Navitas Petroleum Limited Partnership

Consolidated Financial Statements as at December 31, 2022

USD thousands

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Independent Auditor's Report

To the Partners of

Navitas Petroleum Limited Partnership

We have audited the accompanying consolidated statements of financial position of Navitas Petroleum (Limited Partnership) (hereinafter - the "Partnership") as at December 31, 2022, and 2021 and the consolidated statements of comprehensive income, changes in equity of the Partnership, and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the board of directors and management of the Partnership's general partner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Certified Public Accountants (Modus Operandi of Certified Public Accountant) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management of the Partnership's general partner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Partnership and its subsidiaries as at December 31, 2022 and 2021 and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and with the Israel Securities Regulations (Annual Financial Statements), 2010.

Key audit matters

The key audit matters listed below are those matters that were communicated or should have been communicated to the Partnership's Board of Directors, and which in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters include, among other things, any matter that: (1) Relates, or may relate to material items or disclosures on the financial statements; and (2) our judgment in connection therewith was particularly challenging, subjective or complex. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. Communicating these matters, as set forth below, does not alter our opinion on the financial statements as a whole, and we do not use their communication to provide a separate opinion on these matters, nor on the items or disclosures to which they relate.

Estimation of the oil and gas reserves

As described in Notes 2F and 7 to the Partnership's financial statements, the balance of investments in oil and gas assets as of December 31, 2022 is USD 632,672 thousand, and the depletion expenses in respect of the investments in oil and gas assets for the year ended December 31, 2022 amount to USD 14,334 thousand.
In accordance with the Partnership's accounting policies, oil and gas assets are depreciated using the depletion method, which is based on the estimated quantity of the proved and probable reserves from those assets (2P); when calculating the depreciation of oil and gas assets, the Group also takes into account the future amount of the investments required to produce those quantities.
An appraisal of the oil and gas reserves is a subjective process involving significant judgments, which are based on management's judgment and assumptions, using the expertise of external experts with knowledge and understanding in the field, in connection with geological data, estimated prices, future production costs, expected production rate, future development costs, if any, and an appropriate discount rate.
Due to the extent of the effect of the estimation of the oil and gas reserves on the financial statements and due to the judgments involved in such an estimate and its subjectivity, we identified the matter as a key audit matter. Investments in oil and gas assets, the estimation of the reserves, the depletion expenses, and the commitment to retirement of oil and gas assets as described in Note 7 to the financial statements.

Set forth below are the key audit procedures implemented to address the key audit matter as part of our audit:

- Obtaining an understanding of the Partnership's processes and procedures with regard to the estimation of oil and gas reserves, the estimation of the expected investments in the relevant reservoirs, the estimated cost of retirement of those assets, and an audit of the planning and implementation of controls of the process.

- Assessing the qualifications of the experts acting on behalf of the Partnership, including their objectiveness and ability to estimate the oil and gas assets, and checking whether they have the professional capabilities required to estimate the reserves in oil and gas reservoirs.

- Testing the integrity of the data used to estimate the reserves, including, among other things, by analyzing the key changes in 2022, and comparing the reserves estimated by the Partnership and adjusting them to the information included in the oil and gas reserve report that was prepared by the external experts on behalf of the Partnership.

- Ensuring that the revised estimated oil and gas reserves were included appropriately in the accounting treatment applied to determining the depletion rate of the oil and gas assets and the liability to retirement of oil and gas assets.

- Checking the completeness of the calculations and the appropriateness of the disclosures in the Partnership's financial statements.

We also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel - "Audit of the Components of Internal Controls Over Financial Reporting" - the Partnership's components of internal controls over financial reporting as of December 31, 2022, and our report, of March 22, 2023, included an unqualified opinion on the effectiveness of these components.

Tel Aviv,	Kost Forer Gabbay & Kasierer
March 22, 2023	Certified Public Accountants

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Independent Auditors' Report to the Partners of Navitas Petroleum - Limited Partnership

Regarding Audit of the Components of the Internal Control over Financial Reporting in accordance with Section 9B(c) to the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting of Navitas Petroleum, Limited Partnership (hereinafter - the "Partnership") as of December 31, 2022. These control components were set as explained in the following paragraph. The Partnership's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for assessing the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of the Components of the Internal Control over Financial Reporting" (hereinafter - "Audit Standard (Israel) 911"). These components are: (1) entity-level controls, including controls on the preparation process and closing of the financial reporting and general controls of IT systems; (2) controls over the revenues process; (3) controls over the process of debt and cash management; (4) controls over the netting process with the projects' operators (hereinafter, jointly: the "Audited Control Components").

We conducted our audits in accordance with Auditing Standard (Israel) 911. This standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance whether these control components have been maintained effectively in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Control Components, assessing the risk that a material weakness exists in the Audited Control Components, as well as reviewing and evaluating the effectiveness of the planning and maintenance of these control components based on the assessed risk. Our audit of these control components included performing such other procedures as we considered necessary under the circumstances. Our audit focused only on the audited control components, unlike internal control of all material processes relating to financial reporting, and therefore our opinion refers only to the Audited Control Components. In addition, our audit did not take into account the mutual effects between the Audited Control Components and those which are not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the above context.

Due to inherent limitations, internal control over financial reporting in general, and components of internal controls in particular, may not prevent or detect a misstatement. In addition, making projections on the basis of any evaluation of effectiveness is subject to the risk that controls may become inadequate due to changes in circumstances, or that the degree of compliance with the policies or procedures may be adversely affected.

In our opinion, the Partnership effectively maintained, in all material respects, the Audited Control Components as of December 31, 2022.

We also audited, in accordance with the generally accepted auditing standards in Israel, the Partnership's consolidated financial statements as of December 31 2022 and 2021 and for each of the three years ended on December 31, 2022, and our report, of March 22 2023 included an unqualified opinion on these financial statements.

Tel Aviv,
March 22, 2023

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Consolidated Statements of Financial Position

	Note	As at December 31 2022	As at December 31 2021
		USD thousands	
Current assets			
Cash and cash equivalents	5	65,866	38,624
Short-term deposits	6	14,846	14,970
Trade receivables	19E	8,612	7,144
Other receivables		2,616	2,004
Financial derivatives	19C	737	1,007
		92,677	63,749
Non-current assets			
Investments in oil and gas assets, net	7	632,672	251,239
Restricted amounts	10	109,354	405,334
Deferred costs	2L	36,993	31,661
Financial derivatives	19C	776	401
Other receivables		1,524	1,234
Right-of-use assets	2R	2,138	712
Property, plant, and equipment, net		179	197
		783,636	690,778
		876,313	754,527

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Financial Position

	Note	As at December 31 2022	2021
		USD thousands	
Current liabilities			
Trade payables and other payables	9	25,531	16,307
Interest payable for debentures		2,280	794
Financial derivatives	19C	1,807	5,255
Current maturities of long-term borrowings	8	11,456	11,488
Current maturity of lease liabilities		455	460
		41,529	34,304
Non-current liabilities			
Debentures	11	335,963	336,245
Long-term borrowings from banking corporations and financial institutions	8	101,704	90,289
Provision for a commitment to dispose of oil and gas assets	7E	34,910	6,467
Financial derivatives	19C	-	1,533
Deferred taxes	17D	11,127	23
Lease liabilities	2R	1,694	345
		485,398	434,902
The Partnership's capital	13		
Capital of participation units		309,957	309,936
Options and conversion component		3,318	3,318
Reserve for share-based payment		5,271	2,437
Reserve for transactions with a controlling shareholder		8,004	8,004
Reserve for cash flow hedges		(3,639)	(5,217)
Retained loss		(31,827)	(80,629)
		291,084	237,849
Non-controlling interests		58,302	47,472
Total capital		349,386	285,321
		876,313	754,527

March 22, 2023 Approval date of the financial statements	Gideon Tadmor Chairman of the Board of Directors FLR Oil and Gas Management Ltd. The General Partner	Amit Kornhauser CEO and Director FLR Oil and Gas Management Ltd. The General Partner	Tamar Rosenberg CFO FLR Oil and Gas Management Ltd. The General Partner

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2022	2021	2020
		USD thousands		
Revenue from oil and gas sales, net of royalties	15A	120,116	86,356	42,919
Cost of oil and gas production	15B	(33,212)	(26,676)	(21,323)
Depreciation and depletion expenses	7	(14,334)	(10,830)	(8,536)
Gross profit		72,570	48,850	13,060
Expenses for oil and gas exploration and project development		(953)	(1,003)	(1,470)
Derecognition of exploration and evaluation assets		(355)	(355)	-
General and administrative expenses	15C	(12,931)	(10,777)	(6,778)
Other income	15D	-	5,836	-
Operating profit		58,331	42,551	4,812
Finance income	16A	38,098	8,885	17,842
Finance expenses	16B	(26,113)	(38,508)	(39,918)
Reversal of impairment of financial assets		-	1,313	427
Profit (loss) before taxes on income		70,316	14,241	(16,837)
Tax benefits (taxes on income)	17B	(10,684)	(7,086)	925
Net income (loss)		59,632	7,155	(15,912)

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the year ended December 31		
	2022	2021	2020
	USD thousands (excluding earnings (loss) per participation unit)		
Other comprehensive income (loss) (net of tax effect):			
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit (loss) for cash flow hedges	(7,596)	(8,014)	3,343
Transfer to profit or loss for cash flow hedges	9,174	4,255	(4,428)
Total other comprehensive income (loss)	1,578	(3,759)	(1,085)
Total comprehensive income (loss)	61,210	3,396	(16,997)
Net profit (loss) attributable to:			
Owners of the Partnership's participation units	48,802	3,921	(15,912)
Non-controlling interests	10,830	3,234	-
	59,632	7,155	(15,912)
Total comprehensive income (loss) attributable to:			
Owners of the Partnership's participation units	50,380	162	(16,997)
Non-controlling interests	10,830	3,234	-
	61,210	3,396	(16,997)
Net profit (loss) per participation unit attributable to owners of the Partnership's participation units (USD):			
Basic earnings (loss)	0.521	0.053	(0.264)
Diluted earnings (loss)	0.520	0.053	(0.264)

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity of the Partnership

	Attributable to owners of the Partnership's participation units								
	Partnership's equity capital	Options and conversion component	Capital reserve for transactions with a controlling shareholder	Capital reserve for share-based payment	Capital reserve for hedging transactions	Retained loss	Total	Non-controlling interests	Total capital
	USD thousands								
Balance as at January 1, 2022	309,936	3,318	8,004	2,437	(5,217)	(80,629)	237,849	47,472	285,321
Net income	-	-	-	-	-	48,802	48,802	10,830	59,632
Other comprehensive income	-	-	-	-	1,578	-	1,578	-	1,578
Total comprehensive income	-	-	-	-	1,578	48,802	50,380	10,830	61,210
Share-based payment	-	-	-	2,855	-	-	2,855	-	2,855
Issue of participation units from the exercise of RSUs	21	-	-	(21)	-	-	-	-	-
Balance as at December 31, 2022	309,957	3,318	8,004	5,271	(3,639)	(31,827)	291,084	58,302	349,386

	Attributable to owners of the Partnership's participation units								
	Partnership's equity capital	Options and conversion component	Capital reserve for transactions with a controlling shareholder	Capital reserve for share-based payment	Capital reserve for hedging transactions	Retained loss	Total	Non-controlling interests	Total capital
	USD thousands								
Balance as at January 1, 2021	160,469	603	8,004	2,377	(1,458)	(84,550)	85,445	-	85,445
Net income	-	-	-	-	-	3,921	3,921	3,234	7,155
Other comprehensive loss	-	-	-	-	(3,759)	-	(3,759)	-	(3,759)
Total comprehensive income (loss)	-	-	-	-	(3,759)	3,921	162	3,234	3,396
Share-based payment	-	-	-	639	-	-	639	-	639
Issue of participation units from the exercise of RSUs	579	-	-	(579)	-	-	-	-	-
Issue of capital to the public	148,278	-	-	-	-	-	148,278	-	148,278
Issuance of preferred shares to non-controlling interests	-	-	-	-	-	-	-	44,238	44,238
Proceeds for conversion option in the issue of convertible debentures	-	3,318	-	-	-	-	3,318	-	3,318
Exercise of marketable options	8	(1)	-	-	-	-	7	-	7
Expiry of marketable options	602	(602)	-	-	-	-	-	-	-
Balance as at December 31, 2021	309,936	3,318	8,004	2,437	(5,217)	(80,629)	237,849	47,472	285,321

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity of the Partnership

	Partnership's equity capital	Options	Capital reserve for transactions with a controlling shareholder	Capital reserve for share-based payment	Capital reserve for hedging transactions	Retained loss	Total capital
	USD thousands						
Balance as at January 1, 2020	77,713	4,436	8,004	2,292	(373)	(68,638)	23,434
Loss	-	-	-	-	-	(15,912)	(15,912)
Other comprehensive loss	-	-	-	-	(1,085)	-	(1,085)
Total comprehensive loss	-	-	-	-	(1,085)	(15,912)	(16,997)
Share-based payment	-	-	-	85	-	-	85
Issue of capital to the public	78,921	-	-	-	-	-	78,921
Exercise of marketable options	2	-	-	-	-	-	2
Expiration of non-marketable options	3,833	(3,833)	-	-	-	-	-
Balance as at December 31, 2020	160,469	603	8,004	2,377	(1,458)	(84,550)	85,445

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Cash flows from operating activities			
Net income (loss)	59,632	7,155	(15,912)
Adjustments to reconcile cash flows from operating activities:			
Adjustments to profit or loss:			
Depletion, amortization, and depreciation	15,236	11,760	8,951
Share-based payment	2,855	639	85
Reversal of impairment of financial assets	-	(1,313)	(427)
Profit from exercise of rights in oil and gas assets	-	(3,319)	-
Deferred taxes, net	10,688	7,081	(925)
Finance expenses (income), net	(20,609)	23,472	25,050
Exchange differences for cash balances, net	2,359	684	(1,061)
	10,529	39,004	31,673
Changes in assets and liabilities:			
Increase in trade receivables	(1,468)	(1,533)	(697)
Increase in other receivables	(1,231)	(16)	(749)
Cash flow hedges	(3,994)	3,015	(1,384)
Increase (decrease) in other trade payables and other payables	6,336	(3,827)	3,192
	(357)	(2,361)	362
Interest received	2,769	12,717	12,482
Interest paid	(10,256)	(26,628)	(27,414)
Net cash from operating activities	62,317	29,887	1,191
Cash flows from investing activities			
Investment in oil and gas assets	(345,915)	(119,012)	(64,240)
Interest paid and capitalized to oil and gas assets	(14,745)	(3,760)	(1,671)
Proceeds from exercise of rights in oil and gas assets	-	6,304	-
Repayment of loans granted	-	161,058	-
Movements in restricted amounts	297,137	(404,775)	311
Investment in deposits	(2,645)	(4,223)	(8,000)
Acquisition of fixed assets	(69)	(15)	(92)
Net cash used for investing activities	(66,237)	(364,423)	(73,692)

The accompanying notes and appendix are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Cash flow from financing activities			
Receipt of loans from banks and financial institutions	23,737	69,688	45,000
Repayment of loans from banks and financial institutions	(11,482)	(8,887)	(945)
Repayment of lease liabilities	(530)	(454)	(424)
Issue of debentures	33,375	210,841	120,142
Costs of raising loans and debentures	(11,579)	(32,823)	(2,878)
Repayment of debentures	-	(161,058)	(79,794)
Issue of capital to the public	-	151,528	80,047
Exercise of options for participation units	-	7	2
Costs of raising capital	-	(3,250)	(1,126)
Issuance of preferred shares to non-controlling interests	-	44,238	-
Repayment of loans from a former controlling shareholder	-	-	(4,992)
Net cash from financing activities	33,521	269,830	155,032
Effect of changes in exchange rates on cash balances held in foreign currency	(2,359)	(684)	1,061
Increase (decrease) in cash and cash equivalents	27,242	(65,390)	83,592
Cash and cash equivalents at the beginning of the year	38,624	104,014	20,422
Cash and cash equivalents at the end of the year	65,866	38,624	104,014
Significant non-cash activities			
Investment in oil and gas assets against other payables	8,691	3,897	2,293
Deferred charges against long-term loan	2,818	3,823	-
Deferred consideration from exercise of rights in oil and gas assets	-	1,214	-

The accompanying notes and appendix are an integral part of the consolidated financial statements.

NOTE 1 - GENERAL

A. Navitas Petroleum - Limited Partnership (hereinafter - the "Partnership") was established under a limited partnership agreement signed on August 30, 2015, amended from time to time. The Partnership was registered on September 8, 2015, under the Partnership Ordinance, 1975. The purpose of the Partnership is oil and gas exploration, development, and production.

As at the date of approval of the financial statements, the Partnership, through investees, held a number of oil and gas assets that are producing and in various stages of development and a number of leases for oil and gas exploration.

