Navitas Petroleum Limited Partnership

Consolidated Interim Financial Statements as at June 30, 2022

USD thousands

Unaudited

Contents

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

Introduction

We have reviewed the accompanying financial information of Navitas Petroleum - Limited Partnership and its consolidated companies (hereinafter - the Partnership"), which includes the condensed consolidated statement of financial position as of June 30, 2022, and the condensed consolidated statements of comprehensive income, changes in the Partnership's equity and cash flows for the three-month and six-month periods then ended. The Board of Directors and management of the General Partner are responsible for preparing and presenting financial information for these interim periods in accordance with IAS 34, Interim Financial Reporting, and are also responsible for preparing financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion regarding the financial information for these interim periods based on our review.

Scope of the Review

We performed our review pursuant to Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of inquiries, mostly of persons responsible for financial and accounting issues, and of applying analytical and other review procedures. A review is substantially smaller in scope than an audit performed pursuant to Israeli GAAP and, as a result, does not enable us to obtain assurance that we would become aware of all significant matters that may be identified in an audit. Consequently, we are not expressing an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions of Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv,	Kost Forer Gabbay & Kasierer
August 16, 2022	Certified Public Accountants

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

Consolidated Statements of Financial Position

	As at June 30		As at December 31
	2022	2021	2021
	Unaudited		Audited
	USD thousand		
Current assets			
Cash and cash equivalents	65,403	105,708	38,624
Short-term deposits	16,989	10,801	14,970
Trade receivables	12,887	7,378	7,144
Other receivables	1,349	1,350	2,004
Financial derivatives	1,112	266	1,007
Interest receivable	-	5,201	-
Current maturities of loans provided	-	160,622	-
	97,740	291,326	63,749
Non-current assets			
Investments in oil and gas assets, net	393,583	167,166	251,239
Restricted amounts	273,984	402	406,568
Deferred costs	34,309	-	31,661
Financial derivatives	209	336	401
Deferred tax assets	-	4,668	-
Right-of-use assets	606	928	712
Property, plant, and equipment, net	174	229	197
	702,865	173,729	690,778
	800,605	465,055	754,527

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

Consolidated Statements of Financial Position

	As at June 30		As at December 31
	2022	2021	2021
	Unaudited		Audited
	USD thousand		
Current liabilities			
Trade payables and other payables	20,938	19,491	16,307
Interest payable for debentures and long-term loans	2,251	5,201	794
Financial derivatives	7,693	5,363	5,255
Current maturities of a long-term loan	10,596	10,112	11,488
Current maturity of debentures	-	160,828	-
Current maturity of lease liabilities	312	495	460
	41,790	201,490	34,304
Non-current liabilities			
Debentures	327,481	123,980	336,245
Long-term borrowings from banking corporations and financial institutions	86,607	36,521	90,289
Financial derivatives	550	1,549	1,533
Provision for a commitment to dispose of oil and gas assets	6,807	7,375	6,467
Deferred taxes	6,520	-	23
Lease liabilities	298	527	345
	428,263	169,952	434,902
Partnership's equity capital			
Capital of participation units	309,957	161,079	309,936
Conversion component of convertible debentures	3,318	-	3,318
Capital reserve for share-based payment	3,681	2,626	2,437
Capital reserve for transactions with a controlling shareholder	8,004	8,004	8,004
Reserve for cash flow hedges	(9,392)	(5,241)	(5,217)
Retained loss	(37,859)	(72,855)	(80,629)
	277,709	93,613	237,849
Non-controlling interests	52,843	-	47,472
Total capital	330,552	93,613	285,321
	800,605	465,055	754,527

August 16, 2022			
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 FLR Oil and Gas Management Ltd. The General Partner	Tamar Rosenberg CFO FLR Oil and Gas Management Ltd. The General Partner

