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Tomer Energy Royalties (2012) Ltd.[1]

Monitoring Report | June 2021

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the Hebrew.

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[1] On June 13, 2021, the Company's name was changed from Delek Royalties (2012) Ltd. to Tomer Energy Royalties (2012) Ltd.

Tomer Energy Royalties (2012) Ltd.

Series Rating	Aa3.il	Outlook: Stable

Midroog affirms the Aa3.il rating of bonds (Series A) issued by Tomer Energy Royalties (2012) Ltd. ("Tomer Energy" or the "Company"). The rating outlook is stable.

Outstanding bonds rated by Midroog:

Bond series	ISIN	Rating	Outlook	Maturity
A	1147479	Aa3.il	Stable	30.08.2028

Summary of Rating Rationale

The rating takes into account the following considerations, among others: **(1)** The Tamar reservoir (the "**Project**" or the "**Reservoir**") meets national needs and allows Israel long-term energy independence, while reducing its dependence on coal and oil as well as lessening both economic and environmental costs; **(2)** The Gas Framework, which creates a clearer, more transparent and more stable regulatory environment. **(3)** The Reservoir uses a proven technology with a positive track record, while the Reservoir's operator, Noble Energy Mediterranean Ltd. ("**Noble Energy**"), has international experience in deepwater drilling and gas production. **(4)** The Reservoir has an operating history of more than eight years, without any significant problems. **(5)** A significant volume of gas reserves in the Reservoir, amounting as of December 31, 2020,[2] according to an NSAI[3] estimate, to 297 BCM in the P2[4] category, including proven gas reserves of 219 BCM in the P1[5] category. **(6)** Developments in the energy sector that support natural gas consumption in the economy, with natural gas consumption (without exports) continuing to grow in 2020, reaching 12 BCM compared with 11.3 BCM in 2019. **(7)** The delivery of first gas from the Leviathan natural gas reservoir on December 31, 2019, affecting the monopoly status of the Tamar reservoir, which until then had been almost the exclusive source of supply of natural gas to the Israeli economy. In 2020 the Leviathan reservoir produced 7.3 BCM, of which 3.5 BCM were sold in the domestic market. **(8)** The Ministry of Energy's policy to reduce coal-based electricity generation, along with the completion of the construction of two combined-cycle facilities by the Israel Electric Corporation Ltd. ("**IEC**"),[6] completion of the conversion of the coal power units in Hadera and Ashkelon to natural gas (until the end of 2025), as well as the continuing growth in population and increase in electricity consumption, which support increased consumption of natural gas in the economy. **(9)** On February 23, 2021, the Tamar partners signed a detailed agreement establishing detailed take-in-kind mechanisms and rules with respect to the share of each of the Tamar partners in the gas output under

[2] See the report by Isramco Negev 2 Limited Partnership dated March 7, 2021, on the MAYA site.
[3] Netherland, Sewell & Associates, Inc.
[4] The estimate for which there is a 50% probability that the quantities produced will be equal to or higher than the specified quantity.
[5] The estimate for which there is a 90% probability that the quantities produced will be equal to or higher than the specified quantity
[6] The Israel Electric Corporation Ltd. is rated Aa1.il with a stable outlook by Midroog.