B. The ongoing management of the Partnership is carried out by FLR Oil and Gas Management Ltd. (hereinafter - the "General Partner"). The address of the registered office of the Partnership is 12 Abba Eban Ave., Herzliya.

C. The Partnership's operations involve significant financial investments and a relatively high level of financial risk and uncertainty. For information about the raising of financing sources in reporting period see Notes 8, 11, and 13.

D. Definitions in these financial statements

The Partnership	-	Navitas Petroleum, Limited Partnership.
The Group	-	The Partnership and its subsidiaries.
Subsidiaries	-	Entities in which the Partnership has control (as defined in IFRS 10) and their financial statements are consolidated with the financial statements of the Partnership. See also the appendix to the financial statements listing the principle subsidiaries.
Controlling shareholder	-	Gideon Tadmor.
Interested parties and controlling shareholders	-	As defined in the Israel Securities Regulations (Annual Financial Statements), 2010.
Related parties	-	As defined in IAS 24 (amended)
USD	-	US dollar.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

A. Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS"). Furthermore, the financial statements have been prepared in accordance with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The financial statements have been prepared on a cost basis, other than for financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The Partnership has elected to present the items of profit or loss using the function of expense method.

B. Operating cycle

The operating cycle of the Group is one year.

C. Consolidated financial statements

The consolidated financial statements include the statements of entities in which the Partnership has control (subsidiaries). Control exists when the Partnership has the power to affect the investee, is exposed, or has rights, to variable returns from its involvement with the investing entity, and it has the ability to affect those returns arising from the investee. When assessing the existence of control, all potential voting rights are taken into account only if they are exercisable. The financial statements are consolidated from the date that control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and profits or losses arising from transactions between the Group companies have been eliminated in full in the consolidated financial statements.

Non-controlling interests for subsidiaries represent the capital of the subsidiaries that cannot be attributed, directly or indirectly, to the Partnership. The non-controlling interests are presented in equity separately from the equity attributable to the Partnership. Profit or loss and any part of other comprehensive income are attributed to the Partnership and the non-controlling interests.

Upon the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognized in equity taking into account also the disposal of a portion of any goodwill in the subsidiary and any capital reserves recognized in other comprehensive income, based on the decrease in the interests in the subsidiary. Transaction costs for transactions with non-controlling interests are also recognized in equity.

Upon the loss of control on disposal of a subsidiary, the Group derecognizes the assets (including goodwill), liabilities, and noncontrolling interests of the subsidiary, and recognizes the fair value of the consideration received and any remaining investment; and reclassifies the components previously recognized in other comprehensive income (loss).

The financial statements of the Partnership and its subsidiaries are prepared at the same dates and for the same periods. The accounting policy in the financial statements of the subsidiaries is applied uniformly and consistently with the accounting policy in the Partnership's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

D. Jointly ventures

According to IFRS 11, joint control only exists when there is a formal requirement for unanimous agreement of the joint venture partners. However, a review of the joint ventures in which the Partnership is involved demonstrates that the ventures themselves have no rights in the assets and have no binding commitments on behalf of the participants. Any participant may pledge its rights in the assets and is entitled to the economic benefits arising from the venture. As a result, the participants have a proportionate share in the assets and liabilities attributable to the joint venture. For the Partnership's rights in the joint venture operations, the Partnership recognized the following in its consolidated financial statements:

1. The share of the joint venture assets.
2. Any liabilities undertaken by the partnership.
3. The share in any liabilities incurred jointly in respect of the joint venture.
4. Any revenues arising from its right in the joint venture.
5. Any expenses arising from its right in the joint venture.

E. Functional currency, presentation currency, and foreign currency

1. Functional currency and presentation currency

The Partnership's functional currency is the US dollar. The presentation currency for the financial statements is the US dollar. The Partnership assesses the functional currency of all Group entities separately.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange differences are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency presented at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

F. Oil and gas exploration, evaluation, and development assets and investments in proved reservoirs

1. Exploration and evaluation assets

IFRS 6, Exploration for and Evaluation of Mineral Resources (hereinafter - "IFRS 6") sets out the accounting treatment for investments in oil and gas exploration. The Group measures oil and gas assets at cost at recognition. Accordingly, the accounting treatment used by the Group is as follows:

A) Investments in exploration and evaluation assets include the cost of leases, geological and seismic surveys, exploration drilling, and engineering planning. Expenses incurred before acquiring the lease are recognized in the statement of comprehensive income.

B) Participation expenses for geological and seismic tests are defined as exploration and evaluation assets and are recognized in the statement of financial position at cost under exploration and evaluation assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Oil and gas exploration, evaluation, and development assets and investments in proved reservoirs (cont.)

1. Exploration and evaluation assets (cont.)

C) Investments in oil and gas drillings that are in the drilling stage for reservoirs that are not yet proven to produce oil or gas or that are yet to be classified as being non-commercial, are defined as exploration and evaluation assets and are not systematically amortized.

D) Investments in oil and gas drillings, for reservoirs proved to be dry and were abandoned, or that were classified as non-commercial or for which development plans for the near future were not determined, are written off from investment in exploration and evaluation assets in the statement of comprehensive income.

E) Investments for reservoirs that have technical feasibility and commercial viability of oil or gas production, which are included in a range of events and circumstances, are reclassified, subject to impairment testing, from exploration and evaluation assets to oil and gas assets.

2. Oil and gas assets

The oil and gas assets item in the balance sheet includes costs accumulated for the Group's proven oil and gas assets. These costs include mainly costs for acquisition of rights, exploration drillings, engineering planning, development drilling, acquisition and establishment of production facilities and pipelines for the delivery of the oil and gas, and the estimated costs for disposing of the assets (see Section 6 below). The costs in this section are amortized to the statement of income according to the units of production method, based on the actual production volume in the period compared to the total proved and probable reserves, as appraised by an external expert. When calculating the amortization of oil and gas assets on the basis of total proved and probable reserves, the Group takes into account the future amount (in undiscounted values) of the investments required to produce the same amounts.

3. Farm-in agreements

Farm-in is the acquisition of part of the right in an oil and/or gas field in consideration for an agreement with the owner (hereinafter - the “Farmor”) to sell part of the rights to the transferee (hereinafter - the “Farmee”). In farm-in transactions where the acquired asset does not constitute a business, the accounting treatment is as follows:

As the costs are incurred, the Farmee recognizes the expense or asset, as the case may be, for its share in the oil and gas assets and for the Farmor's remaining rights, in compliance with the accounting policy for exploration and evaluation assets.

The Farmee accounts for the farm-out arrangement as follows:

- The Farmee recognizes its share in the expenses in accordance with the farm-out agreement, including expenses arising from the part that the Farmor imposed on the Farmee under the farm-out agreement.

- The Farmor recognizes expenses in accordance with the farm-out agreement in the same way that it accounts for exploration and evaluation costs that it bears directly.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Oil and gas exploration, evaluation, and development assets and investments in proved reservoirs (cont.)

4. Farm-out agreements

Farm-out is the transfer of part of the rights in an oil and/or gas field in consideration for an agreement by the transferee (hereinafter - the “Farmee") to meet, absolutely, certain expenses that would otherwise have to be undertaken by the owner (hereinafter - "the “Farmor").

The Farmor accounts for the farm-out arrangement as follows:

- The Farmor does not record any expense made by the Farmee on its behalf.
- The Farmor will derecognize the part of the oil and gas rights sold to the Farmee.
- The Farmor recognizes the farm-out arrangement in the statement of income in the amount of the difference between the consideration received or due and the carrying amount of the derecognized rights.

5. Testing for impairment of exploration and evaluation assets and oil and gas assets

Oil and gas exploration and evaluation assets are tested for impairment when the facts and circumstances indicate that the carrying amount of the exploration and evaluation asset and the oil and gas asset exceeds its recoverable amount in accordance with IFRS 36 and/or IAS 36 (see Section I).

6. Costs for undertaking to dispose of assets

The Group recognizes a liability for its share in the obligation to dispose of assets and at the same time an asset for the Group’s share in the obligation to dispose of assets. The liability is first measured at present value and the expenses arising from the passage of time are recognized in the statement of income. Changes in timing and in the amount of economic resources that are required for settling the obligation, and changes in the discount rate are added or deducted from the asset in the current period together with a change in the liability.

G. Cash equivalents

Cash equivalents are highly liquid investments, including short-term unrestricted bank deposits, with original maturities of three months or less from the investment date.

H. Recognition of revenue

Revenue from contracts with customers is recognized in the statement of income when control of the asset or service is transferred to the customer. The transaction price is the amount of the consideration expected to be received in accordance with the terms of the contract, less the amounts collected for third parties (such as taxes and royalties).

In determining the amount of revenue from contracts with customers, the Group assesses whether it acts as a principal or as an agent in the contract. The Partnership is a principal when it controls the promised goods or services to the customer. In such cases, the Partnership recognizes revenue in the gross amount of the consideration. In cases where the Partnership acts as an agent, the Partnership recognizes revenue on a net basis, net of the amounts due to the principal.

Revenue from the sale of oil and gas is recognized in the statement of income at a point in time when the goods sold are transferred to the customer. Generally, control is transferred when the goods are delivered to the customer.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Taxes on income

The tax results for current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized in other comprehensive income or equity.

1. Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability for previous years.

2. Deferred taxes

Deferred taxes are computed for temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred tax balances are calculated according to the tax rate that is expected to apply when the asset is disposed of or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

At each reporting date, deferred tax assets are assessed in accordance with their expected use. Carryforward losses and deductible temporary differences for which deferred tax assets were not recognized are tested at each reporting date and the relevant deferred tax asset is recognized if it is expected to be utilized.

Deferred taxes are offset in the statement of financial position if there is a legal right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

The calculation of deferred taxes does not take into account the taxes that would be applicable in the case of disposal of investments in investees, provided that the sale of these investments is not likely in the foreseeable future. In addition, deferred taxes incurred due to the distribution of earnings as dividends by investees were not taken into account, as this dividend distribution does not entail an additional tax liability, or due to the Partnership's policy to refrain from distributing dividends by the subsidiary that involve an additional tax liability.

J. Impairment of non-financial assets

The Group reviews the need for impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not likely to be recovered. When, in view of the impairment testing, the carrying amount of the non-financial assets exceeds their recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the higher of fair value less selling costs and value in use. When measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Any net impairment losses are recognized in profit or loss.

An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of the loss is limited to the lower of the amount of previously recognized impairment of the asset (net of depreciation or amortization) or the recoverable amount of the asset. For an asset measured at cost, reversal of the loss is recognized in profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. Impairment of non-financial assets (cont.)

For assets classified as exploration and evaluation assets (see Section 2F above), the unique criteria for impairment testing set out in IFRS 6 are applied.

These assets are tested for impairment when facts and circumstances may indicate that their carrying amount exceeds the recoverable amount attributed to them. Such facts and circumstances may include:

1. The period for which an entity holds an exploration right for specific area expires in the period or will expire in the near future, and it is not expected to be renewed.
2. There are no budgeted or planned substantive expenditure on further exploration for and evaluation of mineral resources in the specific area.
3. The exploration for and evaluation of mineral resources in the specific area did not result in the discovery of proven commercially viable quantities of mineral resources and the entity decided to discontinue these operations in the specific area.
4. Although a development in the specific area is likely to proceed, there is sufficient information indicating that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

K. Property, plant, and equipment

Items of property, plant, and equipment are presented at cost plus direct acquisition costs, less accumulated depreciation and accumulated impairment losses, and less investment grants, and do not include ongoing maintenance expenses. The cost includes spare parts and related equipment used for property, plant and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Furniture and office equipment	7-33
Leasehold improvements	15
Computers and software	33

L. Financial instruments

1. Financial assets

As at the date of initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to acquisition of the financial asset, except in the case of a financial asset measured at fair value through profit or loss, when transaction costs are recognized in profit or loss.

The Partnership classifies and measures the debt instruments in its financial statements on the basis of the following criteria:

(A) The Partnership’s business model for managing financial assets.
(B) The contractual cash flow characteristics of the financial asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Financial instruments (cont.)

1. Financial assets (cont.)

The Partnership measures debt instruments at amortized cost when

The Partnership's business model is the holding of financial assets with the objective of collecting contractual cash flows and their contractual terms give rise on specific dates to cash flows representing solely payments of principal and interest for the amount of the unpaid principle.

Subsequent to initial recognition, instruments in this class will be presented according to their terms at amortized cost plus direct transaction costs, using the effective interest method and less a provision for impairment.

2. Impairment of financial assets

The Partnership assesses at each reporting date the provision for loss in respect of financial debt instruments that are not measured at fair value through profit or loss.

The Partnership differentiates between two situations of recognition of a provision for loss:

A) Debt instruments with no significant impairment in credit quality since initial recognition or with a low credit risk - the provision for loss recognized for this debt instrument will take into account expected credit losses in the 12 months period after the reporting date; or

B) Debt instruments with significant deterioration in credit quality since initial recognition and their credit risk is not low - the provision for loss recognized will take into account the expected credit losses - over the balance of the useful life of the instrument.

Impairment for debt instruments measured at amortized cost is recognized in the statement of income against a provision.

3. Derecognition of financial assets

The Partnership derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset have expired.

4. Financial liabilities

At the date of initial recognition, the Partnership measures the financial liabilities under the scope of the standard at fair value less transaction costs directly attributable to the issuance of the financial liability.

Subsequent to initial recognition, the Partnership measures financial liabilities at amortized cost in their entirety.

The Partnership recognizes costs and commissions paid for securing unutilized long-term credit as deferred costs, provided that the Company expects to utilize such credit facilities. When utilizing the credit facilities that were provided, the Partnership offsets a proportionate share of the deferred costs against the loan taken, which impacts the effective interest rate of the loans taken. If the Partnership does not expect to utilize any credit facility, the deferred costs recognized with respect that credit facility are charged to the statement of comprehensive income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Financial instruments (cont.)

5. Derecognition of financial liabilities

The Partnership derecognizes a financial liability when, and only when, it is settled - that is, when the obligation defined in the contract expires or when it is discharged or canceled.

A financial liability is extinguished when the debtor pays the liability by a cash payment, other financial assets, goods or services, or is legally discharged of the liability.

In the event of a change in the terms of an existing financial liability, the Partnership examines whether the terms of the liability are materially different from the existing conditions.

When there is a material change in the terms of an existing financial liability, the change is accounted for as derecognition of the original liability and recognition of a new liability. The difference between these two financial liabilities in the financial statements is recognized in profit or loss.

In the case of an immaterial change, the Partnership is required to adjust the amount of the liability, meaning to discount the new cash flows at the original effective interest rate, with the difference being recognized in profit or loss.

When assessing whether there is a significant change in the terms of an existing liability, the Partnership takes into account qualitative and quantitative considerations.

6. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intent to dispose of the asset and liability on a net basis or realize the asset and dispose of the liability simultaneously. The right to offset must not only be legally enforceable in the ordinary course of business, but must also be enforceable in the event of bankruptcy or insolvency of one of the counterparties. Offset must not be contingent on a future event or periods of time in which they will not apply, or may be removed by a future event.

7. Compound financial instruments

A) Convertible debentures, which include an equity conversion component and a liability component, are separated into two components. This separation is performed by first determining the carrying amount of the liability component based on the fair value of a similar non-convertible liability, and the carrying amount of the equity conversion component is the residual value. Direct transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.

B) Convertible debentures issued in foreign currency include two components: the conversion component and the debt component. The liability conversion component is initially recognized as a financial derivative at fair value. The balance is attributed to the debt component. Direct transactions costs are allocated between the liability conversion component and the liability debt component, based on the allocation of the consideration for each component.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Financial instruments (cont.)

8. Issuance of a parcel of securities

When issuing a parcel of securities, the consideration received (before issuance expenses) is attributable to the securities issued in the parcel based on the following hierarchy: Financial derivatives and other financial instruments are presented at fair value in each period. Subsequently, the fair value for financial liabilities measured at amortized cost is determined when the consideration attributed to equity instruments are determined as the residual value. Issuance costs are attributed to each component based on the ratio of the amounts determined for each component of the parcel.

9. Extinguishing Financial Liabilities with Equity Instruments

Debt for equity swaps are measured at fair value, unless this cannot be reliably measured. If fair value of issued equity instruments cannot be reliably estimated, the equity instruments are measured at the fair value of the financial liability extinguished at the extinguishment date. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognized in profit or loss.

10. Derivative financial instruments for hedge accounting

The Group designates certain derivative financial instruments as hedging instruments to hedge the risks associated with fluctuations in oil prices.

Any profits or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized directly in the statement of income.