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

Consolidated Statements of Comprehensive Income

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31
	2022	2021	2022	2021	2021
	Unaudited				Audited
	USD thousand (excluding profit data per participation unit)				
Revenue from oil and gas sales, net of royalties	71,308	41,022	35,611	20,642	86,356
Cost of oil and gas production	(16,146)	(13,793)	(8,319)	(6,945)	(26,676)
Depreciation and depletion expenses	(7,453)	(5,238)	(3,873)	(2,577)	(10,830)
Gross profit	47,709	21,991	23,419	11,120	48,850
Expenses for oil exploration and project development	(609)	(506)	(204)	(260)	(1,003)
Derecognition of exploration and evaluation assets	(355)	-	(355)	-	(355)
General and administrative expenses	(6,540)	(3,979)	(3,574)	(2,017)	(10,777)
Other income	-	2,454	-	-	5,836
Operating profit	40,205	19,960	19,286	8,843	42,551
Finance income	33,983	8,798	31,487	4,775	8,885
Finance expenses	(18,439)	(14,786)	(14,040)	(11,560)	(38,508)
Reversal of impairment of financial assets	-	1,116	-	592	1,313
Profit before taxes on income	55,749	15,088	36,733	2,650	14,241
Taxes on income	(7,608)	(3,393)	(3,795)	(1,382)	(7,086)
Net income	48,141	11,695	32,938	1,268	7,155
Other comprehensive income (loss) (net of tax effect):					
Amounts classified or reclassified to profit or loss under specific conditions:					
Loss for cash flow hedges	(8,368)	(6,363)	(2,011)	(3,302)	(8,014)
Transfer to profit or loss for cash flow hedges	4,193	2,580	3,691	1,425	4,255
Total other comprehensive income (loss)	(4,175)	(3,783)	1,680	(1,877)	(3,759)
Total comprehensive income (loss)	43,966	7,912	34,618	(609)	3,396
Net profit attributable to:					
Owners of the Partnership's participation units	42,770	11,695	30,238	1,268	3,921
Non-controlling interests	5,371	-	2,700	-	3,234
	48,141	11,695	32,938	1,268	7,155
Total comprehensive income (loss) attributable to:					
Owners of the Partnership's participation units	38,595	7,912	31,918	(609)	162
Non-controlling interests	5,371	-	2,700	-	3,234
	43,966	7,912	34,618	(609)	3,396
Profit per participation unit (in USD):					
Basic earnings	0.457	0.192	0.323	0.021	0.053
Diluted earnings	0.442	0.191	0.322	0.021	0.053

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

Consolidated Statements of Changes in Equity of the Partnership

	Attributable to owners of the Partnership's participation units								
	Partnership's equity capital	Conversion component of debentures	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 equity capital
	Unaudited								
	USD thousand								
Balance as at January 1, 2022 (audited)	309,936	3,318	8,004	2,437	(5,217)	(80,629)	237,849	47,472	285,321
Net income	-	-	-	-	-	42,770	42,770	5,371	48,141
Other comprehensive loss	-	-	-	-	(4,175)	-	(4,175)	-	(4,175)
Total comprehensive income (loss)	-	-	-	-	(4,175)	42,770	38,595	5,371	43,966
Issue of participation units from vesting of RSUs	21	-	-	(21)	-	-	-	-	-
Share-based payment, net	-	-	-	1,265	-	-	1,265	-	1,265
Balance as at June 30, 2022	309,957	3,318	8,004	3,681	(9,392)	(37,859)	277,709	52,843	330,552

The accompanying notes are an integral part of the consolidated interim 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 equity capital
	Unaudited						
	USD thousand						
Balance at January 1, 2021 (audited)	160,469	603	8,004	2,377	(1,458)	(84,550)	85,445
Net income	-	-	-	-	-	11,695	11,695
Other comprehensive loss	-	-	-	-	(3,783)	-	(3,783)
Total comprehensive income (loss)	-	-	-	-	(3,783)	11,695	7,912
Share-based payment, net	-	-	-	249	-	-	249
Exercise of marketable options	8	(1)	-	-	-	-	7
Expiry of marketable options	602	(602)	-	-	-	-	-
Balance as at June 30, 2021	161,079	-	8,004	2,626	(5,241)	(72,855)	93,613