the joint operating agreement,[7] as well as balancing arrangements that are to apply between the partners in the event that the marketing of gas is not performed according to the proportionate share of the partners in said output (the "**Balancing Agreement**" or the "**Agreement**"). On May 25, 2021, the Tamar partners reported that no further approval was required from the Competition Authority, and therefore the Balancing Agreement came into force on May 11, 2021.[8] The Agreement will remain in force until the end of the joint operating agreement**. (10)** The realization of the export agreements of the Tamar reservoir, mainly with Egypt, as well as the possibility of signing additional export contracts, expose the partnership to geopolitical risks. **(11)** The merger transaction between Chevron Corporation ("**Chevron**"), a major player in the world fossil fuel market, and Noble Energy, Inc. ("**Noble Inc.**"), the parent company of Noble Energy, which is the Project's operator, could increase the likelihood of realization of the current export contracts of the Tamar and Leviathan reservoirs with Jordan and Egypt, alongside the possibility of signing additional export contracts. **(12)** The existence of a partial lockup mechanism, which is triggered in the event of a fundamental deterioration in the financial ratios. **(13)** The existence of a lockup mechanism to reduce the refinancing risk. **(14)** The existence of long-term natural gas supply agreements containing a take-or-pay component and a bottom price, which support the Company's financial profile and set a lower limit to its expected revenues. **(15)** The Company's rating is affected, under certain circumstances, by the activity and financial strength of the interest holders in the underlying assets. Thus, Delek Drilling Limited Partnership ("**Delek Drilling**") has a rating of A2.il with a stable outlook, and last October it was removed from credit watch with negative implications after completing the refinancing of the bridge loan for the development of the Leviathan reservoir and its conversion into a senior long-term debt. Likewise, the outlook for Tamar Petroleum Ltd. ("**Tamar Petroleum**"), which is rated A1.il, was revised from negative to stable at the end of April 2021.

(16) The cash flow seniority of the overriding royalties, which are derived directly from the gross revenues of Delek Drilling and Tamar Petroleum and therefore are less affected by changes in the expenses and/or costs involved in the production process, compared with partnerships that hold a direct interest in the Reservoir.[9] **(17)** The debt structure, which includes a refinancing component of $23-27 million[10] in 2028 (representing 21%-24% of the original amount raised). We note that most of the Reservoir's existing natural gas supply agreements, especially those with IEC, will end by or around that time. **(18)** A debt-service reserve at less than the customary amount in the sector, until 2022.

(19) Stable coverage ratios due to the triggering of mechanisms for retaining a part of the cash surpluses within the reserve, coupled with a repayment structure adjusted for developments in the level of competition in the gas sector, which support the Company's debt-service capacity. According to the Company's reports, for the twelve-month period commencing on March 31, 2021, the projected ADSCR

[7] Joint operating agreement from November 16, 1999, as amended from time to time.

[8] For further details, see the report by Alon Gas Energy Development Ltd. (formerly: Alon Natural Gas Exploration Ltd.) dated May 26, 2021, on the MAYA site.

[9] The Reservoir's operating expenses and/or costs have an impact on the amount and timing of the levy that is to be paid by the Company and on its timing. Hence, an increase in the Reservoir's expenses and/or costs in the coming years, by the Tamar partners, is expected to moderate the rate of the levy that applies to the Company.

[10] The range is derived from the dedicated lockup reserve for reducing the refinancing risk.

stands at 1.55. Additionally, for the twelve-month period ended on December 31, 2020, the historical coverage ratio stood at an actual 1.15.

Under Midroog's base-case scenario, within the short term, stronger competition is expected to develop between the Tamar and Leviathan reservoirs that will intensify with the anticipated delivery of first gas from the Karish reservoir in the second half of 2022. In our estimation, if the Leviathan reservoir fails to realize the natural gas export agreements on a substantial scale, supply will continue to exceed demand in the economy, creating a saturated natural gas market and intensifying competition over the price of natural gas and the quality of customers. We have assumed that Noble Energy will maintain the Project's level of performance, including the regular and continuous production of natural gas. Furthermore, we assume a significant increase in demand in the domestic market, inter alia, in light of the Ministry of Energy's policy to reduce coal-based electricity generation along with the completion of the construction of two combined-cycle facilities by the IEC (1,200 MW) by the end of 2022, the completion of the conversion of the coal power units in Hadera and Ashkelon to natural gas (until the end of 2025), as well as the continuing growth in population and increase in electricity consumption. Natural gas consumption in the economy in the coming two years (2021-2022) will be in the range of 12.0-14.0 BCM, while the quantity exported to Egypt and Jordan (from the Tamar and Leviathan reservoirs) will also grow gradually to between 5.5 and 7.5 BCM. Accordingly, we estimate that the supply of natural gas from the Tamar reservoir will be in the range of 8.0-9.0 BCM in the coming two years. We have assumed that in 2021 the natural gas selling price to the IEC will decrease by 25%, followed by a further reduction of 10% in 2024. Hence, under Midroog's base-case scenario, the average and minimum ADSCR stand at 1.47 and 1.25 (in 2021), respectively, while the minimum PLCR stands at 3.27 (in 2021).[11] The Company has declared that it will maintain adequate liquidity reserves in the dedicated reserve that are appropriate for the rating level, along with a conservative policy regarding the distribution of dividends in the short term, striking a balance between the debt holders and the equity holders.