Hedge transactions qualify as hedge accounting when, at the inception of the hedge, there is formal designation and documentation of the hedging relationships and the risk management objectives and strategy of the Group for hedging. The hedge is tested on an ongoing basis and determined in practice when it is highly effective throughout the financial reporting period to which the hedge is assigned. Hedging transactions are accounted for as follows:

Cash flow hedges

The effective portion of the changes in the fair value of the hedging instrument is recognized in other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Other comprehensive income (loss) is transferred to profit or loss when the hedged transaction results are recognized in profit or loss, such as in periods when the interest income or interest expense is recognized or when a forecast sale occurs. Where the hedged item is a non-financial asset or liability, this cost also includes the amount of the profit (loss) from the hedged instrument.

The Partnership discontinues hedge accounting prospectively only when the hedging relationships or part of them no longer comply with the qualifying criteria (after taking into account any rebalancing of hedge relationships, if relevant) including cases where the hedging instrument expires, is sold, canceled or exercised. When the Partnership discontinues hedge accounting, the amount accrued in the hedge fund will remain in the hedge fund until the cash flow occurs or is classified in profit or loss, if the future hedged cash flows are no longer expected to occur.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. Fair value measurement

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient information is available to measure fair value, while maximizing the use of relevant observable data and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value, or for which there was fair value disclosure, are categorized within the fair value hierarchy, based on the lowest level of the data, which is significant to fair value measurement of a whole:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (assessment without using observable market inputs).

N. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

O. Earnings (loss) per participation unit

Earnings (loss) per participation unit are calculated in accordance with IAS 33, which determines, among other things, that the Partnership will calculate the basic earnings per participation unit for profit or loss, attributable to the owners of the participation units and will also calculate the basic earnings per participation unit for profit or loss from continuing operations, attributable to the Partnership's participation units, if such earnings are recognized.

Potential ordinary participation units are included in the computation of diluted earnings per participation unit if their effect dilutes the earnings per participation unit from continuing operations. Potential participation units that were converted in the period are included in diluted earnings per participation unit only until the conversion date and from that date, in basic earnings per participation unit. The Partnership's share of earnings of investees is based on the earnings per share of the investees multiplied by the number of shares held by the Partnership.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

P. Share-based payment transactions

The Group's employees are entitled to benefits by way of share-based payment settled in the Partnership's equity instruments (participation units).

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments at the allotment date. The fair value is determined using a standard pricing model.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award (hereinafter - the "Vesting Period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will eventually vest.

No expense is recognized for awards that do not eventually vest, except where vesting is subject to market conditions accounted for as vested awards irrespective of the existence of the market conditions, assuming that all the other vesting conditions are satisfied.

If the Partnership modifies the terms on which equity-instruments were allotted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment compensation or is otherwise beneficial to the employee according to the fair value at the modification date.

If an allotment of an equity instrument is canceled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the allotment is recognized immediately. However, if a new allotment replaces the canceled allotment and is identified as a replacement allotment on the allotment date, the canceled and new allotment are accounted for as a modification of the original allotment, as described above.

Q. Borrowing costs

The Group capitalizes borrowing costs related to the acquisition, construction, or production of qualifying assets for which a significant period of time is required for their preparation, intended use, or sale.

Capitalization of borrowing costs begins when the costs for the assets itself are expended, the activities attributable to preparation of the qualifying asset are in progress and borrowing costs are incurred, and ceases when substantially all the activities attributable to preparation of the qualifying asset for its intended use or sale are complete. The amount of discounted credit costs in the Reporting Period includes direct credit costs and general credit costs at a weighted discount rate.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

R. Leases

The Partnership accounts for a contract as a lease when the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration.

1. The Group as a lessee

For transactions in which the Partnership is a lessee, a right of use asset and a lease liability are recognized on the inception date of the lease, with the exception of leases of up to 12 months and leases where the underlying asset has a low value, in which case the Partnership elected to recognize the lease payments as an expense in profit or loss on a straight line basis over the lease period. When measuring the lease liability, the Partnership elected to apply the relief provided in the standard and did not separate lease components and non-lease components such as: management services and maintenance services included in the transaction.

In transactions in which the employee is entitled to a company car as part of the employment terms, the Partnership accounts for these transactions as employee benefits under IAS 19 and not as a sublease transaction.

At the inception date, the lease liability includes all the lease payments that are not paid, discounted by the interest rate implicit in the lease, when it can be readily determined, or at the incremental interest rate of the Partnership. After inception, the Partnership uses the effective interest method to measure the lease liability.

The right of use asset at the inception date is recognized in the amount equal to the lease liability plus lease payments made on or before the effective date plus transaction costs incurred.

The right of use asset is accounted for using the cost model and depreciated over the shorter of the lease term and the useful life. Where there are indications of impairment, the Partnership assesses impairment of the right of use asset in accordance with IAS 36.

2. CPI-linked lease payments

At the inception date of the lease, the Partnership uses the CPI rate in effect at the inception date to calculate future lease payments.

In transactions in which the Partnership is a lessee, changes in the amount of the future lease payments due to a change in the CPI are discounted (without a change in the discount rate applicable to the lease liability) by the right of use asset and are recognized as an adjustment to the lease liability, only when there has been a change in the cash flows from the change in the CPI (meaning, when the adjustment for the lease payments came into effect).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

R. Leases (cont.)

3. Options to extend and cancel a lease period

The non-terminable lease term also includes periods covered by an option to extend the lease when it is reasonably certain that the option to extend the lease period will be exercised and periods covered by an option to cancel the lease when it is reasonably certain that the option to cancel will not be exercised.

If there is a change in the expectation that the Partnership will exercise the option to extend the lease, or will not exercise the cancellation option, the Partnership re-measures the lease liability according to the revised lease period, using a new discount rate; the total change is recognized against the right-of-use asset until it is reduced to zero, and then in profit or loss.

4. Lease modifications

When a lease modification does not decrease the scope of the lease and is not accounted for as a separate lease transaction, the Partnership re-measures the lease liability in accordance with the modified lease terms, at the revised discount rate on the modification date and recognizes the total modification in the lease liability against the right-of use asset.

When a lease modification decreases the scope of the lease, the Partnership recognizes a profit or loss arising from the partial or full derecognition of the right-of-use asset and liability for the lease. Subsequently, the Partnership re-measures the lease liability in accordance with the modified lease terms, at the revised discount rate at the modification date and recognizes the total modification in the lease liability against the right-of use asset.

S. Changes in accounting policy: first-time application of new standards and amendments to existing standards

1. Amendment to IAS 16, Property, Plant and Equipment

In May 2020, the IASB published an amendment to IAS 16 (hereinafter - the “Amendment"). The Amendment prohibits the deduction from cost of any proceeds received from selling items produced while the entity is preparing the property, plant and equipment for its intended use. Instead, the entity will recognize the proceeds from the sale and the associated costs in profit or loss.

The Amendment is applied for annual reporting periods beginning on January 1, 2022.

The amendment did not affect the Partnership's Interim Financial Statements.

2. Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs an entity is to include when assessing whether a contract is onerous (hereinafter - the “Amendment”).

According to the Amendment, this assessment should include costs that relate directly to fulfilling the contract; such costs include both incremental costs (such as raw materials and direct working hours) and the allocation of other costs that relate directly to fulfilling the contract (such as depreciation of property, plant, and equipment used in fulfilling the contract).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. Changes in accounting policy: first-time application of new standards and amendments to existing standards (cont.)

2. Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets (cont.)

The Amendment is applied for annual reporting periods beginning on January 1, 2022. The Amendment applies to contracts for which all the obligations have not yet been fulfilled as at January 1, 2022. Upon application of the Amendment, entities are not required to present comparative amounts, but rather to adjust the opening balance of retained earnings upon first-time application, by the amount representing the cumulative effect of the Amendment.

The above-mentioned Amendment did not affect the Partnership's Financial Statements.

3. Improvements to IFRS in 2018-2020

In May 2020, the IASB issued certain amendments as part of its annual improvements project for 2018-2020, with the main amendment relating to IFRS 9.
The amendment to IFRS 9 clarifies which commissions the entity is to include when it conducts the "10 Percent" test according to Paragraph B.3.3.6 of IFRS 9, for the purpose of testing, whether the terms of a debt instrument that was amended or exchanged are materially different from the original debt instrument.
In accordance with the Amendment, when determining fees paid net of fees received, a borrower includes in the cash flows only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or the lender on the other's behalf.
The Amendment is applied for annual reporting periods beginning on January 1, 2022. The Amendment is applied with respect to financial liabilities that were amended as of the year in which the amendment to the standard was first applied, i.e., January 1 2022.

The above-mentioned Amendment did not materially affect the Partnership's Financial Statements.

4. Amendment to IFRS 3, Business Combinations

In May 2020, the IASB issued an amendment to IFRS 3, Business Combinations, in respect to the Conceptual Framework. The Amendment is intended to replace the reference to the framework for preparing and presenting financial statements, by referencing the Conceptual Framework for Financial Reporting published in March 2018 without significantly changing its requirements.
The Amendment added an exception to the principle of recognition of a liability in accordance with IFRS 3 to prevent recognition of gains or losses immediately after a business combination ("Day 2 gains or losses") arising from liabilities and contingent liabilities that would fall under IAS 37 or IFRIC 21, if recognized separately.
Based on the exception, contingent liabilities or liabilities that fall within the scope of IAS 37, or IFRIC 21, will be recognized at the time of purchase in accordance with IAS 37 or IFRIC 21 and not in accordance with the Conceptual Framework.
The Amendment also clarified that contingent assets will not be recognized at the business combination date.

The Amendment is applied prospectively for annual reporting periods beginning on or after January 1, 2022. The above-mentioned Amendment did not materially affect the Partnership's Financial Statements.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Below are the key assumptions made in the financial statements concerning uncertainties as at the reporting date and the critical estimates calculated by the Partnership; a material change in the assumptions and estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the financial statements in the subsequent year:

A. Amortization of oil and gas assets

Investments in oil and gas assets are amortized to the statement of income according to the units of production method, based on the actual production volume in the period compared to the total proved and probable reserves as appraised by an external expert. When calculating the amortization of oil and gas assets on the basis of total proved and probable reserves, the Group takes into account the future amount (in undiscounted values) of the investments required to produce the same amounts. The estimate of the proven and prospective oil and gas reserves are used to determine the amortization rate of the assets used in the operations over the reporting period. Depreciation of investments (also taking into account expected future costs for production of the proven and prospective resources) associated with discovery and production of proven and probable oil and gas reserves is based on the depletion method; according to this method, in each accounting period the assets are depreciated at a rate determined by the number of units of oil and gas actually produced, divided by the proven and prospective oil and gas reserves remaining according to estimates. The estimated oil and gas reserves in the producing reservoirs in the reporting period, and the future anticipated costs are calculated each year based partially on assessments of oil and gas reserves by external experts. The estimated proven and prospective reserves and the future anticipated costs according to these principles is subjective, based on different assumptions and the estimates of experts and might sometimes differ significantly. Given the significant amounts of the depreciation expenses, the changes described above can have a material effect on the operating results and the financial position of the Partnership (including in respect of testing for impairment of oil and gas assets).

B. Testing for impairment of exploration and evaluation assets and oil and gas assets

Exploration, evaluation, and development assets are not systematically depreciated; these assets are tested for impairment when facts and circumstances may indicate that the carrying amount exceeds the recoverable amount attributed to them.

The recoverable amount of exploration and evaluation assets and oil and gas assets is determined by discounting future cash flows, and includes various assumptions and estimates regarding anticipated selling prices, the number of wells used for production, production costs, and the determination of capitalization rates. A change in the assumptions and estimates may affect the recoverable amount of the exploration, evaluation, and development assets.

C. Liability in respect of retirement of assets

The Partnership recognizes an asset, and concurrently it recognizes a liability in respect of its obligation for retirement of oil and gas assets when they are no longer used. The timing and amount of the economic resources required to settling the obligation is assessed periodically in order to test their appropriateness.

NOTE 4 - DISCLOSURE OF NEW IFRSS IN THE PERIOD PRIOR TO THEIR ADOPTION

A. Amendment to IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1 regarding requirements for classifying liabilities as current or non-current (hereinafter - the "Amendment").

The Amendment clarifies the following:

- What is meant by an unconditional right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The Amendment will be applied for annual reporting periods beginning on or after January 1, 2023. Early application is permitted. The Amendment will be applied retrospectively.

In the opinion of the Partnership, the above is not expected to have a material effect on the financial statements.

B. Amendment to IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"

In February 2021, the IASB issued an amendment to IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors (hereinafter - the "Amendment)". The purpose of the Amendment is to introduce a new definition of the term "accounting estimates".

Accounting estimates are defined as "financial amounts in the financial statements subject to measurement uncertainty". The Amendment clarifies what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

The Amendment will be applied prospectively to annual periods beginning on January 1, 2023, and shall apply to changes in accounting policies and accounting estimates that occur at the beginning of that period or thereafter. Early application is permitted.

In the opinion of the Partnership, the above is not expected to have a material effect on the financial statements.

C. Amendment to IAS 12, Taxes on income

In May 2021, the IASB published an amendment to International Accounting Standard 12, Income Taxes (hereinafter - "IAS 12" or the "Standard"), which narrows the scope of the "initial recognition exemption" to deferred taxes set forth in Sections 15 and 24 of IAS 12 (hereinafter - the "Amendment").

Under the provisions for recognition of deferred tax assets and liabilities, IAS 12 provides for an exemption from recognizing deferred tax assets and liabilities in respect of certain temporary differences arising from initial recognition of assets and liabilities in certain transactions. This exemption is called the 'initial recognition exemption'. The Amendment narrows the scope of the 'initial recognition exemption' and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from a transaction that is not a business combination and which gives rise to equal taxable and deductible temporary differences, even if they meet the other terms and conditions of the exemption.

The Amendment shall be applied as from annual periods beginning on January 1, 2023. Early application is permitted. Regarding lease transactions and recognition of a liability for liquidation and rehabilitation - the Amendment will be implemented from the beginning of the earliest reporting period presented in the financial statements to which the Amendment

NOTE 4 - DISCLOSURE OF NEW IFRSS IN THE PERIOD PRIOR TO THEIR ADOPTION (CONT)

C. Amendment to IAS 12, Taxes on income (cont.)

was first applied, imputing the cumulative effect of the first-time application to the opening balance of the retained earnings (or other capital component, as applicable).

In the opinion of the Partnership, the above is not expected to have a material effect on the financial statements.

D. Amendment to IFRS 16, Leases

In September 2022, the IASB published an amendment to IFRS 16, Leases (hereinafter - the "Amendment"), whose objective is to provide an accounting treatment in the financial statements of the seller-lessee in sale and leaseback transactions, when the lease payments are variable lease payments that do not depend on an index or rate. As part of the amendment, the seller-lessee is required to adopt one of two approaches to measure the lease liability upon initial recognition of such transactions. The selected approach constitutes an accounting policy that should be implemented consistently.

The Amendment shall be applied as from annual periods beginning on January 1, 2024; early application is permitted. The Amendment will be applied retrospectively.

In the opinion of the Partnership, the above is not expected to have a material effect on the financial statements.

NOTE 5 - CASH AND CASH EQUIVALENTS

	December 31	
	2022	2021
	USD thousands	
Cash balances available for immediate withdrawal	41,434	17,307
Cash equivalents - short-term deposits (1)	24,432	21,317
Total	65,866	38,624

(1) The deposits are held in banking corporations. As of December 31, 2022, bear interest at an annual rate of 3.78% (as at December 31, 2021 - 0.5%).

NOTE 6 - SHORT-TERM DEPOSITS

Deposits are deposited in banks, and as at December 31, 2022, bear interest at an annual rate of 2.37% (as at December 31, 2021: 0.5%).

