royalties are calculated pursuant to the royalty rate after the investment refund date (4.875% from the share of the royalty payers in the asset regarding which the right for a royalty applies. See Note 3f above for additional details). The Company's revenues as aforementioned are four 2020 2019 at an effective rate of 4.4% of the royalties payers per share in the gas sales revenues in the Tamar Project, taking into account the value of the sales of natural gas (pursuant to a well) similarly to the calculation of the royalty for the state.

According to the royalty condition, Delek Drilling and Tamar Petroleum are obligated to pay the Company the market value of the royalties "pursuant to the well." The calculation of the market value of the royalties from the Tamar Project pursuant to the well, has been made thus far, practically, pursuant to the manner in which the market value of the royalties of the state are calculated as detailed below. Therefore, the manner of calculating the market value of the state's royalties has an effect on the rate of the effect of royalty of the right to royalties of the Company The Petroleum Law establishes, inter alia, that the lease owner must pay the state royalties at a rate of an eighth (12.5%) of the oil quantity produced and exploited from the lease field and that the lease owner must pay the **State Treasury the "market value of the royalty pursuant to the well."**

As at the date of publishing the report, the partners in the Tamar Project are holding discussions with the Commissioner of Petroleum Affairs regarding the manner of calculating the market value of the state's royalties pursuant to the well in the Tamar Project. Until completion of the aforementioned discussions, the Tamar Partners are paying the state advances under protest on account of the royalties at the rate demanded by the state. Accordingly, pursuant to the state's demand, in 2018, the Tamar Partners paid advances at a total rate of 11.65% and in 2019 and 2020 the Tamar Partners paid advances at a rate of 11.3%.

Accordingly, the effective royalty rate for the state in the Tamar Project on which the royalty payers base their financial statements, in 2018, 2019 2020 is 11.16%, 11.3% and 11.34% respectively.

It should be noted that, in September 2020, the Commissioner of Petroleum Affairs established instructions for the manner of calculating the value of the royalties according to well in the Tamar

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

Lease, in which the expenses permitted for deduction were detailed for the matter of calculating the effective royalty rate.

The manner of calculating the market value of the state's royalties according to the well that Delek Drilling and Tamar Petroleum paid to the Company has, thus far, been made in accordance with the principles according to which the state's royalties are debited as aforementioned. Therefore, pursuant to a decision adopted in relation to the manner of calculating the market value of the state's royalties pursuant to the well in the Tamar Project, the effective rate of the royalties could change and, in such an instance, it is possible that the Company will be required to refund differences for royalties that were overpaid to it or shall be entitled to differences for royalties that were underpaid to it. It must be clarified that, pursuant to the agreement for transferring rights to royalties, should a refund of the differences for overpaid royalties to Delek Energy during the period preceding the date of eligibility for royalties, be demanded, then the onus of paying the aforementioned differences will apply to Delek Energy even if the debt crystallizes after the date of transferring the royalties right to the Company. In the same manner, if differences are received for underpaid royalties during the period preceding the date of eligibility for royalties, then the eligibility to receive the aforementioned differences will be of Delek Energy even if the right crystallizes after the date of transferring the royalty right to the Company.

The Company has included the commitment in the Financial Status Statement in the entry "accounts payable" for the spread between the royalties that were paid to it and the sum of the royalties that were recognized as revenues and which are based on the effective royalty rate on which the royalty payments were based in their financial statements.



**Note 13: - Taxes on Income**

a. Companies Tax

The Companies revenues are taxable at a companies tax rate of 23%

b. Tax Assessments

No tax assessment has been issued for the Company since its establishment.

- c. In May 2018, the Company received a ruling from income tax pursuant to which the Company would be allowed a reduction of the cost of acquiring the rights to royalties according to the well depletion equation on the basis of the quantity actually produced during the period in relation to the total proven reserves (1p)

**Note 13: - Taxes on Income(continued):**

d. Deferred Taxes Expenses (Revenues)

Deferred tax revenues (against the recording of a deferred tax asset) that are entered to the comprehensive statement on earnings in 2020 amount to 2189 thousand dollars and are calculated according to a tax rate of 23%. The deferred tax asset is for the differences between the reduced balance of the rights to receive royalties from the oil and gas assets and the sums that will be allowed in the future as depreciation for income tax purposes.

	For the year ending December 31		
	2020	2019	2018
	(In thousands of dollars)		
The difference between the measuring basis of the reduce balance of rights to receive royalties for tax purposes (NIS) and the basis of the measurement of right as reported in the financial statements (dollars)	(2,590)	(2,871)	1,770
The difference between the accrued depreciation (depletion) that was recorded in the books and the expense recognized for tax purposes	401	442	293
	<u>(2,189)</u>	<u>(2,429)</u>	<u>2,063</u>

e. Taxes on Income Included in Profit and Loss

	For the year ending December 31		
	2020	2019	2,018 (*)
	(In thousands of dollars)		
Current taxes	3,112	5,161	557
Deferred taxes expenses (revenues)	(2,189)	(2,429)	2,063
	<u>923</u>	<u>2,732</u>	<u>2,620</u>

(\*) The Company commenced operations on June 7, 2018 as stated in Note 1b

f. Theoretical Tax

**Delek Royalties (2012) Ltd.**

	For the year ending December 31		
	2020	2019	2,018 (*)
	(In thousands of dollars)		
Pre taxes on income earnings	10,761	17,264	8,782
The Company's statutory taxation rate	23%	23%	23%
Tax calculated pursuant to the statutory tax rate	2,475	3,971	2,020
The difference between the measuring basis of the revenue as reported for tax purposes (NIS) and the basis of the measurement of revenue as reported in the financial statements (dollars)	(1,552)	(1,239)	600
Taxes on income	923	2,732	2,620

**Note 13: - Taxes on Income(continued):**g. Deferred taxation assets (liabilities)

	Investments in oil and gas assets (right to receive royalties)
Deferred tax liability balance as at December 31, 2018	(2,063)
Changes that were entered to profit and loss (see Section d above)	2,429
Deferred tax assets balance as at December 31, 2019	366
Changes that were entered to profit and loss (see Section d above)	2,189
Deferred tax assets balance as at Thursday, December 31, 2020	2,555

(\*) The Company commenced operations on June 7, 2018 as stated in Note 1b

**Note 14:- Earnings-per-share**

	For the year ending December 31		
	2020	2019	2018 (*)
	(In thousands of dollars)		
The earnings used in calculating the earnings-per-share	9,838	14,532	6,162
The quantity of weighted shares used in calculating the earnings-per-share (in thousands)	20,001	20,001	11,430
Earnings per share (basic and diluted) (in dollars)	0.49	0.73	0.54

(\*) The Company commenced operations on June 7, 2018 as stated in Note 1b