Factors that Could Lead to a Rating Upgrade

- Significant and ongoing improvement in the Company's coverage ratios, including through diversification with additional quality cash flow sources.
- A significant rise in the value of the Tamar reservoir, and a substantial improvement in the LTV ratio at the refinancing date, including through the signing of significant long-term agreements.

Factors that Could Lead to a Rating Downgrade

- Significant and ongoing deterioration in the coverage ratios and/or in the LTV ratio.
- A regulatory change in the electricity sector or in the gas sector that may have a material adverse impact on the Tamar reservoir.
- A change in the quality of the end customers and in the natural gas supply agreements, which could lead to impairment of the financial strength of the Tamar reservoir.

[11] The coverage ratios are calculated excluding an exceptional coverage ratio on the debt repayment date. The LLCR is calculated based on proven gas reserves of 219 BCM in the P1 category.

- Intensified competition resulting in a significant decline in the quantities sold and/or in the natural gas prices.
- A change in the identity of the interest holders in the underlying assets and/or in their rating, which could negatively impact their financial strength and the Company's repayment capacity.
- A change in the identity and/or rating of the Reservoir's operator.

Detailed Rating Considerations

The Tamar reservoir comprises a significant economic resource for the Israeli economy

The Tamar reservoir meets Israel's national needs and is of supreme national, strategic and economic importance for the state. The Reservoir will allow the state energy independence during tens of years, making it a significant factor in the development of the Israeli economy and, together with the Leviathan reservoir, possibly also positioning the state as a regional gas supplier. The use of natural gas in the economy has been increasing over the years, to the extent that natural gas has become the main source of energy in electricity production, its use enabling reduced dependence on polluting fuels, while lessening both economic and environmental costs. More specifically, data of the Electricity Authority show that the percentage of natural gas in the mix of fuels used in the economy stood at 64% in 2019, compared with 39% in 2010, with this percentage forecast by the Authority to stand at 68% in 2020 and at 83% in 2025.

Operation of the Reservoir is founded on the experience of Noble Energy

The Tamar reservoir has been producing commercially since March 31, 2013, without any significant problems. The Reservoir's operator, Noble Energy, which is held by Noble Energy, Inc., has international experience in deepwater drilling and gas production – in the Gulf of Mexico, in West Africa and also in Israel, where it currently operates the Tamar and Leviathan oil assets, as well as in Cyprus (Noble Cyprus), where it operates within Block 12 offshore Cyprus. Noble Energy has a 25% stake in the Tamar reservoir, which is marked by a positive and stable operating history, meeting the performance targets set while maintaining high availability. Midroog estimates that the Project's performance depends on the continuing involvement of Noble Energy in the Reservoir, as both owner and operator.

On October, 5, 2020, Chevron announced the closing of the merger transaction with Noble Inc., the parent company of Noble Energy, with Noble Inc. now wholly owned by Chevron.[12]

Noble Inc.'s merger with Chevron increases the likelihood of the continued realization of the contracts for export of natural gas from Israel

Chevron is a leading global energy company, engaged, among other areas, in the exploration, production and transport of oil and natural gas, fuel refining and marketing, electricity production and energy services. Chevron operates, inter alia, in North and South America, Asia, Australia and Africa. As

[12] For further details, see the report by Delek Drilling dated October 6, 2020, on the MAYA site.

of 2020, Chevron had total assets of $239.8 billion, and its revenues amounted to $94.7 billion, compared with $237.4 billion and $146.5 billion, respectively, in 2019. Thus, the Tamar and Leviathan reservoirs are not major operations in its portfolio, in contrast to the importance of these reservoirs for Noble Inc. In Midroog's estimation, given Chevron's wide-ranging economic activity and connections around the world, in general, and in the Middle East, in particular, the merger transaction of Noble Inc. with Chevron could increase the likelihood of the continued realization of the current export contracts of the Tamar and Leviathan reservoirs with Jordan and Egypt, alongside the possibility of signing additional export contracts.