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS

A. Composition:

		December 31	
		2022	2021
		USD thousands	
Oil and gas assets			
Shenandoah project	7D1	458,556	111,484
Sea Lion project	7D2	14,025	-
Buckskin project	7D3	53,197	41,927
Denbury project	7D4	88,592	78,735
Neches project	7D5	16,229	17,283
Yucatan project	7D6	990	836
		631,589	250,265
Exploration and evaluation assets		1,083	974
		632,672	251,239

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

B. Movement

	Oil and gas assets	Exploration and evaluation assets	Total
		USD thousands	
Cost			
Balance as at January 1, 2021	155,239	2,454	157,693
Investment in existing oil and gas assets	119,924	55	119,979
Provision for a commitment to dispose of oil and gas assets	(922)	-	(922)
Capitalized credit costs	3,760	-	3,760
Disposal of oil and gas assets (see Note 12A)	(4,199)	-	(4,199)
Derecognition	-	(1,180)	(1,180)
Balance as at December 31, 2021	273,802	1,329	275,131
Investment in existing oil and gas assets	355,339	464	355,592
Revision of the provision for a commitment to dispose of oil and gas assets	13,387	-	13,387
Capitalized credit costs	15,690	-	15,690
Acquisition of oil and gas assets (including transaction costs) (see Note 7D(2))	11,453	-	11,453
Derecognition	-	(710)	(710)
Balance as at December 31, 2022	669,671	1,083	670,543
Accumulated depreciation, depletion and amortization			
Balance as at January 1, 2021	(12,707)	(1,180)	(13,887)
Depletion	(10,830)	-	(10,830)
Derecognition	-	1,180	1,180
Impairment	-	(355)	(355)
Balance as at December 31, 2021	(23,537)	(355)	(23,892)
Depletion	(14,334)	-	(14,334)
Derecognition	-	710	710
Impairment	-	(355)	(355)
Balance as at December 31, 2022	(37,871)	-	(37,871)
Depreciated cost as at December 31, 2022	631,800	1,083	632,672
Depreciated cost as at December 31, 2021	250,265	974	251,239

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

C. Information about the Partnership's rights in oil and gas assets

	Class	Right valid until	The Partnership's share	Royalties to the State	Royalties to others (1)
USA					
Shenandoah	Offshore	In accordance with the LHO[(3)] approval	49%	12.5%-16.67%	2%-3%
Sea-Lion	Offshore	November 1, 2024	65%	9%	-
Buckskin	Offshore	HBP [(2)]	7.5%	12.5%-18.75%	1%
Denbury	Onshore	HBP [(2)]	50%	-	approx. 17%
Neches	Onshore	HBP [(2)]	98%	-	approx. 15%
Yucatan	Offshore	June 30, 2028	41.85%	18.75%	-
Canada					
Block 7	Offshore	January 14, 2024	30%	7.5%-1%	-

(1) Not including 6% in overriding royalties for the shareholders in the General Partner. For further information see Note 18D.

(2) Since production began, all leases in the area of the oil asset are held by production (HBP) and will continue to be valid throughout production. Areas of oil assets with a right of ownership in minerals are not subject to production, and will remain in force.

(3) Lease Holding Operations - after the commencement of development drillings in the oil asset, but before the commencement of production, a Lease Holding Operations approval is received, which allows holders of rights to hold the license over a year since the end of the drilling activities until the commencement of production from the oil asset. If production has not started or other development activities have not taken place within a year from the end of the drilling activity, the entity is required to obtain a renewed Suspension of Production (SOP) approval.

D. The Partnership's operations in oil and gas assets

1. Shenandoah

The Shenandoah oil asset is a discovery that includes 3 federal leases for the exploration, development, and production of oil and gas in the waters of the Gulf of Mexico in the United States. The discovery well was drilled in 2009. Following the discovery, nine more discovery wells were drilled for verification and evaluation purposes. The area of the reservoir is estimated at 69.9 square kilometers.

On August 25, 2021, the partners to the Shenandoah oil asset made a final investment decision to develop the oil asset at a budget of approximately USD 1.8 billion (for 100% of the rights to the project). Production in the Shenandoah oil asset is set to begin in late 2024. The FID was after securing in advance all the amounts required for developing the oil asset, in such a way that the Project would not be exposed to financing risks on the part of any of the partners.

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. The Partnership's operations in oil and gas assets (cont.)

1. Shenandoah (cont.)

On October 24, 2022, the General Partner's Board of Directors authorized the execution of four development and production drillings in the oil asset, and on November 1, 2022, the Shenandoah Project Operator, BOE Exploration & Production LLC, informed the Partnership of the drilling ship Transocean Atlas's arrival at the first of four drilling sites, and of commencing the combined execution of the four drillings.
In addition, the construction works on the Shenandoah Project's floating production and storage (FPS) system at the Hyundai Shipyard in South Korea have commenced.

For more information regarding agreements with respect to the acquisition and development of the Shenandoah oil asset, see Note 12A.

In accordance with the resources report prepared by an independent reserves assessor as at December 31, 2022, the proved reserves (1P) of Shenandoah (100%) are estimated at 120.8 MMBBL of oil and 141.0 BCF of natural gas. The proved and projected reserves (2P) in the reservoir are estimated at 324.5 MMBBL of oil and 380 BCF of natural gas.

2. Sea-Lion project

Sea-Lion, an offshore oil asset in the South Atlantic Ocean, 220 kilometers north of the Falkland Islands, 450 meters underwater. Its overall area is estimated at 2,697 sq. km. The oil asset was discovered by Rockhopper Exploration plc (hereinafter - "RKH") in 2010. In 2012, Premier Oil Exploration and Production Limited (hereinafter - "Premier") acquired 60% of the rights in the oil asset from RKH and was appointed operator. 20 further exploration wells were drilled for appraisal and confirmation of the oil asset, with a total investment of USD 1.3 billion.

In September 2022, the Partnership completed, through a foreign subsidiary, a transaction for the acquisition of 65% of the rights in several oil discoveries in the Falkland Islands, the main of which is the Sea Lion oil discovery. Upon completion of the transaction, Navitas UK became the project operator (through a subsidiary).

For further information about the acquisition transaction, see Note 12E below.

According to the resources report prepared by an independent reserves assessor as at December 31, 2022, the best estimate of contingent resources (2C) in (100%) is estimated at 712.3 MMBBL of oil.

3. Buckskin project

In 2017, the Group completed two transactions for the acquisition of 7.5% of the rights in the Buckskin project, an oil and gas discovery in the deepwater Gulf of Mexico in the United States; the reservoir's area is estimated at 151.5 km.

In the first half of 2019, all Phase 1 - First Stage development works were completed in the northern end of the Project (hereinafter - "Buckskin North"), which includes two wells, and in June 2019, the Project's commercial oil production began.

On September 19, 2021, drilling of a third development well began in the reservoir; drilling work was completed successfully at the beginning of February 2022.
The Partnership's total share in the drilling costs amounts to USD 8 million. In addition, the preparation work for the drilling's production ended in September 2022 and production therefrom began on that date.

On August 16, 2022, the General Partner's Board of Directors approved the execution of a fourth development drilling in the Buckskin North reservoir.
As reported to the Partnership by the operator, the Partnership's share in the cost of all drilling works is estimated at USD 7.5 million. The drilling is expected to commence in the second quarter of 2023.

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (cont.)

D. The Partnership's operations in oil and gas assets (cont.)

3. Buckskin project (cont.)

According to the resources report prepared by an independent reserves assessor as at December 31, 2022, the proved reserves (1P) of Buckskin North (100%) are estimated at 128.6 MMBBL of oil and 28.7 BCF of natural gas. The proved and projected reserves (2P) in the reservoir are estimated at 184.6 MMBBL of oil and 41.2 BCF of natural gas.

On July 30, 2021, the board of directors of the General Partner approved an evaluation and verification drilling in the southern section of Buckskin project (hereinafter - "Buckskin South"). The purpose of the evaluation drilling is to confirm the estimates regarding the size and quality of the reservoir, based on which development decisions will be made. Total drilling budget (100%) is estimated at USD 64.4 million. The Partnership's total share of the drilling budget (7.5%) is USD 4.8 million.

On October 19, 2022, the Partnership was updated by the project operator, LLC Offshore Exploration LLOG (hereinafter - the "Operator") on the arrival of drilling vessel Neptune West at the drilling point and the launch of the drilling work.

On December 9, 2022, the drilling reached its final depth, oil was discovered in the well and it was sealed, since it is not expected that it will be used as a producing well as part of the future development plan. During the course of the drilling work, information was collected that will be used to reach a revised estimation as to the resources in the oil asset, including their nature and quality, for the purpose of formulating the future development plan in the oil asset.

Further to the completion of the evaluation drilling and the analysis of its results, it was noted in Buckskin South's contingent resources report, that according to NSAI, the characteristics of the oil asset, including its size, porosity and permeability distributions, and fluid characteristics in the reservoir rocks, vary from what was estimated prior to the drilling of the well. In view of the results of the appraisal drilling, the operator is of the opinion that the most effective development plan for the oil asset is a connection to the existing transmission and handling infrastructure of Buckskin North (including to the Lucius production platform), while utilizing the existing capacities, if they are available (hereinafter - the "combined development plan"). To the best of the Partnership's knowledge, the operator intends to assess and present to the partners in the oil asset the combined development plan, which is expected to be quicker, simpler and cheaper than the standalone development plan that was previously considered for the oil asset.

The actual cost of drilling was 15% lower than the revised budget prior to the drilling, and the Partnership's share (7.5%) amounted to approx. USD 4 million.

According to the resources report prepared by an independent reserves assessor as at December 31, 2022, the best estimate of contingent resources (2C) in Buckskin South (100%) is estimated at 127.2 MMBBL of oil and 47.9 BCF of natural gas.

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. The Partnership's operations in oil and gas assets (cont.)

4. Denbury

On March 4, 2020, the Partnership, through Navitas Petroleum Onshore, LLC, a wholly owned subsidiary (hereinafter - "NPO"), completed a transaction for the acquisition of 50% of the rights in Denbury Onshore LLC (hereinafter - "Denbury") in 4 producing onshore oil fields: Thompson, Manvel, East Hastings, and Webster, in Texas, United States (hereinafter - the "Denbury Assets"). For further information about the acquisition agreements see Note 12D.

Under the operating agreements that were signed, Denbury will remain the operator in the acquired oil assets.

In accordance with the resources report prepared by an independent reserves assessor as at December 31, 2022, the proved reserves (2P) of the Denbury reservoir (100%) are estimated at 18.6 MMBBL of oil and 12.3 BCF of natural gas. The proved and projected reserves (2P) are estimated at 29.3 MMBBL of oil and 16.3 BCF of natural gas.

In August 2022, and at the recommendation of the Denbury (the operator), the General Partner's Board of Directors approved the execution of four horizontal drillings in the Webster onshore oil field (hereinafter - the "Drillings" and the "Field", respectively). The development budget (100%) is estimated at USD 20.5 million (the Partnership's share of the drilling budget (49.8%) is USD 10.2 million). As of the approval date of the financial statements, the said four development wells were completed, and production commenced.

5. Neches

On July 31, 2019, the Partnership, through Peles, LLC (hereinafter - "Peles"), a wholly owned (indirect) subsidiary, completed a transaction for the acquisition of the entire rights of Breitburn Operating LP in the onshore Neches oil field for a consideration of USD 17.9 million. The Neches oil field is a producing field, covering an area of 38 square kilometers in East Texas (hereinafter - the "Neches Project"). As part of the transaction, the seller's entire rights in the Neches Project were acquired, as well as the connected facilities in the project area, including the production facilities and pipeline. The average holding rate of Peles in the project leases is 98%.

Peles serves as an operator in the oil asset and has entered into agreements with the existing operations team in order to continue steady operation.

In the first quarter of 2020, as part of a transaction to finance the acquisition of additional onshore oil assets, Peles transferred its entire rights in the Neches Project to an affiliate. For further information about the financing transaction, s see Note 8(2).

According to the resources report prepared by an independent reserves assessor as at December 31, 2022, the proved reserves (P1) of the Neches Project (100%) are estimated at 3.3 MMBBL of oil and 3.1 BCF of natural gas. The proved and projected reserves (P2) are estimated at 5.7 MMBBL of oil and 4.7 BCF of natural gas.

6. Yucatan North

The Yucatan North oil asset includes one lease, adjacent to the Shenandoah oil asset. The area of the oil asset is approx. 23.3 sq. km; it is located in the deepwater of the Gulf of Mexico. Between 2012 and 2014, an oil was discovered in the lease area. The Partnership intends to develop the oil asset as a future Shenandoah Project phase, as part of which the Yucatan North partners will receive handling and transmission services from the platform that will serve the Shenandoah oil asset.

NOTE 7 - INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. THE PARTNERSHIP'S OPERATIONS IN OIL AND GAS ASSETS (CONT.)

6. Yucatan North (cont.)

   In accordance with the Yucatan North resources reports prepared by an independent reserves assessor as at December 31, 2022, the best estimate of contingent resources (2C) in the reservoir (100%) is estimated at 39.1 MMBBL of oil and 26.6 BCF of natural gas.

7. Block 7

   In November 2016, the Partnership, together with Delek Group Ltd. (hereinafter - the "Delek Group"), won a tender for an offshore exploration lease in the area east of Newfoundland in Canada. The partners in the drilling undertook to invest a total of CAD 48 million (USD 36 million); the Partnership's share in the investment undertaking is USD 10.8 million (30%), of which the Partnership undertook to provide a guarantee in the amount of CAD 3.6 million (USD 2.7 million). The guarantee will be released in the amount of up to 33% of the actual investments as defined in the lease. The lease was granted for six years, with an option for an extension of three more years. At the end of the period, the lease will expire and the lease areas will be returned, with the exception of areas in which a discovery is declared, if any, and a discovery or development lease will be received for these areas. A further guarantee - CAD 2.5 million (USD 1.8 million) was provided in January 2023, subsequent to the statement of financial position date, and the license was extended through January 2024.

E. PROVISION FOR A COMMITMENT TO DISPOSE OF OIL AND GAS ASSETS

1. Composition:

	December 31	
	2022	2021
	USD thousands	
Shenandoah project	11,581	314
Buckskin project	2,219	1,563
Sea Lion project	16,500	-
Denbury project	3,750	3,681
Neches project	860	909
Total	34,910	6,467

2. Movement:

	USD thousands
Balance as at January 1, 2022	6,467
Acquisition of the Sea-Lion project (see Note 7D2)	16,500
Liabilities recognized in the reporting period against oil and gas assets	11,505
Effect of passage of time	438
Balance as at December 31, 2022	34,910

NOTE 8 - LOANS FROM BANKING CORPORATIONS AND FINANCIAL INSTITUTIONS

	Currency	Current liabilities as at December 31		Non-current liabilities as at December 31	
		2022	2021	2022	2021
		USD thousands			
PARTNERSHIP FUNDING					
Loan from a banking corporation [(1)]	USD	-	-	48,827	48,145
PROJECT FINANCING					
Loans for funding the Denbury project [(2)]	USD	11,456	11,488	31,156	42,144
Loans for funding the Shenandoah Project [(3)]	USD	-	-	21,721	-
		11,456	11,488	101,704	90,289

(1) Loan from a banking corporation

On September 19, 2021, the Partnership entered into a financing agreement (hereinafter - the "Financing Agreement") with an international bank to provide a loan to the Partnership in the amount of USD 50 million.

The loan will be repaid at the earlier of (hereinafter - the "Final Repayment Date"):

- December 1, 2024.
- Refinancing of the project financing for the Shenandoah project.
- Full mandatory early repayment or acceleration of the senior debt of one of the Partnership's project companies regarding the following as of the agreement date: Buckskin project, Denbury and Neches projects, and Shenandoah project.
- Full or partial repayment of Debentures (Series B) of the Partnership, and/or full or partial repayment of debentures to be issued, if issued by the Partnership and/or by the Partnership's special financing companies.

The full amount of the principal will be repaid in one payment on the Final Repayment Date. The Partnership has the right to repay the loan early without penalty.

The loan will bear annual LIBOR interest (for three months) plus a margin at a rate of 5.5% to be paid once every quarter. As from December 1, 2023, the margin will increase to a variable margin of between 6%-6.25%. The effective interest rate in respect of the loan as of December 31, 2022, is 10.3% (December 31, 2021 - 7.4%).

Under the financing agreement, standard grounds for calling for immediate repayment of the loan were defined, including non-compliance with the loan payments; non-compliance with the financial covenants; occurrence of a material adverse event; breach of representations or undertakings; insolvency; cross defaults in connection with the Partnership's subsidiaries in the amount of USD 2 million or more; force majeure continuing for more than 45 days.

NOTE 8 - LOANS FROM BANKING CORPORATIONS AND FINANCIAL INSTITUTIONS (CONT.)

(1) Loan from a banking corporation (cont.)

Financial covenants

- The ratio of the Partnership's consolidated debt to the value of the Partnership's assets will not exceed 70% (based on the discounted cash flow of the projects for 2P reserves at a rate of 10%), which will be reviewed every quarter.
- The Partnership has the ability to repay its short-term liabilities (12 months), which will be reviewed every quarter.
- The Partnership has the ability to repay the liabilities up to the repayment date of the loan, which will be reviewed twice a year.

As of the reporting date, the Partnership is in compliance with the financial covenants listed above.

Collateral

The financing agreement includes a number of liens:

- Lien on Navitas Buckskin shares.
- Second lien on Navitas Buckskin rights in the Buckskin project
- Second lien on NPO rights in the Denbury and Neches projects.
- Pledge on bank accounts to be opened under the agreement, as follows:
  - Proceeds account in which the Partnership's proceeds from its subsidiaries will be deposited (hereinafter - the "Proceeds Account"). Excess amounts deposited in the Proceeds Account will be used at the end of each quarter to repay the loan.
  - Lien on the interest reserve account in which the equivalent to the interest amount for the next 12 months will be deposited. A total amount of USD 2.8 million was deposited in this account in an interest-bearing deposit and is presented under restricted amounts in the consolidated statements of financial position.
  - Lien on an owner loan between the Partnership and Navitas Petroleum Holdings in the amount of USD 40 million.