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

Consolidated Statements of Changes in Equity of the Partnership

	Attributable to owners of the Partnership's participation units								
	Partnership's equity capital	Conversion component of debentures	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 equity capital
	Unaudited								
	USD thousand								
Balance as at April 1, 2022	309,936	3,318	8,004	3,245	(11,072)	(68,097)	245,334	50,143	295,477
Net income	-	-	-			30,238	30,238	2,700	32,938
Other comprehensive income	-	-	-		1,680	-	1,680	-	1,680
Total comprehensive income	-	-	-	-	1,680	30,238	31,918	2,700	34,618
Issue of participation units from vesting of RSUs	21	-	-	(21)	-	-	-	-	-
Share-based payment, net	-	-	-	457	-	-	457	-	457
Balance as at June 30, 2022	309,957	3,318	8,004	3,681	(9,392)	(37,859)	277,709	52,843	330,552

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

Consolidated Statements of Changes in Equity of the Partnership

	Partnership's equity capital	Capital reserve for transactions with a controlling shareholder	Capital reserve for share-based payment	Capital reserve for hedging transactions	Retained loss	Total equity capital
			Unaudited			
			USD thousand			
Balance as at April 1, 2021	161,079	8,004	2,462	(3,364)	(74,123)	94,058
Net income	-	-	-	-	1,268	1,268
Other comprehensive loss	-	-	-	(1,877)	-	(1,877)
Total comprehensive income (loss)	-	-	-	(1,877)	1,268	(609)
Share-based payment, net	-	-	164	-	-	164
Balance as at June 30, 2021	161,079	8,004	2,626	(5,241)	(72,855)	93,613

The accompanying notes are an integral part of the consolidated interim 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 equity capital
	Audited								
	USD thousand								
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 are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31
	2022	2021	2022	2021	2021
	Unaudited				Audited
	USD thousand				
Cash flows from operating activities					
Net income	48,141	11,695	32,938	1,268	7,155
Adjustments to reconcile cash flows from operating activities:					
Adjustments to profit and loss line items:					
Depletion, depreciation and amortization	8,086	5,549	4,370	2,664	11,760
Share-based payment	1,265	249	457	164	639
Reversal of impairment of financial assets	-	(1,116)	-	(592)	(1,313)
Profit from exercise of rights in oil and gas assets	-	-	-	-	(3,319)
Deferred taxes	7,629	3,387	3,816	1,381	7,081
Finance expenses, net	(14,908)	4,181	(15,725)	5,930	23,472
Exchange differences for cash balances, net	1,643	212	1,141	(308)	684
	3,715	12,462	(5,941)	9,239	39,004
Changes in assets and liabilities:					
Decrease (increase) in trade receivables	(5,743)	(1,767)	2,072	2,908	(1,533)
Decrease (increase) in receivables and debit balances	36	638	(238)	2,728	(16)
Cash flow hedges	(3,542)	3,163	(2,474)	1,783	3,015
Increase (decrease) in other trade payables and other payables	6,821	2,259	3,591	1,997	(3,827)
	(2,428)	4,293	2,951	9,416	(2,361)
Interest received	62	6,383	30	142	12,717
Interest paid	(10,700)	(11,887)	(8,957)	(5,564)	(26,628)
Net cash from operating activities	38,790	22,946	21,021	14,501	29,887
Cash flows from investing activities					
Investment in oil and gas assets	(151,720)	(25,025)	(126,243)	(15,026)	(122,772)
Proceeds from exercise of rights in oil and gas assets	-	-	-	-	6,304
Repayment of loans provided	-	-	-	-	161,058
Movements in restricted amounts	134,302	-	115,903	-	(404,775)
Investment in deposits	(4,125)	-	(4,125)	-	(4,223)
Acquisition of property, plant and equipment	(28)	-	(11)	-	(15)
Net cash used for investing activities	(21,571)	(25,025)	(14,476)	(15,026)	(364,423)