Expectations for significant continued growth in gas consumption in the economy, together with an increase in the quantities exported to Egypt

According to data of the Ministry of Energy, in 2020, 15.59 BCM of natural gas were produced from the Tamar and Leviathan reservoirs (8.3 BCM from Tamar and 7.3 BCM from Leviathan), representing an increase of 48.4% over a quantity of 10.5 BCM produced in 2019 (from the Tamar reservoir and from the Yam Tethys reservoir[13]). We foresee a continuation of this trend, with the Tamar and Leviathan reservoirs expected to produce 17-18 BCM (including exports) in 2021, while in 2022, following the start of the commercial operation of the Karish reservoir, all three reservoirs are expected to produce more than 20 BCM (including exports).

Simultaneously, according to publications of the partners in the Tamar reservoir, natural gas consumption in the economy (without exports) continued to rise in 2020, reaching 12 BCM, of which 7.8 BCM were supplied from the Tamar reservoir and the remainder from the Leviathan reservoir (3.5 BCM) and from the buoy. It is worth noting that total natural gas consumption in the economy in 2020 was 6% higher than in 2019, despite the effects of the coronavirus pandemic and the global plunge in oil and natural gas prices (which have been climbing gradually following an agreement reached by the representatives of the OPEC countries and the non-OPEC producers), indicating the rigidity of market demand for natural gas, which serves as the main source of energy for electricity production. Additionally, according to data of the Ministry of Energy, natural gas consumption in the economy in 2019 amounted to 11.3 BCM, of which 10.5 BCM were supplied from the Tamar reservoir and the Yam Tethys reservoir,[14] representing a 2% increase over total consumption of 11.1 BCM in 2018 (of which 10.5 BCM were supplied from the Tamar reservoir and the Yam Tethys reservoir[15]). The growth in natural gas consumption over the years is mainly due to the growth in the population and in electricity consumption, together with a reduction in coal use. In our estimation, natural gas consumption in the economy in the coming two years (2021-2022) will be in the range of 12.0-14.0 BCM, while the quantity exported to Egypt and Jordan (from the Tamar and Leviathan reservoirs) will also grow gradually to

[13] The production of natural gas from the Yam Tethys reservoir was completely discontinued in 2019. Also, in that year only insignificant quantities were produced from the Yam Tethys reservoir.
[14] In that year only insignificant quantities of natural gas were produced from the Yam Tethys reservoir, with the remainder supplied from the buoy.
[15] In that year only insignificant quantities of natural gas were produced from the Yam Tethys reservoir, with the remainder supplied from the buoy.

between 5.5 and 7.5 BCM. In the medium to long term, we assume a significant increase in demand in the domestic market, inter alia, in light of the Ministry of Energy's policy to reduce coal-based electricity generation along with the completion of the construction of two combined-cycle facilities by the IEC (1,200 MW) by the end of 2022, the completion of the conversion of the coal power units in Hadera and Ashkelon to natural gas (until the end of 2025), as well as the continuing growth in population and increase in electricity consumption.

The start of production from the Leviathan reservoir, along with the expected start of production from the Karish reservoir, adversely affects the Tamar reservoir's competitive status