In addition, the Partnership undertook that the balance in the Proceeds Account will not fall below USD 10 million at any time. This amount may, at a later date, be increased to up to USD 20 million for certain events, as set out in the agreement. The Proceeds Account is included under restricted amounts in the consolidated statements of financial position.

(2) Loans for funding the Denbury project

Further to Note 7D4 regarding acquisition of the Denbury project, on February 27, 2020, NPO entered into a financing agreement with a bank and an institution in Israel, whose main points are as follows:

The financing is in the total amount of up to USD 65 million, and consists of an acquisition loan and loans taken for a financing facility for a development plan (hereinafter jointly - the “Project Loans"):

NOTE 8 - LOANS FROM BANKING CORPORATIONS AND FINANCIAL INSTITUTIONS (CONT.)

(2) Loans for funding the Denbury project (cont.)

- -The Project Loans will bear annual interest at the rate of LIBOR plus a margin of between 4.5% and 5%, which will be paid in semi-annual installments from June 30, 2020, until the final repayment date of the Project Loans.
- -The loan fund will be repaid in semi-annual installments, in accordance with a sculpted amortization schedule, from June 30, 2020, to December 31, 2025.
- The effective interest rate in respect of the loan as of December 31, 2022, is 9.0% (December 31, 2021 - 6.3%).

For further information about the expected repayment dates of the loans, under the contractual terms in non-discounted amounts (including interest payments), see Note 19F.

- Financial covenants

  Under the financing agreement, NPO undertook, among other things, to meet the minimum debt service coverage ratio (DSCR) of 1.25 and the net loan-to-value (LTV) at a maximum rate of 60%.

  As at December 31, 2022, NPO is in compliance with the covenants.

- Hedges:

  Under the financing agreements, NPO undertook to enter into oil price hedging transactions of up to 70% of its current production for two years ahead (revolving quarterly).

- Main collateral

  The financing agreement includes fixed first liens on all NPO assets, which include, among other things, its share in Denbury assets and the Neches onshore oil asset. In addition, a first fixed lien can be placed on the Partnership’s ownership rights in NPO and the Partnership’s guarantee to secure NPO's obligations under the financing agreement.

In 2021, NPO withdrew a total amount of USD 19.7 million from the financing facility for the continuation of the development plan to which it has committed under the acquisition agreements, thus utilizing the entire financing facility.

(3) Loans for funding the Shenandoah Project

On August 1, 2021, the Project Financing Agreements were signed between the partners in the Shenandoah oil asset and a consortium of local and international banks and financial institutions, to finance the share of each of the Partners in the Shenandoah oil asset in the project development costs. Under the project financing agreement signed between ShenHai and the lending consortium (hereinafter - the “Project Financing Agreement”), ShenHai will receive loans totaling approximately USD 444 million. In addition, ShenHai is entitled to increase this amount by an additional USD 100 million, up to a total of approximately USD 544 million.

NOTE 8 - LOANS FROM BANKING CORPORATIONS AND FINANCIAL INSTITUTIONS (CONT.)

(3) Loans for funding the Shenandoah Project (cont.)

On August 25, 2021, with the FID by the partners in the Shenandoah oil field, all preconditions for financial closing of the project financing agreement were met.

On November 8, 2021, the Partnership completed a public offering of Debentures (Series C) (see Note 11(2)). The consideration for the issue, net, was provided as a loan in favor of Navitas ShenHai Financing Ltd. (hereinafter - ShenHai Financing"), a special purpose company (SPC), wholly-owned by the Partnership, which was incorporated in Israel and established by the Partnership to raise financial resources for ShenHai by way of joining the consortium as an additional party to the Project Financing Agreement. As a result, the amount of project financing that ShenHai is entitled to withdraw increased to USD 544 million. A total of USD 29 million out of the said amount were withdrawn until December 31, 2022 (of which a total of USD 5.3 million were advanced by ShenHai Financing), and through the report's approval date further USD 14.1 million were withdrawn (of which a total of USD 2.6 million were advanced by ShenHai Financing).

In March 2022, ShenHai, the Partnership, and the Technology Bank for Projectile Funding, engaged in a contingent equity support agreement, under which the Partnership undertook that if required, in the event of project budget overruns, the Partnership will provide ShenHai an amount of up to USD 40 million that will be used to cover an additional cushion for budget overruns (CERA - Contingent Equity Reserve Account) by way of a capital investment or an inferior shareholder's loan. The signing of this agreement is the main remaining condition for the first withdrawal of funds from the project financing.

Through November 2022, the entire equity required for the project - amounting to USD 371 million - was invested in the development of the project, thereby fulfilling all the conditions precedent for withdrawals from the project financing facility. Accordingly, and in accordance with the planned schedule, ShenHai made a first withdrawal from the project financing facility.

The project financing loans bear LIBOR interest, plus a margin of between 3.25% and 5.25%. The spread will be determined according to several criteria related to the progress of the project.

The effective interest rate for the loan as of December 31, 2022 is 11.1%.

The loans will be repaid until the earliest of:

- 7 years from the date of financial closing of the Project Financing Agreement.
- The date on which the remaining project reserves (1P) fall below 25% of the reserves taken into consideration in the original banking model.

Under the Project Financing Agreement, ShenHai undertook various obligations, the main ones being as follows:

- Non-utilization commission - payment of a commission at the rate of 1.5% of the balance of the financing framework that was not withdrawn.
- Financial covenants: compliance with a ratio of financial debt to EBITDA that does not exceed 1 to 3.5, as well as compliance with a debt service coverage ratio (DSCR) that is not lower than 1.1.
- Executing hedging transactions for oil prices at the amounts specified in the Project Financing Agreement.
- Except in exceptional cases, obligations to refrain from taking out collateral on any of its assets, from executing transactions for the sale, leasing or otherwise transferring all or part of its rights in the project and the project infrastructure or to undertake additional financial debt.

NOTE 8 - LOANS FROM BANKING CORPORATIONS AND FINANCIAL INSTITUTIONS (CONT.)

(3) Loans for funding the Shenandoah Project (cont.)

Main collateral

To secure repayment of the loan, ShenHai will, inter alia, take out a fixed primary pledge on its share in the project and project-related assets (including its rights in the project facilities, project agreements, insurance policies, project account, all as defined in the Project Financing Agreement). In addition, the loan will also be secured by way of a pledge on the shares in ShenHai.

ShenHai will be able to make distributions as of the project completion date, subject to compliance with the terms and conditions, the main ones being: non-occurrence of any of the breach events specified in the Project Financing Agreement; expected DSCR for the coming year will not be less than 1.3; the debt service reserve amounts, as defined in the Project Financing Agreement, will be at least in the amount of principal and interest payments for a period of eight months.

NOTE 9 - TRADE PAYABLES, OTHER PAYABLES

	December 31	
	2022	2021
	USD thousands	
Interested parties (including overriding royalties)	2,635	1,816
Commitments to project operators	11,443	4,298
Payable and other expenses	11,453	10,193
Total	25,531	16,307

NOTE 10 - RESTRICTED AMOUNTS

		December 31	
		2022	2021
		USD thousands	
Amounts in an account earmarked for the Shenandoah Project Operator	12A	-	292,055
Amounts raised for providing a loan for the Shenandoah project (*)	11(2)	94,429	99,560
Restricted amounts with respect to financing agreements (**)	8(1)	12,934	12,816
Cushions in favor of the trustee for the debenture holders		913	903
Other		1,078	-
Total		109,354	405,334

(*) The amount is held in a deposit with a foreign bank and as at December 31, 2022, bears interest at an annual average rate of 5.4%.

(**) The amount is held in a deposit with a foreign bank and as at December 31, 2022, bears interest at an annual rate of 4%.

NOTE 11 - DEBENTURES

	Par value (NIS)	Base Linkage	Interest Nominal	Interest Effective	Carrying amount as at December 31 (*) 2022	2021
			%	%	USD thousands	
DEBENTURES ISSUED BY THE PARTNERSHIP						
Series B[(1)]	700,000,000	NIS	6.50	6.82	197,845	187,086
Series C[(2)]	330,000,000	NIS	5.25	5.63	94,942	105,423
Series D[(3)]	155,000,000	USD	5.00	7.80	45,456	44,530
					338,243	337,039

(*) Including interest payable

(1) Debentures (Series B) issued by the Partnership

On November 10, 2020, the Partnership completed an issue of NIS 420,000,000 par value Debentures (Series B) of the Partnership by way of a tender for the price of the debentures. The price set in the tender is 97.3 agorot for each 1 NIS par value; the immediate gross consideration received by the Partnership as part of the public offering amounted to NIS 408,660 thousand (USD 121 million). The total costs involved in the issuance, including an early commitment fee, amounted to USD 2 million. The effective interest rate in the said issuance is 7.62%.

On August 5, 2021, the Partnership completed a public offering of NIS 167,000,000 par value in Debentures (Series B) of the Partnership by way of expanding a series. The debentures were offered by way of a tender on the debentures' price. The price set in the tender is 108.1 agorot for each NIS 1 par value; the immediate gross proceeds received by the Partnership as part of the public offering amounted to NIS 180,527 thousand (USD 56.1 million). The total costs for the issuance amounted to NIS 1,990 thousand (USD 0.6 million). The effective interest rate in the said series expansion is 5.03%.

On June 27, 2022, the Partnership issued NIS 80,000,000 p.v. Series B debentures by way of series expansion, as part of a private placement, and at a price of NIS 101.7 agorot per each NIS 1 p.v. of Series B debentures; the overall issuance proceeds amounted to NIS 81,360 thousand (approx. USD 23,583 thousand), and the issuance costs amounted to USD approx. 138 thousand. The effective interest rate in the said series expansion is 6.25%.

On December 14, 2022, the Partnership issued NIS 33,000,000 p.v. Series B debentures by way of series expansion, as part of a private placement, and at a price of NIS 102.4 per each NIS 1 p.v. of Series B debentures; the overall issuance proceeds amounted to NIS 33,792 thousand (approx. USD 9,792 thousand), and the issuance costs amounted to USD approx. 64 thousand. The effective interest rate in the said series expansion is 7.03%.

The Debentures are rated ilA- by Standard & Poor's Maalot.

The Debentures (Series B) are not linked to any index or currency and bear annual interest at a rate of 6.5%.

The Debentures (Series B) are payable in three unequal annual installments: two payments on December 31 of each of the years 2024 and 2025, such that each of the two payments will constitute 25% of the total par value of the Debentures (Series B), and the third and final payment, to be paid on December 31, 2026, will constitute 50% of the total par value of the Debentures (Series B).

NOTE 11 - DEBENTURES (CONT.)

(1) Debentures (Series B) issued by the Partnership (cont.)

The interest on the outstanding balance of the debenture principal will be paid in semi-annual installments on June 30 of each of the years 2021 to 2026, and on December 31 of each of the years 2020 to 2026 for a period of six months ending on the payment date, other than the first interest period, which will be paid on December 31, 2020, for which interest was paid for the period beginning on November 11, 2020 and ending on the day before the payment date.

The last interest payment will be paid on December 31, 2026 together with the last repayment of the principal of Debentures (Series B).

Collateral and other liabilities

The debentures are secured by a lien on the rights in the Buckskin North oil asset and the project account under the lien agreement.

Under the deed of trust deed, the Partnership assumed the following main obligations:

- The Partnership's economic capital, as defined in the deed of trust, will fall below USD 800 million for two consecutive quarters.
- The net financial debt to net CAP ratio, as defined in the deed of trust, will not exceed a rate of 75% for two consecutive quarters.
- The Partnership’s equity will not fall below USD 60 million for two consecutive quarters.
- The loan to collateral ratio, as defined in the deed of trust, will not exceed 80% for two consecutive quarters.

As at December 31, 2022, the Partnership was in compliance with these financial covenants.

- The Partnership undertook not to pledge all of its existing or future assets and property (held directly) in a general floating charge, without the prior consent of the general meeting of holders of Debentures (Series B) by special resolution.
- The Partnership has undertaken to ensure that Debentures (Series B) are rated by at least one rating agency approved by the Commissioner of the Capital Markets, until the date of full, final and accurate repayment of the debt.
- The Partnership will not make any distribution that is one of the following: 1) a distribution that is contrary to the provisions of the Partnerships Ordinance; 2) a distribution that will result in the Partnership’s economic capital falling below USD 1,150 million; 3) a distribution that will result in the net financial debt to net CAP ratio increasing beyond a rate of 70%; 4) a distribution that will result in the Partnership’s equity falling below USD 80 million.
- The issuance of additional Debentures (Series B) by way of expanding the series will be subject to fulfillment of all the following conditions: 1) prior to the expansion date of the series and immediately after the expansion of the series, the Partnership meets and will meet all the financial covenants to which it has committed; 2) none of the grounds for immediate repayment set out in the deed of trust have materialized, and extension of the series will not result in the materialization of any of the grounds for immediate repayment; 3) the Partnership does not violate any of its material obligations to the debenture holders, and expansion of the series will not result in any violation of the Partnership’s material obligations to the debenture holders; 4) the loan to collateral ratio on expansion of the series, taking into account the scope of expansion of the series, will not exceed 70%; 5) expansion of Debentures (Series B) will not result in a downgrading of the rating for Debentures (Series B) compared with the rating for Debentures (Series B) shortly before the expansion of the series; 6) the scope of Debentures (Series B) in circulation after expansion of the series will not exceed NIS 700 million par value.

NOTE 11 - DEBENTURES (CONT.)

(2) Debentures (Series C) issued by the Partnership

On November 8, 2021, the Partnership completed a public offering of NIS 330,000,000 par value Debentures (Series C) of the Partnership. The Debentures (Series C) were offered by way of a tender on the annual interest rate on Debentures (Series C), with the composition of each unit being NIS 1,000 par value. The annual interest rate set in the tender is 5.25%. The immediate gross proceeds received by the Partnership as part of the public offering amounted to NIS 330,000 thousand (USD 106.3 million). The total costs for the issuance amounted to NIS 4,686 thousand (USD 1.5 million).

The Series C Debentures are repayable in six unequal installments as follows: four payments, each constituting 16.67% of the total par value of the Series C Debentures will be paid on January 15 and July 15 of each of the years 2026 and 2027; the fifth payment - payable on January 15 2028 - shall constitute 16.67% of the total par value of the Series C Debentures; and the sixth and last payment, to be paid on October 15, 2028 shall constitute 16.65% of total par value of the Series C Debentures.

The interest on the outstanding balance of the principal will be paid twice a year, on January 15 in each of the years from 2022 to 2028, on July 15 in each of the years from 2022 to 2028, and on October 15, 2028, for the six months ended on the payment date, other than for payments for the first interest period and the last interest period. Payment for the first interest period will be made for the period beginning on November 10, 2021, and ending on January 14, 2022. Payment for the last interest period will be made for the period beginning on July 15, 2028 and ending on the day before the payment date.

The Debentures are rated ilA- by Standard & Poor's Maalot.

The consideration for the issue, net, was provided as a loan in favor of Navitas ShenHai Financing Ltd., a special purpose company (SPC) incorporated in Israel and wholly-owned by the Partnership, which was established by the Partnership to raise financial resources for ShenHai by way of joining the consortium as an additional party to the Project Financing Agreement (see Note 8(3)).

Collateral and other liabilities

Under the deed of trust deed, the Partnership assumed the following main obligations:

- The Partnership's economic capital, as defined in the deed of trust, will fall below USD 1,100 million for two consecutive quarters.
- The net financial debt to net CAP ratio, as defined in the deed of trust, will not exceed a rate of 75% for two consecutive quarters.
- The Partnership’s equity will not fall below USD 70 million for two consecutive quarters.

As at December 31, 2022, the Partnership was in compliance with these financial covenants.

- The Partnership has undertaken to ensure that Debentures (Series C) are rated by at least one rating agency approved by the Commissioner of the Capital Markets, until the date of full, final and accurate repayment of the debt.
- The Partnership will not make any distribution that is one of the following: 1) a distribution that is contrary to the provisions of the Partnerships Ordinance; 2) a distribution that will result in the Partnership’s economic capital falling below USD 1,300 million; 3) a distribution that will result in the net financial debt to net CAP ratio increasing beyond a rate of 65%; 4) a distribution that will result in the Partnership’s equity falling below USD 80 million.

NOTE 11 - DEBENTURES (CONT.)

(2) Debentures (Series C) issued by the Partnership (cont.)