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

Consolidated Statements of Cash Flows

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31
	2022	2021	2022	2021	2021
	Unaudited				Audited
	USD thousand				
Cash flow from financing activities					
Receipt of loan from a banking corporation and a financial institution	-	9,602	-	-	69,688
Repayment of loan from a banking corporation and a financial institution	(5,127)	(5,562)	(5,127)	(5,562)	(8,887)
Repayment of lease liabilities	(273)	(62)	(127)	-	(454)
Issue of debentures, net	23,583	-	23,583	-	210,841
Costs of raising loans and debentures	(6,980)	-	(1,497)	-	(32,823)
Repayment of debentures	-	-	-	-	(161,058)
Issue of capital to the public	-	-	-	-	151,528
Exercise of options for participation units	-	7	-	-	7
Costs of raising capital	-	-	-	-	(3,250)
Issuance of preferred shares to non-controlling interests	-	-	-	-	44,238
Net cash provided by (used in) financing activities	11,203	3,985	16,832	(5,562)	269,830
Effect of changes in exchange rates on cash balances held in foreign currency	(1,643)	(212)	(1,141)	308	(684)
Increase (decrease) in cash and cash equivalents	26,779	1,694	22,236	(5,779)	(65,390)
Cash and cash equivalent balance at the beginning of the period	38,624	104,014	43,167	111,487	104,014
Cash and cash equivalent balance at the end of the period	65,403	105,708	65,403	105,708	38,624
Significant non-cash activities					
Investment in oil and gas assets against other payables	2,650	5,587	2,650	5,587	3,897
Deferred costs against other payables	2,652	-	2,652	-	3,823
Deferred consideration from exercise of rights in oil and gas assets	-	-	-	-	1,214

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

NOTE 1 – GENERAL

A. These financial statements were prepared in condensed format as at June 30, 2022, and for the six-month and three-month periods then ended (hereinafter - the "Consolidated Interim Financial Statements"). The financial statements should be read in the context of the Partnership's annual financial statements as at December 31, 2021, for the year then ended, and their accompanying notes (hereinafter - "the Consolidated Annual Financial Statements").

B. 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 Partnerships Ordinance, 1975. The purpose of the Partnership is oil and gas exploration, development, and production.

C. Further to Note 1D to the Consolidated Annual Financial Statements regarding Covid-19 and its economic consequences, in the reporting period, Covid-19 had no adverse effect on the Partnership's business results and activities continued as usual.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Preparation format of the interim financial statements

The Interim Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as well as in accordance with the disclosure guidance provided in Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies applied in the preparation of the interim financial statements are consistent with those applied in the preparation of the Consolidated Annual Financial Statements.

B. First-time application of amendments to existing accounting 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. First-time application of amendments to existing accounting standards (cont.)

1. Amendment to IAS 16, Property, Plant and Equipment (cont.)

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

The above 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).

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 figures, 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 interim 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. First-time application of amendments to existing accounting standards (cont.)

3. Improvements to IFRS in 2018-2020 (cont.)

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.

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS

A. Composition

	June 30		December 31
	2022	2021	2021
	Unaudited		Audited
	USD thousand		
Oil and gas assets			
Buckskin project	47,206	39,598	41,927
Shenandoah project	248,629	48,683	111,484
Yucatan project	836	701	836
Denbury project	79,546	59,022	78,735
Neches project	16,742	17,886	17,283
	392,959	165,890	250,265
Exploration and evaluation assets	624	1,276	974
	393,583	167,166	251,239

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

B. Buckskin project

On September 19, 2021, drilling of a third development well began in the reservoir. The drilling was successfully completed in early February 2022.

According to the operator's estimates and initial analysis of the data collected when drilling, it appears that the thickness of the oil-bearing layers in the reservoir is consistent with the pre-drilling estimates; the Partnership’s share in the cost of insurance amounted to USD 8 million. In addition, the drilling’s completion for production work commenced in June 2022, and the operator expects that production will start in September 2022.

Subsequent to balance sheet date, the General Partner’s Board of Directors approved the execution of a fourth development drilling in the Buckskin North reservoir (hereinafter - the “Drilling” and the “Oil Asset”, respectively). The development budget (100%) is estimated at USD 100 million (the Partnership’s share of the drilling budget (7.5%) is USD 7.5 million).

C. Denbury project

Subsequent to the balance sheet date, 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).