The natural gas sector, which until 2020 was characterized as a monopolistic market, is currently undergoing significant structural changes, accompanied by growing competition, in light of the start of production from the Leviathan reservoir at the end of 2019 (in the first stage, at a maximum annual capacity of 12 BCM[16]), which is expected to intensify with the delivery of first gas from the Karish reservoir. The Leviathan reservoir is expected to focus on the export of natural gas to Jordan and Egypt, together with sales in the domestic market, while the Karish reservoir is expected to focus on the supply of natural gas to the domestic market. The start of production from the Leviathan reservoir has significantly increased the supply capacity of natural gas for domestic consumption and for export, inter alia, at the expense of the Tamar reservoir. Evidence of this is the fact that natural gas production from the Tamar reservoir amounted to only 8.3 BCM in 2020 (of which 7.8 BCM were sold in the domestic market), compared with 10.5 BCM in 2018 and 2019 (which includes insignificant quantities from the Yam Tethys reservoir). Furthermore, we estimate that the supply of natural gas from the Tamar reservoir in the coming two years will be in the range of 8.0-9.0 BCM. Competition in the domestic gas market is expected to intensify even more with the anticipated start of natural gas production from the Karish reservoir in the second half of 2022. More specifically, in our estimation, in the short to medium term the Leviathan reservoir will supply annual quantities of 2.5-4.5 BM to the domestic market (compared with 3.5 BCM in 2020), while the Karish reservoir will supply domestically annual quantities of 4.0-5.0 BCM in 2022 and 6.0-7.0 BCM in 2023 and onwards. We note in this connection that some of the confirmed customers of the Leviathan and Karish reservoirs are former and/or current customers of the Tamar reservoir, thus the operation of these reservoirs has adversely affected the Tamar reservoir's competitive status. In light of the intensifying competition in the natural gas sector, we foresee a decline in the average selling price per energy unit (MMBTU) in the economy, especially after gas starts to flow from the Karish reservoir. We estimate that in the short to medium term prices will decline by 10%-20%, including a 25% decrease in the natural gas selling price to the IEC in 2021, which will be followed by a further reduction of 10% in 2024.

[16] In the second stage (for which as yet there has been no decision to implement it), following expanded development, which would necessitate substantial capital investments, it will be possible to produce a maximum annual quantity of 21 BCM.

We consider that maintaining stability in the natural gas sector depends to a significant extent on the realization of the agreements for the export of natural gas from the Tamar and Leviathan reservoirs on a substantial scale. In other words, if the export contracts are not fully realized, the supply of natural gas will continue to exceed demand in the economy, creating a saturated natural gas market and intensifying competition over the price of natural gas and the quality of customers. In this connection, we estimate that Noble Energy's merger with Chevron, which is a leading global energy company, increases the likelihood of realization of the contracts for the export of natural gas from Israel to Jordan and Egypt, alongside the possibility of signing additional export contracts, given Chevron's wide-ranging economic activity and connections around the world, in general, and in the Middle East, in particular. At the same time, the realization of the existing natural gas export contracts carries geopolitical risks. Moreover, the rating of Jordan[17] and Egypt[18] exposes the Company to the credit risks of those countries.

The signing of a balancing agreement for separate sales from the Tamar reservoir between the Reservoir's partners

On February 23, 2021, the Tamar partners signed a detailed agreement, based on a memorandum of understanding, establishing detailed take-in-kind mechanisms and rules with respect to the share of each of the Tamar partners in the gas output under the joint operating agreement, as well as balancing arrangements that are to apply between the partners in the event that the marketing of gas is not performed according to the proportionate share of the partners in said output (the "**Balancing Agreement**" or the "**Agreement**"). Under the Balancing Agreement, if one of the partners in the Reservoir signs a contract for the supply of natural gas from the Tamar reservoir with a certain customer, each of the other partners in the Tamar reservoir will be able to join the gas supply agreement as a full party, according to its proportionate share in the Reservoir and subject to the mechanisms and terms established in the gas supply agreement (the "**Tag-Along Right**"). Regarding export supply contracts, the Tag-Along Right is subject to arrangements on which the partners will agree on a specific basis in relation to each export supply contract. The Agreement includes various mechanisms and arrangements that allow a partner to market, subject to available capacity on a daily basis, quantities of natural gas that exceed its proportionate share in the Tamar lease (“**Oversupply Partner**”), after each one of the other partners has first been granted the possibility of nominating its full proportionate share in the output, and a certain partner has not marketed its full share in the daily output (“**Undersupply Partner**”). In such a case, balancing arrangements will apply between the partners with the aim of balancing the partners’ rights in relation to the gas sold according to their proportionate share in the Reservoir: in cash (through a payment to be made by an Oversupply Partner to an Undersupply Partner) or in gas (the Undersupply Partner will receive additional gas quantities in the future, over and above its proportionate share in the output in order to reach a balance), according to the Undersupply Partner’s choice, all in accordance with and subject to the provisions of the Agreement. In addition, the Agreement provides for mandatory monetary balancing arrangements in each one of the following