The Partnership provided a letter of guarantee in favor of the trustee for the Series C debenture holders, in order to ensure complete and accurate fulfillment of all of the Partnership’s undertakings in accordance with the deed of trust; the guarantee will be limited at any given time to the amount of the outstanding balance of the principal of the debentures plus all the amounts that ShenHai Financing received in interest payments or fees in respect of the project loan or in respect of the funds deposited in its accounts.
To secure ShenHai Financing's guarantee, ShenHai Financing shall place a charge in favor of the trustee on all of its rights under the project financing agreement (for more information about the project financing agreement, see Note 8(3) above).

(3) Convertible Debentures (Series D) issued by the Partnership

On November 9, 2021, the Partnership completed a public offering of NIS 155,000,000 par value Debentures (Series D) convertible into the participation units of the Partnership. The convertible Debentures (Series D) were offered by way of a tender on the unit price, with the composition of each unit being NIS 1,000 par value. The unit price set in the tender is NIS 986 per unit. The immediate gross consideration received by the Partnership as part of the public offering amounts to NIS 152,830 thousand (USD 50 million). The total costs for the issuance amounted to NIS 1,656 thousand (USD 0.5 million).

The outstanding principal of the Debentures (Series D) is convertible into the Partnership’s participation units as from the date of their listing on the TASE and up to December 31, 2026, as set out below: (A) up to June 30, 2023, each NIS 23 par value of Debentures (Series D) is convertible into one participation unit of the Partnership; (B) in the period from July 1, 2023 to December 31, 2026, each NIS 27 par value of Debentures (Series D) is convertible into one participation unit of the Partnership.

The interest on the outstanding balance of the debenture principal will be paid in semi-annual installments on June 30 of each of the years 2022 to 2026, and on December 31 of each of the years 2022 to 2026 for a period of six months ending on the payment date, except for the payment in respect of the first interest period, which was made on December 31, 2021, for the period beginning on November 11, 2021 and ending on the day before the said payment date.

The convertible Debentures (Series D) are repayable in one payment on December 31, 2026.

The principal and interest of convertible Debentures (Series D) are linked to the representative USD exchange rate as at November 8, 2021 (NIS 3,103 per USD) and bear annual interest of 5%.

Collateral and other liabilities

Under the deed of trust deed, the Partnership assumed the following main obligations:

- The Partnership's economic capital, as defined in the deed of trust, will fall below USD 1,100 million for two consecutive quarters.
- The net financial debt to net CAP ratio, as defined in the deed of trust, will not exceed a rate of 75% for two consecutive quarters.
- The Partnership’s equity will not fall below USD 70 million for two consecutive quarters.
- The amount of the Partnership’s restricted debts (on a standalone basis) will not exceed 35% of the total assets of the Partnership

As at December 31, 2022, the Partnership was in compliance with these financial covenants.

NOTE 11 - DEBENTURES (CONT.)

(3) Debentures (Series D) issued by the Partnership (cont.)

- The Partnership will not make any distribution that is one of the following: 1) a distribution that is contrary to the provisions of the Partnerships Ordinance; 2) a distribution that will result in the Partnership's economic capital falling below USD 1,300 million; 3) a distribution that will result in the net financial debt to net CAP ratio increasing beyond a rate of 65%; 4) a distribution that will result in the Partnership's equity falling below USD 80 million.

(4) For further information about the expected repayment dates of the debentures issued by the Partnership, under the contractual terms in non-discounted amounts (including interest payments), see Note 19F.

NOTE 12 - AGREEMENTS, LIENS, AND OTHER LIABILITIES

A. Agreements with respect to the acquisition and development of the Shenandoah oil field

In 2018-2019, the Partnership executed a number of transactions for the acquisition of 53.1% of the rights in the Shenandoah oil field, in exchange for a total amount of USD 6 million, and undertook liabilities for additional payments in an amount of USD 13 million, including future decommissioning costs and payments involved in the development of the Shenandoah oil field (for further information regarding the oil asset, see Note 7D1).

On July 16, 2021, the partners in the Shenandoah oil field signed a joint liability agreement (hereinafter - the "Agreement"), which was updated on August 23, 2021, for the purpose of ensuring that all amounts required for the development of the project will be secured in advance, such that the project will not be exposed to financing risks from any of the Partners. Under the terms and conditions of the Agreement, until the FID date, each of the Partners will deposit the entire amount required for the development budget (less amounts received under the Project Financing Agreement) (hereinafter - the “Total Capital"), in a dedicated account or by irrevocable letters of credit, for the benefit of the project operator. BOE Exploration & Production, LLC (hereinafter - the “Project Operator"). In addition, under the Agreement, the Partnership provided a guarantee in favor of the Project Operator with regard to ShenHai's obligations under the Agreement, primarily - the commitment to provide the collateral required for the Project and the payment of expenses related to the development plan of the Project.

At the FID date, ShenHai entered into an agreement to sell 4.1% of its rights in the project to Beacon Offshore Energy Development, LLC in exchange for approximately USD 6.3 million in cash; it will be entitled to an additional deferred payment, amounting to approximately USD 1.5 million, to be paid after production commences in the project, at a time when distributions of funds will be permitted under the Project Financing Agreement (see Note 8(3)). The profit generated for the Partnership (before the effect of tax) due to the disposal was USD 3.3 million and is recorded under other income in the consolidated statements of comprehensive income.

For more information about loans for the funding of the Shenandoah Project, see Note 8(3) above.

NOTE 12 - AGREEMENTS, LIENS, AND OTHER LIABILITIES (CONT.)

B. Issuance of preferred shares by a subsidiary

On August 12, 2021, an agreement was signed with an Israeli institutional entity (hereinafter - the "Investor"), to invest in preferred shares available for early redemption in Navitas Holdings totaling USD 45 million.
In accordance with the agreement that was signed, the allotment of the preferred shares (as defined below) was carried out in two stages:

1) At the time of signing the agreement, the investor transferred to Navitas Holdings a total of approximately USD 30 million in exchange for the allotment of the preferred shares;

2) On November 16, 2021, after compliance with several of the conditions, including the provision of the capital required to finance the Shenandoah Project, completion of a financial closing for the Project and maintaining the holding of Navitas Holdings (through ShenHai) of no less than 49% of the rights in the Project, the investor transferred an additional amount of USD 15 million against the allotment of additional Preferred Shares.

The proceeds from the foregoing issues, were assigned and included under non-controlling interests.

The preferred shares have been allotted to the Investor in a number of redeemable series, without voting rights, and will accrue preferred dividend of 19% per annum.

The preferred dividend will be paid on the dates on which Navitas Holdings distributes dividends to its shareholders, at its sole discretion, in which case the payments will be made as agreed.

The accrued preferred dividend is included in the profit attributable to holders of non-controlling interests in the consolidated statements of comprehensive income.

The preferred shares will be redeemable by Navitas Holdings, as of July 1, 2025, over subsequent periods at the dates set for each series. After these dates, Navitas Holdings may redeem the preferred shares, at its sole discretion, subject to the Investor's IRR for each redeemed series reflecting 19% per annum for a minimum period of 5 years.

The decisions of Navitas Holdings on a limited number of issues will require the Investor’s approval, including:
- Voluntary liquidation;
- Transactions with related parties;
- Amendments to the shareholders' agreement of Navitas Holdings which infringe on the Investor’s rights;
- Deviation from leverage ratios set at the Navitas Holdings level;
- Allocation of new shares in Navitas Holdings with preferred rights to the preferred shares;

The Investor will not be entitled to demand repayment of the preferred shares, except under special circumstances, inter alia, in the event of liquidation or a public offering of Navitas Holdings.

The total proceeds of the offering were used for depositing a portion of the Total Capital required for the development budget of the Shenandoah oil asset in a dedicated account in favor of the project operator (see Note 12A).

NOTE 12 - AGREEMENTS, LIENS, AND OTHER LIABILITIES (CONT.)

C. The Denbury transaction

On December 20, 2019, NPO entered into a set of agreements for the acquisition of 50% of Denbury's rights in 4 producing onshore oil fields in Texas in the United States (for further information about the acquired oil assets see Note 7D4).

Under the agreements that were signed, on the transaction completion date, NPO will pay USD 50 million in consideration for the acquired rights, subject to price adjustments for production, net of the oil assets in the period of the effective date (January 1, 2019) up to the transaction completion date (hereinafter - the “Cash Consideration”).

In addition, NPO committed to a development plan that will include ten horizontal drillings with an estimated total investment of USD 30 million. This amount also includes NPO carrying Denbury’s share in the development plan, estimated at USD 15 million, and NPO is entitled to a refund for carrying the share out of the Denbury’s share in production from the wells. To secure the undertaking of NPO, an insurance company in the United States provided a guarantee amounting to USD 10 million against a corresponding guarantee of the Partnership towards the insurance company. The guarantee will be reduced by USD 1 million for each horizontal drilling to be completed under the development plan.

On March 4, 2020, after the conditions precedent were met, the acquisition transaction was completed. The cash consideration, after final price adjustments, amounted to USD 40.1 million. Payment of the cash consideration was fully financed through an acquisition loan (for further information about the financing transaction that was signed see Note 8(2)).

In November 2021, the Partnership completed development of the ten horizontal drillings, in accordance with the undertaking in the Denbury acquisition agreement. The development cost of the ten horizontal drillings amounted to USD 30 million, in accordance with the Partnership's assessment when signing the acquisition agreement with Denbury.

D. Acquisition transaction - the Sea-Lion discovery

The Sea-Lion oil asset is located in the Southwest Atlantic Ocean, 220 km north of the Falkland Islands, and it includes 3 leases. The oil asset was discovered by Rockhopper in 2010. In 2012, Premier acquired 60% of the rights in the oil asset from Rockhopper and was appointed operator. Since the discovery drilling, 10 more appraisal and confirmation wells have been drilled in the oil asset, with a total investment of USD 1.3 billion.

On December 7, 2021, the Partnership engaged in new MOUs with Premier and Rockhopper (hereinafter - the “New MOUs”) for the Partnership’s acquisition of 65% of the rights in the oil asset leases and the appointment of the Partnership as the project operator. The binding transaction agreements were signed on April 15, 2022, and the transaction was completed on September 22, 2022. Following are details regarding the main terms and conditions of the transaction:

NOTE 12 - AGREEMENTS, LIENS, AND OTHER LIABILITIES (CONT.)

D. Acquisition transaction - the Sea-Lion discovery (cont.)

Agreement for the purchase of the shares of Navitas Petroleum Development and Production Ltd. (hereinafter - “NPDP”) (formerly Premier Oil Exploration and Production Limited).

- An agreement between Navitas Petroleum Limited, a wholly-owned UK subsidiary of the Partnership (hereinafter - “Navitas UK”), and Premier (hereinafter - the "Seller"), that held all of NPDP's share capital, for the purchase NPDP’s entire equity capital by Navitas UK. Upon completion of the transaction, Navitas UK became the project operator (through NPDP).
- The agreement also stipulates that the Partnership will enter into the shoes of Harbour Energy plc (hereinafter - “HBR”) regarding the ownership (through NPDP) of the temporary dock facility (hereinafter - the "Temporary Dock Facility"), that was built as part of the drilling activities previously carried out in the Oil Asset (hereinafter - the “Temporary Dock”), including liabilities related to its maintenance and future dismantling. The Temporary Dock may be used in the development of the Project and Navitas UK provided the Falkland Islands Government a company guarantee to secure the above-mentioned liabilities.
- As part of the terms of the Share Purchase Agreement, Navitas UK received USD 6 million from the Seller on the transaction completion date.
- The acquired company, NPDP, has past investments in the Oil Asset for tax purposes in the total amount of USD 700 million, that can be utilized in the future against a taxable income from the Oil Asset. In the financial statements, no deferred tax assets were credited in respect of these losses.
- The Partnership and HBR have each provided the other company a guarantee to ensure fulfillment of the obligations made by their related parties in the agreement for the purchase of NPDP’s shares.

The Farm Out agreement (hereinafter - the “FOA”)

- An agreement between companies owned by RKH and Navitas UK, to transfer parts of the rights to the Oil Asset’s leases owned by RKH on the transaction completion date, such that immediately after completing the Transaction, Navitas holds 100% of NPDP’s shares, and NPDP holds 65% of the oil asset and has been appointed the Project’s operator.
- The agreement further stipulates that if NPDP does not reach a final investment decision (hereinafter - “FID”) to develop the Project within 5 years from the transaction completion date (with an option for an 18-month extension, depending on the conditions stated in the agreement), RKH will be entitled to receive Navitas UK’s participation rights in the Project, on the condition that all loans extended to it by that date by the Partnership are repaid.
- On the transaction completion date, the Oil Asset Leases holders signed a joint operating agreement (hereinafter - "JOA").
- The Partnership and RKH have each provided the other a company guarantee to ensure fulfillment of the obligations made by their related parties in the FOA and in the Loans Agreement (as the term is defined below).

NOTE 12 - AGREEMENTS, LIENS, AND OTHER LIABILITIES (CONT.)

D. Acquisition transaction - the Sea-Lion discovery (cont.)

The Loans Agreement

- As part of the Transaction's terms, Navitas UK has undertaken that as part of the financing of Phase A of the Sea-Lion discovery, NPDP (or the Partnership or another company owned by the Partnership) will extend loans to RKH (through subsidiaries through which RKH holds the leases), the key terms of which (hereinafter - the "Loans Agreement") are as follows:
  1. The "Pre-FID" loan - a USD loan, which will bear annual interest of 8%, for RKH's share in all costs of Phase A of the Sea-Lion discovery from the moment the Transaction is completed until a Final Investment Decision (FID) is made for the development of Phase A of the Sea-Lion discovery (hereinafter and above: "FID").
  2. The "Post-FID" Loan – a USD loan for 2/3 of RKH's share of the capital required to develop the Sea-Lion discovery from the FID date to the earliest of: (a) 12 months of the start of production (as defined in the agreement); (b) the completion of the development of the Sea-Lion discovery, as defined in future financing agreements; (c) the agreement termination.
- RKH's voting rights over operations pertaining to Phase A of the development of the Sea-Lion discovery will be fully assigned to Navitas UK by the FID, and at the rate of 2/3 after the FID, until the entire loan is repaid or until the loan agreement is terminated, except regarding the issues excluded specifically.
- Both loans shall be repaid from 85% of RKH's free cash flow from Phase A of the development of the Sea-Lion discovery. Moreover, RKH will be limited in its ability to raise capital for objectives that do not serve development of the Oil Asset and/or that impede its financial capability.
- Collateral in connection with the loans:
  1. Pre-FID – a second lien on RKH's rights in the relevant Oil Asset, after the lien to the benefit of the Falkland Islands Government.
  2. Post-FID – a second lien on RKH's rights in Phase A of the development of the Sea-Lion discovery, after the lien made to the financiers.
  3. A first lien in favor of Navitas UK on RKH's available cash flow from the development of Phase A of the Sea-Lion discovery.

As part of the completion of the transaction, the license period was extended by two additional years, until November 2024.

The Partnership recognized the completion of the transaction in the oil and gas asset in the amount of USD 9 million and a liability in the amount of USD 15 million in respect of the obligation to decommission the Temporary Dock, as mentioned above.

E. As at December 31, 2022, the Group has guarantees to insurance companies in the United States in the amount of USD 4,908 thousand to secure the Group's obligations to provide equivalent guarantees by the insurance company in favor of the local authorities in the United States and providers of oil and gas treatment and transmission infrastructure (as at December 31, 2021, the Partnership's guarantees amounted to USD 4,342 thousand).

F. For information about guarantees provided by the Partnership to secure the subsidiary's obligations under the financing agreement with a bank and institution in Israel see Note 8(2).

G. With regard to the lien on the rights in the Group's oil and gas assets, see Notes 8 and 11.

NOTE 13 - THE PARTNERSHIP'S EQUITY

A. Composition of capital

	Issued and paid up	
	2022	2021
	No. of participation units	
Participation units (without par value)	93,783,602	93,693,461

Under the Partnership agreement, the share of the General Partner in the Partnership's capital will be 0.2% and the share of all the limited partners will be 99.8%. Accordingly, the General Partner is entitled to 0.2% of the rights in the Partnership.

B. Movement in issued participation units

	Note	No. of participation units
Balance as at January 1, 2021		61,088,749
Issuance of participation units to the public	13B2	32,538,200
Exercise of options for participation units	13B3	64,812
Exercise of Options (Series 4) for participation units	13C1	1,700
Balance as at December 31, 2021		93,693,461
Exercise of options for participation units	13B3	90,141
Balance as at December 31, 2022		93,783,602

1. On January 13, 2020, the Partnership completed an issuance of 13,738,800 participation units of the Partnership. The immediate gross consideration received by the Partnership as part of the public offering amounted to NIS 287,278 thousand (USD 82.8 million). The total costs for the issuance amounted to NIS 13,279 thousand (USD 3.8 million).

2. On August 5, 2021, the Partnership completed an issuance of 30,000,000 participation units of the Partnership under the shelf offering by way of a non-uniform offering. The immediate gross proceeds received by the Partnership under the shelf offering amounted to NIS 450,000 thousand (approximately USD 140 million). The total costs for the issuance amounted to NIS 9,100 thousand (USD 3 million).

   On August 8, 2021, the Partnership completed an issuance of 2,538,200 participation units of the Partnership by way of a uniform offering in a public tender. The immediate gross proceeds received by the Partnership as part of the public offering amounted to NIS 38,073 thousand (approximately USD 11.5 million). The total costs for the issuance amounted to NIS 791 thousand (USD 0.3 million).

3. In 2021, 64,812 RSUs were exercised into 64,812 participation units of the Partnership, and in 2022, 90,141 RSUs were exercised into 90,141 participation units of the Partnership, after the offerees had met the vesting conditions set out in the Plan (for further details see Note 14). Furthermore, subsequent to the date of the statement of financial position, 26,598 RSUs vested into 26,598 participation units of the Partnership, such that the balance of the participation units and the balance of RSUs is 93,810,200 and 1,427,502, respectively.

NOTE 13 - THE PARTNERSHIP'S EQUITY (CONT.)

C. Convertible equity options and instruments

1. Until their expiration date on January 10, 2021, marketable Options (Series 4) were exercisable for one participation unit at an exercise price of NIS 16 per participation unit, linked to the USD exchange rate at January 7, 2019 (NIS 3,694 per USD 1).

   In 2020, 500 options were exercised for 500 participation units of the Partnership for a total consideration of USD 2 thousand and on January 10, 2021, 1,700 marketable Options (Series 4) were exercised for 1,700 participation units of the Partnership for a total consideration of USD 7 thousand. On that date, the remaining 1,435,300 marketable options (Series 4) expired.

2. As at December 31, 2022, the Partnership has 2,479,788 options and 1,454,100 RSUs allotted to employees under the equity-based compensation plan.

3. As at December 31, 2022, the balance of the principal of Debentures (Series D) convertible into the Partnership's participation units, amounts to NIS 155,000,000 par value. (For further information see Note 11(3)).

4. Subsequent to the balance sheet date, 26,598 RSUs vested into 26,598 participation units of the Partnership. The total amount of the participation units is 1,427,502.

D. For more information regarding the RSUs, employee and officer options and officers' options on behalf of the General Partner, see Note 14.

E. Dormant participation units in equity

	December 31	
	2022	2021
	No. of participation units	
Participation units held by the Partnership *)	117,372	117,372

(*) Under the terms of the plan, restricted participating units for the Partnership's employees (see Note 14 (1)).

NOTE 14 - SHARE-BASED PAYMENTS

The plan	Instruments allotted	Quantity allotted	Allotment date	Balance as at December 31, 2022	Fair value of the security at the allotment date	Additional information
					USD	
2017 plan	Participation units	1,071,156	September 18, 2017	-	2.11-2.33	(1)
2018 plan	RSU units	139,830	August 30, 2018	-	2.95-3.03	(2)
2018 plan	Options	46,610	August 30, 2018	21,462	1.69-1.90	(2)
2018 plan	RSU units	64,800	May 29, 2019	-	3.67-3.77	(2)
2018 plan	Options	21,600	May 29, 2019	7,802	2.16-2.28	(2)
2018 plan	RSU units	116,714	August 27, 2020	49,554	2.83	(2)
2018 plan	RSU units	131,573	March 25, 2021	126,290	3.76-3.80	(2)
2018 plan	RSU units	232,584	May 27, 2021	82,584	5.02-5.14	(2)
2018 plan	RSU units	77,288	October 24, 2021	77,288	5.02-5.11	(2)
2018 plan	RSU units	393,000	January 2022	315,000	4.99-5.07	(2)
2018 plan	RSU units	362,000	January 1, 2022	362,000	4.79-4.81	Note 18E
2018 plan	RSU units	306,385	Feb-March 2022	306,385	5.22-5.35	(2)
2018 plan	RSU units	135,000	July-Sep. 2022	135,000	4.81-4.97	(2)
2018 plan	Options	2,100,467	September 15, 2022	2,100,467	2-2.3	(2)
Total		5,199,007		3,583,832		

1. 2017 plan

In June 2017, the board of directors of the General Partner adopted a plan to allot participation units to employees and officers who are not interested parties in the Partnership. In accordance with the plan that was adopted, the restricted units will vest in a number of tranches on the date on which two cumulative conditions were met: (a) the duration of the offeree's employment; (b) the price of the unit of the participation unit on the stock exchange after the employment period required for each share. If the cumulative conditions are not fulfilled by the date set for each tranche, the tranches will expire and the Partnership will acquire the units without consideration.
As at December 31, 2021, the restriction on 953,784 participation units was released, after the offerees fulfilled the vesting terms set out in the plan. A total of 117,372 participation units allotted to employees, whose employment ended before fulfilling the terms for release of the restriction, were returned to the Partnership without consideration and are presented as dormant participation units in equity.

NOTE 14 - SHARE-BASED PAYMENTS (CONT.)

2. 2018 plan

On July 18, 2018, the general meeting of the holders of the Partnerships participation units approved an outline for a private placement to officers, employees, and service providers in the Partnership or a subsidiary, who are not controlling shareholders in the General Partner and the Partnership. On the basis of the outline, the board of directors of the General Partner adopted an equity compensation plan (hereinafter - the “Plan").

- Options

Non-marketable options exercisable for one participation unit of the Partnership. The options will vest in three tranches over the employment period of the offeree (18-42 months from the effective date).

The exercise price is based on a weighted average of the closing prices of the participation units in the Partnership, in the 30 trading days preceding the effective date plus a premium of 10%-30%, according to the vesting period of each tranche.

The options will be exercisable for up to two years from their vesting date against a cash payment of the exercise price or according to a net exercise mechanism, as elected by the offeree.

- RSUs

Non-marketable RSU units, each conferring the right to one participation unit of the Partnership without consideration.

The RSU units will vest in three tranches once two cumulative conditions have been fulfilled: (a) the duration of the offeree’s employment period (18-42 months from the effective date); (b) the price of the participation unit on the stock exchange after the required employment period for each tranche (based on a weighted average of the closing prices of the participation units in the Partnership, in the 30 trading days preceding the effective date plus a 10% -30% premium).

The duration of the RSU units will be up to two years from the minimum employment period set for each tranche. If the terms and conditions are not fulfilled by the date set for each tranche, the RSU units for that tranche will expire without consideration.

3. Allotments in 2020

On August 27, 2020, the board of directors of the General Partner approved the private placement of non-marketable options and RSU units to an officer and a number of employees in the Partnership and a subsidiary. The fair value of the equity instruments allotted in 2020 was estimated at USD 0.3 million at the allotment date.

4. Allotments in 2021

On March 25, 2021, the board of directors approved the private placement of 131,573 RSU units to an officer and to a few employees in the Partnership and a subsidiary. The fair value of the allotted equity instruments was estimated at USD 0.5 million at the allotment date.

On May 27, 2021, the board of directors approved a private placement of 232,584 RSUs for an officer and several employees in the Partnership and subsidiary. The fair value of the allotted equity instruments was estimated at USD 1.2 million at the allotment date.

NOTE 14 - SHARE-BASED PAYMENTS (CONT.)

4. Allotments in 2021 (cont.)

On October 24, 2021, the board of directors approved the private placement of 77,288 RSU units to the CEO of a subsidiary. This in accordance with the approval of the general terms of the bonus at a general meeting held on September 15, 2020. The fair value of the allotted equity instruments was estimated at USD 0.36 million at the allotment date.

5. Allotments in 2022

On January 30, 2022, the board of directors of the General Partner of the Partnership approved the award of 393,000 RSUs to an officer and a number of employees of the Partnership. The fair value of the allotted equity instruments was estimated at USD 1.9 million at the allotment date.

On March 17, 2022, the board of directors of the General Partner of the Partnership allotted 306,385 RSUs to officers of the Partnership and non-executive employees of the Partnership and its wholly owned subsidiaries. The fair value of the allotted equity instruments was estimated at USD 1.6 million at the allotment date.

On November 14, 2022, the General Meeting approved a private placement of 2,100,467 non-marketable options to officers on behalf of the General Partner. The fair value of the allotted equity instruments was estimated at USD 4.4 million at the allotment date.

On November 23, 2022, the Board of Directors approved a private placement of 135,000 RSUs to several non-executive employees in the Partnership. The fair value of the allotted equity instruments was estimated at USD 0.6 million at the allotment date.

6. Expiration of RSUs

In 2021, 80,283 RSUs granted to an officer and employees whose employment was terminated before fulfilling the conditions for vesting, expired.
In 2022, 153,000 RSUs granted to an officer and employees whose employment was terminated before fulfilling the conditions for vesting, expired.

7. Allotments subsequent to the reporting date

Subsequent to the statement of financial position date, 350,057 non-marketable options were alloted as part of a private placement to an officer on behalf of the General Partner. The fair value of the allotted equity instruments was estimated at USD 0.7 million at the allotment date.

8. Expense recognized in the financial statements

In 2022, the Partnership recognized expenses for share-based payment plans in the amount of USD 2,855 thousand (2021: USD 639 thousand, 2020: USD 85 thousand).

NOTE 15 - ADDITIONAL ITEMS IN PROFIT OR LOSS

A. Revenue from oil and gas sales, net of royalties

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Revenue from oil and gas sales	153,634	107,865	52,130
Royalties *)	(33,518)	(21,509)	(9,211)
Total	120,116	86,356	42,919

(*) Under the lease terms and conditions of oil asset Buckskin, the partners therein are entitled to a credit for royalties paid to the US Federal Government at a rate of 12.5% if oil or gas prices on the New York Stock Exchange (NYMEX) fall below the threshold set in the oil asset's lease - in accordance with the criteria set by the Bureau of Ocean Energy Management. Royalties for 2021 include a credit of USD 2 million in respect of a credit for royalties paid to the US Federal Government during 2020, following the publication of the most recent parameters according to which the credit is calculated.

B. Cost of oil and gas production

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Operating costs	24,238	19,876	16,846
Transportation costs	4,228	3,676	2,079
Insurance	447	854	1,280
Local taxes	4,299	2,270	1,118
Total	33,212	26,676	21,323

C. General and administrative expenses

	2022	2021	2020
Salary and incidentals	5,884	3,679	1,905
Management fees and salaries for interested parties (see Note 18C)	1,894	1,699	1,642
Professional services	2,170	2,200	1,860
Travel abroad	207	80	55
Office and other maintenance	2,776	3,119	1,316
Total	12,931	10,777	6,778

D. Other income

1) Compensation for shutting down production at the Neches Field

During February 2021, oil and gas production in the Neches field was halted for several days due to a prolonged power outage as a result of severe weather conditions. Under an agreement between the Partnership's subsidiary, which holds the oil asset lease, and the IEC, the subsidiary was entitled to compensation in the amount of approximately USD 2.5 million for the halt in production in the Neches field.

NOTE 15 - ADDITIONAL ITEMS IN PROFIT OR LOSS (cont.)

D. Other income (cont.)

2) Sale of interests in the Shenandoah Project

At FID date for the Shenandoah Project (see also Note 12A) ShenHai called engaged in an agreement to sell 4.1% of its interests in the Project to Beacon Offshore Energy Development LLC for a cash consideration in an amount of USD 6.3 million, and will be entitled to an additional deferred payment, in an amount of USD 1.5 million, to be paid after the commencement of production from the Project, when distribution of funds will be permitted under the Project Financing Agreement (see Note 8(3)). The profit generated for the Partnership in 2021 (before the effect of tax) due to the disposal is estimated at USD 3.3 million and is recorded under other income in the consolidated statements of comprehensive income.

NOTE 16 - FINANCE EXPENSES, NET

A. Finance income

		For the year ended December 31		
		2022	2021	2020
	Note		USD thousands	
Finance income from loans to Buckstone		-	8,602	14,651
Finance income for exchange rate differences		35,329	-	2,519
Interest income from deposits		2,769	283	672
Total finance income		38,098	8,885	17,842

B. Finance expenses

	Note	2022	2021	2020
Interest expenses for debentures	11	20,851	20,065	22,787
Compensation component for early redemption of debentures		-	-	5,568
Finance expenses for loans from banking corporations and financial institutions	8	8,310	4,125	2,339
Finance expenses for exchange rate differences		3,688	6,786	7,680
Finance expenses for a loan from a former controlling shareholder		-	-	871
Finance expenses for transactions with a controlling shareholder		-	-	52
Finance expenses for financial debentures		5,201	4,587	1,486
Others		3,542	6,705	806
		41,592	42,268	41,589
Capitalization of borrowing costs for qualifying assets		(15,479)	(3,760)	(1,671)
Total finance expenses		26,113	38,508	39,918

NOTE 17 - TAXES ON INCOME

A. Information about income tax regulations and the main arrangements

1. On January 1, 2017, the Income Tax Ordinance (Types of Partnerships to be Regarded as a Company), 2017, was published in the Official Gazette ("the Ordinance"), setting out conditions that the Partnership is required to meet to be considered a company for tax purposes. On registration of the participation units on the TASE, the Partnership meets the conditions set out in the Ordinance, therefore the tax regime applicable to the Partnership after the issuance and listing of the participation units is the same as if it were a company for all intents and purposes. Accordingly, the Partnership's expenses and income will be ascertained in the Partnership, and the Partnership will report its taxable income and bear corporate tax for its taxable income, as if it were a company, according to the tax rates applicable to a company.

   The provisions of the Income Tax Regulations (Rules for Calculation of Tax on the Holding and Sale of Participation Units in an Oil Exploration Partnership), 1988 (hereinafter - the "Regulations"), which regulate the attribution of the income and expenses of a listed partnership to holders of participation units that are "eligible holders", will not apply to the Partnership.

   The rate of corporate tax in Israel in 2020-2022 is 23%.

2. The main tax rates applicable to the subsidiaries that are incorporated outside of Israel are:

   A) Companies incorporated in the United States

   The rate of federal tax in 2020-2022 is 21%.

   The rate of state tax rate in the states in which the Group operates in the United States is between 4% and 8% (Louisiana) and between 0.375% and 0.75% (Texas).

   On December 22, 2017, the President of the United States signed legislation leading to a far-reaching reform in the American taxation system (hereinafter - the "Reform"). The Reform introduced significant changes to US tax laws, including several provisions that would affect the tax liability of the Group's operations in the United States. Below are the main provisions of the Reform relevant to the Group:

   1. A reduction in the federal corporate tax rate in the United States from 35% to 21%, effective January 1, 2018.

   2. Elimination of the alternative minimum tax (AMT) on US companies and restricting the deduction of net operation loss to 80% of taxable income.

   3. Under the new legislation, in 2018 to 2021 (inclusive), companies will not be permitted to deduct interest expenses exceeding 30% of the EBITDA of those companies. Subsequent to 2021, companies will not be permitted to deduct interest expenses exceeding 30% of the total EBIT of those companies. Any amount no longer deducted in that year will be carried forward to subsequent years on the basis of the same mechanism and unlimited in time.

NOTE 17 - TAXES ON INCOME (CONT.)

A. Details of income tax regulations and the main arrangements (cont.)

A) Companies incorporated in the United States

4. Bonus depreciation - Under the Reform, companies are permitted to deduct the full investment in certain items of property, plant, and equipment, which were placed in service after September 27, 2017 and subject to additional conditions. The bonus depreciation rate will gradually decrease after December 31, 2022. The benefit under the

B) Companies incorporated in the UK

The rate of corporate tax in 2020-2022 is 19%.

C) Company incorporated in the Falkland Islands

The rate of corporate tax in 2020-2022 is 26%.

D) A company incorporated in Newfoundland and Labrador, Canada

The federal tax rate applicable to the Company's operations is 15%. The state tax rate is 15%.

B. Income taxes in the statements of income

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Deferred taxes	(10,684)	(7,081)	925
Current taxes	-	(5)	-
Total tax benefits (taxes on income)	(10,684)	(7,086)	925

In 2021, the Partnership recognized a deferred tax asset in respect of carryforward losses in the amount of USD 991 thousand against tax revenue in the statement of income.

C. Carryforward losses for tax purposes

As at December 31, 2022, the Group has carry-forward tax losses for the coming years, amounting to USD 336 million (as at December 31, 2021, USD 127 million). Of these losses, an amount of USD 301 million arises from the companies' operations in the United States (as of December 31, 2021 - USD 78 million), for which a tax asset has been recognized due to the expected utilization of carryforward losses in the United States in the coming years, and due to the timing differences in respect of which reserves were created. A total of USD 28 in carryforward losses of the Partnership, and USD 7 million in losses for tax purposes in the UK.

In addition to the above, NPDP, has past investments in the Sea-Lion oil asset for tax purposes in the total amount of USD 700 million, that can be utilized in the future against a taxable income from the Oil Asset. In the financial statements, no deferred tax assets were credited in respect of these losses. For more information, see Note 12D to the financial statements.