[17] Jordan is rated B1 with a stable outlook by Moody's.
[18] Egypt is rated B2 with a stable outlook by Moody's.

cases: (1) when excess gas quantities have accrued in favor of an Undersupply Partner in a volume exceeding a cap determined in the Agreement; (2) on the date on which the operator shall have determined that 60 BCM of proven gas reserves remain in the Reservoir; (3) on the date on which production from the Reservoir comes to an end or on the date on which the lease deed expires or terminates, according to the terms set forth in the Agreement.

On May 25, 20, the Tamar partners reported that no further approval was required from the Competition Authority, and therefore the Balancing Agreement came into force on May 11, 2021. The Agreement will remain in force until the end of the joint operating agreement**.** Implementation of the provisions of the Agreement requires the establishment of various systems and the adoption of procedures as well as receipt of approvals and clarifications from the tax authorities and various regulators. Therefore, an interim period was set, from the date of signing of the Agreement until July 1, 2021, at the end of which it will be possible to perform balancing arrangements (in cash or in gas).

We believe that the Balancing Agreement provides a degree of certainty with respect to the Company's future revenues from the sale of natural gas. Additionally, a settlement agreement was signed between the Tamar partners and the IEC, which is expected to terminate the legal dispute regarding the amendment of the gas supply agreement between the Tamar partners and the IEC, as well as regarding the competitive procedure conducted by the IEC, and awarded to the Leviathan partners, for the purchase of additional quantities of gas beyond the quantities purchased by the IEC under the gas supply agreement signed with the Tamar partners in 2012. The settlement agreement between the Tamar partners and the IEC came into force on May 31, 2021.

The coronavirus pandemic could hinder the full realization of the natural gas supply contracts, resulting in the further escalation of the existing competition between the reservoirs

The outbreak and spread of the coronavirus across the world is adversely impacting a wide range of economic aspects and creating great uncertainty in the markets. Efforts to contain the virus, which has been recognized as a pandemic, have led to the imposition of numerous restrictions in various countries, including the closure of borders, resulting in harm to international trade and a contraction in economic activity, reflected in sharp volatility in the financial markets, fluctuations in the exchange rates as well as real effects that may reduce energy consumption in the economy and thus also the consumption of natural gas by the end customers of the Tamar reservoir.[19] In Midroog's estimation, the coronavirus crisis could hinder the full realization of the contracts for the supply of natural gas from the Tamar reservoir. However, it is worth noting that market demand for natural gas during 2020 exceeded the Company's forecast (according to the DCF model published in August 2020), despite the effects of the pandemic and the global plunge in oil and natural gas prices. Midroog will continue to monitor developments in this regard and will revise the base-case scenario, as necessary.

[19] For further details, see: Sector Comments – The Natural Gas Sector, published on March 17, 2020 and on October 25, 2020.

Long-term natural gas supply agreements containing a TOP component and a bottom price support the Company's financial profile

The Tamar reservoir enjoys the advantage of being the first to sign long-term agreements with the large consumers in the market, but it is apparent that its competitive status has eroded in recent years, as described above. In spite of the expected hit to the certainty and stability of the Company's cash flow, following the exercise of the option to reduce the contractual quantity of natural gas purchased from the Tamar reservoir over the years, the vast majority of the Tamar reservoir's gas supply agreements include a take-or-pay commitment with respect to the contractual quantity of natural gas, along with a bottom price and various linkage terms. This is reflected, inter alia, in the market demand for natural gas during 2020, which exceeded the Company's forecast (according to the DCF model published in August 2020),[20] despite the effects of the coronavirus pandemic and the global plunge in oil and natural gas prices. In our estimation, these mechanisms support the Company's financial profile, set a lower limit to its expected revenues and greatly contribute to its financial stability. Furthermore, the second half of 2020 saw the start of the flow of natural gas to Egypt, which is expected to increase gradually in the coming years.