The Partnership has not been taxed since its incorporation.

NOTE 17 - TAXES ON INCOME (CONT.)

D. Deferred taxes

Composition

	December 31	
	2022	2021
	USD thousands	
Deferred tax liabilities		
Timing differences for oil and gas assets	(73,840)	(17,761)
Conversion of Debentures (Series D) component	(991)	(991)
Other differences	(3,000)	(4)
	(77,831)	(18,756)
Deferred tax assets		
Carryforward losses for tax purposes	66,718	17,416
Financial assets at fair value through other comprehensive income	(14)	1,317
	66,704	18,733
Total	(11,127)	(23)

E. Theoretic tax

	For the year ended December 31		
	2022	2021	2020
	USD thousands		
Profit (loss) before income taxes	70,316	14,241	(16,837)
Statutory tax rate in Israel	23%	23%	23%
Tax benefits (taxes on income) computed at the statutory tax rate	(16,173)	(3,275)	3,873
Income (expenses) taxable at other tax rates	736	740	(156)
Profits (losses) for which deferred taxes were not recognized, net	4,753	(4,551)	(2,792)
	(10,684)	(7,086)	925

NOTE 18 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS

A. Balances

	December 31	
	2022	2021
	USD thousands	
Trade payables and other payables - current balances	2,635	1,816

B. Transactions with interested and related parties

		For the year ended December 31		
		2022	2021	2020
	Note		USD thousands	
Revenue from oil and gas sales, net of royalties				
Royalties for interested parties	15A 18D	7,953	6,021	2,889
Expenses				
General and administrative expenses - management fees and salaries for interested parties	18C 18F	1,894	1,699	1,642
Expenses for relocating an interested party in the Partnership to Houston		387	215	206
General and administrative expenses: office maintenance and other professional services by the General Partner	18C	1,200	1,398	1,275
Expenses for guarantee fee from the controlling shareholder		-	-	52
Benefits for employment of key management personnel employed in the Partnership				
Total short-term benefits		806	877	346
Share-based payment		1,276	185	95
Number of individuals to which the benefit refers		2	1	1
Directors' compensation				
Compensation for directors not employed by the Partnership		205	217	115
Number of individuals to which the benefit refers		4	5	5

NOTE 18 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)

C. Management fees

1. Under the Partnership agreement, the General Partner is entitled to a monthly management fee of NIS 440 thousand (plus VAT) for management, consulting, and business development services and other services required for the Partnership’s business management, through the shareholders in the General Partner.

   In March 2021, the General Partner informed the Partnership that the amounts due to one of its shareholders by virtue of his position, as from January 2021, will be paid through a US subsidiary after he relocated to Houston, instead of the payment of his share in the monthly management fee (NIS 110 thousand) to the General Partner. This does not alter the terms of the total compensation of the General Partner and/or of its shareholders and these will remain unchanged. In addition, the Partnership will not incur any additional cost as a result of the change compared with its former situation.

   On December 31, 2021, one of the shareholders in the General Partner terminated his employment as CEO and consequently, as of that date, the monthly management fees paid to the general partner have been updated from NIS 440 thousand to NIS 330 thousand.

   In addition to the management fees, the General Partner will be entitled to reimbursement for expenses incurred in connection with the Partnership’s business, including, and without derogating from the generality of the above, the cost of employing employees (who are not interested parties in the General Partner), fees for independent auditors, attorneys, and other outside consultants, rent, office equipment, insurance expenses, and any expense related to the Partnership's oil assets.

2. On November 14, 2022, the general meeting of the Partnership approved that, instead of paying the management fees to the General Partner, as outlined in Section 1 above, payable under the Management Agreement that terminated on September 12, 2022, the Partnership will directly engage with the Officers on Behalf of the General Partner, under an agreement to provide management services in exchange for a salary or fixed annual management fees and equity compensation, as set forth below:

   The officers on behalf of the general partner will provide management services, consultation services, business development services, and other services to the Partnership, as required to manage the Partnership's business, and will serve as Chairman of the Board (Mr. Gideon Tadmor), Deputy Chairman of the Board and senior business development manager and Deputy CEO and director in the General Partner, full time (100%).
   The engagement period with each Officer on Behalf of the General Partner will commence on September 12, 2022, and will end when three years will have elapsed from the approval by the general meeting, as outlined above.
   In exchange for the officers on behalf of the general partner providing management services, the Partnership will pay each of the officers on behalf of the general partner a salary or management fee equal to NIS 138 thousand a month, in terms of cost (plus VAT).
   Moreover, each of the officers on behalf of the General Partner will be allotted non-marketable options, without consideration (each exercisable into one participation unit), equal to 1,750,410 units to the Chairman of the Board (the value of the annual economic benefit on the award date is NIS 2,933 thousand), and at a number equal to 350,057 units for each of the other two officers on behalf of the General Partner (the value of the annual economic benefit on the award date is NIS 586 thousand for each of them).

NOTE 18 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)

C. Management fees (cont.)

2. (cont.)

The options will vest in 3 annual tranches over 4 years, from September 15, 2022, such that 50% (hereinafter - the “First Tranche”) will vest two years after the award date, 35% (hereinafter - the “Second Tranche”) will vest after 3 years, and 15% (hereinafter - the “Third Tranche”) will vest after 4 years.

In addition to the management fees, each of the officers on behalf of the General Partner is entitled to additional customary benefits, including coverage of communication expenses (cell phone, internet, newspapers, etc.), and all the reasonable business expenses incurred in the context of the position thereof (such as: flights, accommodation, etc.).

The exercise price of the options is as follows: first tranche - NIS 23.23; second and third tranche - NIS 24.159.

In 2022, the Partnership recognized expenses in respect of options to officers on behalf of the General Partner at the total amount of USD 280 thousand (NIS 975 thousand.

D. Overriding royalty

Under the Partnership agreement, the Partnership will pay the shareholders in the General Partner 6% of the Partnership's share of oil or other material of value that will be produced and utilized from the oil assets in which the Partnership has or will have an interest, directly or indirectly, including through companies, partnerships, or corporations in which the Partnership will hold rights, before any deduction of any royalties, unless otherwise agreed.

E. Appointment of a CEO

Further to that noted in Section D above concerning the termination of the employment of the CEO of the General Partner, on December 16, 2021 the board of directors of the General Partner approved the appointment of Mr. Amit Kornhauser as CEO of the General Partner, effective January 1, 2022. Prior to this date, since July 10, 2016, Mr. Amit Kornhauser served as CFO of the General Partner and of the Partnership, and as a director and officer at subsidiaries of the Partnership.

On March 9, 2022, the general meeting of holders of participation units approved the terms of office and employment of Mr. Kornhauser (following his appointment by the board of directors of the General Partner), which will apply retroactively from the date of commencement of office.

Salary and appointment percentage

Mr. Kornhauser shall be entitled to a monthly salary in the gross amount of NIS 92 thousand (hereinafter - the “Basic Salary”), for a full-time position (100%). Mr. Kornhauser shall not be entitled to additional compensation from the Partnership and/or its subsidiaries for his role as a director.

Benefits and related benefits

Mr. Kornhauser shall be entitled to social benefits in accordance with the law, and to related benefits according to common practice for executives in the Israeli economy, including employer contributions to a pension fund and/or executive insurance; employer contributions to a study fund; disability insurance; a vehicle (including gross-up of tax in respect thereof and maintenance at the expense of the Partnership); participation in professional education; annual vacation; convalescence pay; sick leave; indemnity exemption and officers’ insurance, etc.

NOTE 18 - TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)

E. Appointment of a CEO (cont.)

Equity compensation

The total securities to be allocated to Mr. Kornhauser are 362,000 RSU, each of which confers the right to receive one participation unit of the Partnership, and which in total confer the right to receive 362,000 participation units of the Partnership, constituting approximately 0.39% of the issued capital of the Partnership and of the voting rights (approximately 0.36% fully diluted). (hereinafter in this section - the "RSU" or the "Offered Securities"), all as detailed below.

The RSUs will vest in three equal tranches on the date of compliance with two cumulative conditions: (a) continuous employment of the Offeree by the Partnership and/or a affiliate for a period from the commencement of office (hereinafter - the "Employment Period"); and (b) attaining the target price per participation unit: first tranche - NIS 21.18; second tranche - NIS 22.95; third tranche - NIS 24.71. Fulfillment of the parameter of market conditions shall be examined only after the Employment Period parameter is fulfilled. If the conditions are not fulfilled by the date set for each tranche, the RSU units for that tranche will expire without consideration. The first tranche will vest 18 months after the commencement of office, the second tranche will vest 30 months after the commencement of office, and the third tranche will vest 48 months after the commencement of office.

The fair value of the RSU, at the date of approval by the Board of Directors, is estimated using a Monte Carlo simulation. The participation unit price used to calculate the price as at January 24, 2022, is NIS 17.65. Annual volatility - 60.8%. Range of risk-free interest rate - 0.2%-1.21%. Dividend yield - 0%:

1. First tranche – economic value of each RSU – NIS 15.28.
2. Second tranche – economic value of each RSU – NIS 15.20.
3. Third tranche – economic value of each RSU – NIS 15.18.

F. Authorization of the bonus to Mr. Chanan Wolf

On May 15, 2022, the General Meeting of the holders of participation units approved the award of a bonus of USD 400 thousand, to Mr. Chanan Wolf, one of the General Partners' owners, in accordance with the provisions of the compensation policy.

NOTE 19 - FINANCIAL INSTRUMENTS

A. Groups of financial instruments

	December 31	
	2022	2021
	USD thousands	
Financial assets at fair value		
Financial derivatives	1,513	1,408
Financial assets at amortized cost		
Cash and cash equivalents	65,866	38,624
Deposits	14,846	14,970
Trade receivables	8,612	7,144
Other receivables	2,806	497
Restricted amounts	109,354	406,568
	201,484	467,803
Total financial assets	202,997	469,211
Financial liabilities at fair value		
Financial derivatives	1,807	6,788
Financial liabilities at amortized cost		
Trade payables and other payables	25,531	16,307
Lease liability	2,149	805
Long-term borrowings from banking corporations and financial institutions	113,160	101,777
Debentures (including interest payable)	338,243	337,039
	479,083	455,928
Total financial liabilities	480,890	462,716

B. Risk management policy

The Partnership’s activities expose it to various financial risk, such as market risk (including foreign currency risk, CPI risk, fair value risk for interest rate, and price risk), credit risk, and liquidity risk. The Partnership’s comprehensive risk management plan focuses on measures to minimize possible adverse effects on the financial performance of the Partnership.

NOTE 19 - FINANCIAL INSTRUMENTS (CONT.)

C. Hedging and derivatives

The Group is exposed to changes in the oil prices in respect of its future sales. In order to hedge the said exposure, the Group enters into hedge transactions for oil prices, pertaining to some of its future production. Set forth below is information about the open transactions as of December 31, 2022:

1. As at December 31, 2022, Navitas Buckskin has open hedging transactions on put options to hedge WTI oil prices in 2023, for a volume of 340 MBBL at an average price of USD 60.

   The fair value of the asset in respect of the foregoing hedging transactions as at December 31, 2022 was USD 737 thousand.

   Subsequent to the statement of financial position date, Navitas Buckskin engaged in additional hedging transactions that are put options for hedging WTI oil prices in November 2023 through January 2024 for a volume of 105 MBBL at a minimum price of USD 60 per barrel.

2. Further to Note 8(2) regarding NPO's obligation to hedge oil prices under the financing agreement, on receipt of the loan, and in subsequent quarters, NOP entered into hedging transactions on WTI oil prices implementing a collar strategy as well as put options. As of December 31, 2022 NPO has the following open hedges:

   - Collar hedges for approximately 236 thousand barrels of oil in 2023, at a minimum price per barrel of USD 55 and a maximum price of USD 85.

   - Put options to hedge 159 thousand barrels of oil in the period between January 2024 through September 2024 at a minimum price of USD 55 per barrel.

   The fair value of the liabilities for the hedging transactions as at December 31, 2022 amounts to USD 1,031 thousand.

   Subsequent to date of the statement of financial position, NPO entered into an additional hedging transaction that is a put option for hedging WTI oil prices for a volume of 51 MBBL at a minimum price of USD 55 per barrel.

NOTE 19 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value

The table below compares the carrying amount with the fair value of the Group's financial instruments, which are not presented in the financial statements at fair value (other than those with an amortized cost that is not materially different from their fair value):

	Carrying amount		Fair value (*)	
	December 31		December 31	
	2022	2021	2022	2021
	USD thousands			
Financial liabilities				
Debentures (Series B)	197,845	187,086	201,804	207,621
Debentures (Series C)	94,942	105,423	90,663	106,909
Debentures (Series D)	48,774 (**)	47,848 (**)	50,213	49,490
Total	341,561	340,357	342,680	364,020

(*) According to quoted market price.

(**) Represents the liability value (including the conversion component).

E. Market risks

Market risks arise from the risk that the fair value or future cash flows of a financial instrument will change due to changes in market prices. Market risks include three types of risks: Currency risk, other price risk, and fair value risk for interest rate as follows:

1. Currency risk

Foreign currency risk is the risk that the fair value of the future cash flows of a financial instrument is unstable due to exchange rate fluctuations.

The Group is mainly exposed to foreign currency risks arising from exchange rate fluctuations of the NIS against the dollar (the functional currency).

As at December 31, 2022, the financial liability surplus denominated in foreign currency over financial assets in foreign currency amounted to USD 252,850 thousand (as at December 31, 2021 - USD 288,483 thousand).

	Sensitivity test to changes in the NIS rate against the USD	
	Net profit (loss) from the change	
	Increase of 5%	Decrease of 5%
	USD thousands	
2022	(12,643)	12,643
2021	(14,424)	14,424

NOTE 19 - FINANCIAL INSTRUMENTS (CONT.)

E. Market risks (cont.)

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will change due to changes in market interest rates. The financial instruments bearing variable interest expose the Partnership to a cash flow risk due to a change in the interest rate.

	Sensitivity test to changes in the LIBOR interest rate	
	Net profit (loss) from the change	
	Rise in interest of 0.5%	Drop in interest of 0.5%
	USD thousands	
2022	(566)	566
2021	(509)	509

3. Trade receivables

Credit risk management for trade receivables is managed by the Group in accordance with its credit risk management policy. Unpaid trade receivables are reviewed regularly, and impairment is tested on each reporting date on a specific basis for major customers. As at December 31, 2022, the Group has not customers in arrears.

F. Liquidity risk

Liquidity risks arising from management of the Partnership's working capital and from finance expenses and principal repayments of the Partnership's debt instruments. Liquidity risk is the risk that the Partnership will find it difficult to fulfill obligations related to financial liabilities.

Management reviews the cash flow forecast on a monthly basis for a 12 month period as well as information about cash balances and deposits.

Below are the contractual repayment dates of the financial liabilities (according to their fixed nominal value for settlement that are different from their par value), based, where relevant, on the interest rates and exchange rates as at the report date.

	Liabilities as at December 31, 2022						
	Up to a year	Second year	Third year	Fourth year	Fifth year	Sixth year	Total
	USD thousands						
Trade payables and other payables	25,531	-	-	-	-	-	25,531
Lease liabilities	579	529	383	343	343	286	2,464
Loans from a bank and a financial institution	18,450	76,376	11,955	-	-	-	106,781
Debentures	20,350	70,082	66,848	194,152	34,137	32,683	418,252
Total	64,910	146,987	79,186	194,495	34,480	32,969	553,028

NOTE 19 - FINANCIAL INSTRUMENTS (CONT.)

	Liabilities as at December 31, 2021						
	Up to a year	Second year	Third year	Fourth year	Fifth year	Sixth year	Total
	USD thousands						
Trade payables and other payables	16,307	-	-	-	-	-	16,307
Lease liabilities	490	205	153	40	-	-	888
Loans from a bank and a financial institution	17,072	16,467	75,072	11,577	-	-	120,188
Debentures	18,574	20,337	67,524	64,457	193,439	75,607	439,938
Total	52,443	37,009	142,749	76,074	193,439	75,607	577,321

List of principal subsidiaries

Holding company/partnership	Company/partnership	Ownership rates and control of the holding company/partnership
		%
Navitas Petroleum Limited Partnership		
	Navitas Holdings Israel Ltd.	100
	Navitas Petroleum Limited	100
	Navitas ShenHai Financing Ltd.	100
Navitas Petroleum Limited		
	Navitas Petroleum Holdings LLC	100
	Navitas Petroleum Development and Production Limited	100
Navitas Petroleum Holdings LLC		
	Navitas Petroleum US LLC	100
	Navitas Buckskin US, LLC	100
	ShenHai LLC.	100
	Peles LLC	100
	Navitas Petroleum Onshore LLC	100
Navitas Holdings Israel Ltd.	Navitas Petroleum Canada Inc.	100

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