The coverage ratios have remained stable due to the triggering of mechanisms for retaining cash surpluses within the reserve

Under Midroog's base-case scenario, within the short term, stronger competition is expected to develop between the Tamar and Leviathan reservoirs that will intensify with the anticipated delivery of first gas from the Karish reservoir in the second half of 2022. In our estimation, if the Leviathan reservoir fails to realize the natural gas export agreements on a substantial scale, supply will continue to exceed demand in the economy, creating a saturated natural gas market and intensifying competition over the price of natural gas and the quality of customers. We have assumed that Noble Energy will maintain the Project's level of performance, including the regular and continuous production of natural gas. Furthermore, we assume a significant increase in demand in the domestic market, inter alia, in light of the Ministry of Energy's policy to reduce coal-based electricity generation along with the completion of the construction of two combined-cycle facilities by the IEC (1,200 MW) by the end of 2022, the completion of the conversion of the coal power units in Hadera and Ashkelon to natural gas (until the end of 2025), as well as the continuing growth in population and increase in electricity consumption. Natural gas consumption in the economy in the coming two years (2021-2022) will be in the range of 12.0-14.0 BCM, while the quantity exported to Egypt and Jordan (from the Tamar and Leviathan reservoirs) will also grow gradually to between 5.5 and 7.5 BCM. Accordingly, we estimate that the supply of natural gas from the Tamar reservoir will be in the range of 8.0-9.0 BCM in the coming two years. We have assumed that in 2021 the natural gas selling price to the IEC will decrease by 25%, followed by a further reduction of 10% in 2024. Under Midroog's base-case scenario, the average and minimum ADSCR stand at 1.47

[20] For further details, see the report by Delek Royalties dated August 17, 2020, on the MAYA site.

and 1.25 (in 2021), respectively, while the minimum PLCR stands at 3.27 (in 2021).[21] The Company has declared that it will maintain adequate liquidity reserves in the dedicated reserve that are appropriate for the rating level, along with a conservative policy regarding the distribution of dividends in the short term, striking a balance between the debt holders and the equity holders.

Additional Rating Considerations

Refinancing risk moderated by a lockup mechanism and a significant volume of gas reserves in the Tamar reservoir

The debt structure includes a refinancing risk, which was taken into account in the rating of the bonds. At the time of refinancing, on August 30, 2028, the balance of the debt will stand at $23-27 million (representing 21%-24% of the original amount raised). Prior to or around the refinancing date, the natural gas agreement of the Tamar reservoir with the IEC will end, as will all the other major natural gas supply agreements of the Reservoir with the private electricity producers. Additionally, during this period at least three natural gas reservoirs are expected to operate in the Israeli economy, alongside other reservoirs in the Middle East. At the same time, demand is also expected to grow beyond the present level. According to an NSAI[22] estimate, as of December 2020[23] the Reservoir contains 297 BCM of natural gas in the P2 category, including 219 BCM of proven gas reserves in the P1 category. According to Midroog's base-case scenario, the natural gas reserves remaining in the reservoir on the refinancing date are expected to amount to 67% of the Reservoir's total reserves in the P1 category, and 76% of its total reserves in the P2 category, as reported at the end of 2020 (according to the DCF model).

Additionally, we have assumed in the base-case scenario that the PLCR ratio on the refinancing date, in 2028, will be in the range of 5.5-6.5. In Midroog's estimation, a substantial volume of natural gas reserves in the Reservoir on the refinancing date, coupled with a debt structure that is adjusted for the Reservoir's cash flow certainty, as well as the lockup mechanism to reduce the refinancing risk established in the deed of trust, significantly moderate the refinancing risk, including in the event that natural gas is sold in substantial quantities during the debt period.

Company Profile

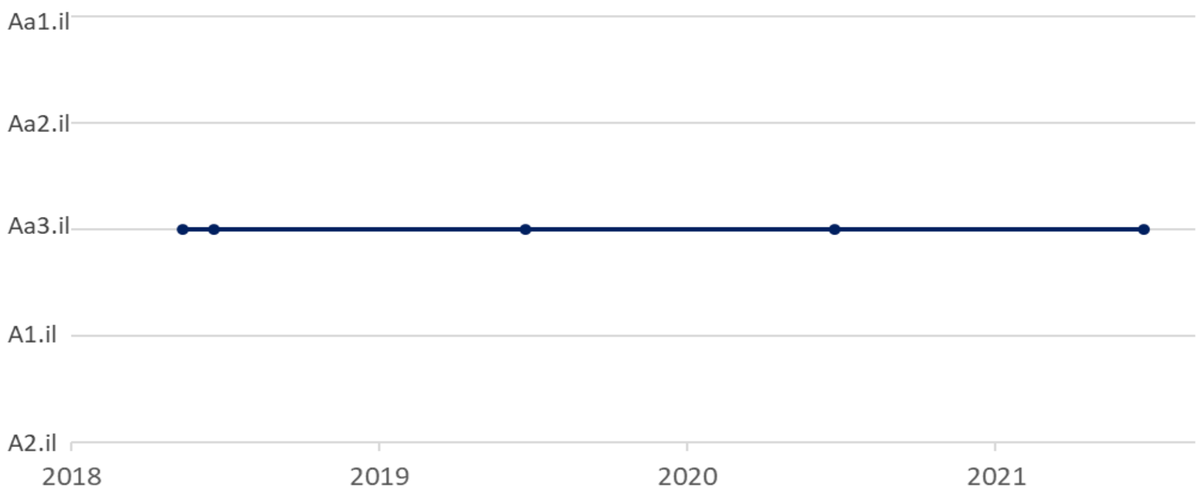
The Company was incorporated in Israel on November 6, 2012 as a private company limited by shares under the Companies Law, 5759-1999. According to the Company's bylaws, its purposes are to hold the royalties of companies operating in the oil and gas sectors. On June 13, 2021, the Company's name was changed from Delek Royalties (2012) Ltd. to Tomer Energy Royalties (2012) Ltd. On December 29, 2020, the Delek Group notified the Company that it had entered into an off-exchange transaction in which it sold the entire balance of its holdings in Delek Energy. The Company's current controlling shareholder is Essense Partners Ltd., which is the general partner in Essense Royalties Limited Partnership, which

[21] The coverage ratios are calculated excluding an exceptional coverage ratio on the debt repayment debt.
[22] Netherland, Sewell & Associates, Inc.
[23] See the report by Isramco Negev 2 Limited Partnership dated March 7, 2021, on the MAYA site.

together with interest holders in it holds 50.97% of the Company's issued share capital. Under an agreement signed between the Company and Delek Energy, Delek Energy assigned irrevocably to the Company its right to receive royalties directly from the I/12 Tamar and I/13 Dalit leases, out of the share of Delek Drilling Limited Partnership and Tamar Petroleum Ltd. (directly in respect of 22% and 9.25%, respectively).[24] The royalty rate to which the Company currently is entitled is 4.875%,[25] and it is registered in the Oil Register in the Company's favor.

The Tamar reservoir was discovered in January 2009, roughly 100 kilometers west of Haifa, in waters that are 1,670 meters deep and at an average depth of 3 kilometers below the seabed. The Tamar reservoir includes a natural gas production infrastructure and the production and sale of the gas to various customers, chief among them the IEC. First gas was delivered from the Tamar reservoir on March 31, 2013. The Reservoir is a joint venture owned by the partners: Noble Energy (25%), which serves, inter alia, as the Reservoir's operator; Isramco Negev 2 Limited Partnership (28.75%), Delek Drilling (22%), Tamar Petroleum (16.75%), Everest Infrastructure Limited Partnership (3.5%) and Dor Gas Exploration Limited Partnership (4%).

Rating History



[24] Additional interests at a rate of 7.5% (out of 100%) in the Tamar and Dalit leases, which are held by Tamar Petroleum, do not include commitments to pay overriding royalties to the Company.
[25] This rate is the royalty rate to which the Company is entitled after the date of recovery of the investment in the Tamar project.

Related Reports

Tomer Energy Royalties (2012) Ltd. – Related Reports

Methodology for Rating the Financing, Construction and Operation of Projects and Infrastructure – February 2018

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Table of Relationships and Holdings

Midroog Rating Scales and Definitions

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General Information

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Information from the Issuer

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