D. Signing of binding transaction documents for the acquisition of oil discoveries in the Falkland Islands and the development of the Sea-Lion project

Further to what is stated in Note 12E to the consolidated annual financial statements regarding the Partnership’s engagement in a memorandum of understanding for the purchase of 65% of the rights in a number of offshore oil discoveries in the Falkland Islands, the principal of which is the Sea Lion discovery (hereinafter jointly - the “Project” or the “Oil Asset”) by the Partnership, and further to the appointment of the Partnership as the project operator, on April 15 2022 the transaction agreements were signed whose main terms are described below:

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. Signing of binding transaction documents for the acquisition of oil discoveries in the Falkland Islands and the development of the Sea-Lion project (cont.)

Agreement for the purchase of the shares of Premier Oil Exploration and Production Limited (hereinafter - "PMO")

- An agreement between Navitas Petroleum Limited, a wholly-owned UK subsidiary of the Partnership (hereinafter - "Navitas UK"), and Premier Oil Holdings Limited (hereinafter - the "Seller"), that holds all of PMO's share capital, for the purchase PMO's entire equity capital by Navitas UK. Upon completion of the transaction, Navitas UK shall become the project operator (through PMO).

- The agreement also stipulates that the Partnership will enter into the shoes of Harbour Energy plc (hereinafter - "HBR") regarding the ownership (through PMO) 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 (if required to do so by the Falkland Islands government) will be required to provide the Falkland Islands Government a parent company guarantee (by Navitas UK itself or by the Partnership) to secure the above-mentioned liabilities.

- As part of the terms of the Share Purchase Agreement, Navitas UK will receive USD 6 million from the Seller on the transaction completion date.

- The acquired company, PMO, 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.

- 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 PMO's shares.

- Navitas UK may terminate the agreement in the time between signing the agreement and until the Transaction is completed, if the Seller commits a material breach of the Seller's obligations in the interim period, as is generally accepted in transactions of this type, or if the Seller is in breach of the Seller's material representations under the agreement. Furthermore, Navitas England and HBR may terminate the agreement if the conditions precedent for completing the Transaction are not met, including if they do not reach an agreement with the Falkland Islands Government in connection with reassigning the response ability for the Temporary Quay Facility from HBR to the Partnership.

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. Signing of binding transaction documents for the acquisition of oil discoveries in the Falkland Islands and the development of the Sea-Lion project (cont.)

The Farm Out agreement (hereinafter - the "FOA")

- An agreement between Rockhopper Exploration plc (hereinafter - "RKH") and Navitas UK, to transfer - to PMO - 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 will hold 100% of PMO's shares, and PMO will hold 65% of the rights in these leases and will be appointed the Project's operator.
- The agreement further stipulates that if PMO 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 will sign a joint operating agreement ("JOA"), the wording thereof has been finalized.
- 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.

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, PMO (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 are as follows:

  1. The "Pre-FID" loan - a USD-denominated 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 (above and hereinafter - "FID").

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. Signing of binding transaction documents for the acquisition of oil discoveries in the Falkland Islands and the development of the Sea-Lion project (cont.)

The Loans Agreement (cont.)

2. The "Post-FID" Loan – a USD-denominated 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.
- Until conclusion of the Transaction, Navitas England shall not bear the costs involved with the Oil Asset, apart from Navitas England’s costs and expenses in respect of examination and implementation of the Transaction, and all that is related to this.
- 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.

Main Conditions Precedent for Conclusion of the Transaction

- Receipt of a letter of convenience from the Falkland Islands Government (FIG), according to which the Oil Asset leases will remain valid after the transfer of control in PMO.
- Agreement of the Falkland Islands Government (FIG) to transfer RKH’s rights in the Oil Asset leases and making PMO the operator in all the leases.

NOTE 3 – INVESTMENTS IN OIL AND GAS ASSETS (CONT.)

D. Signing of binding transaction documents for the acquisition of oil discoveries in the Falkland Islands and the development of the Sea-Lion project (cont.)

Main Conditions Precedent for Conclusion of the Transaction (cont.)

- Confirmation by the Falkland Islands Government, of releasing the liens on RKH's rights in the leases.
- Agreements with the Falkland Islands Government on assigning HBR's liabilities in connection with the Temporary Quay Facility to the Partnership.
- The Falkland Islands Government's consent to extend the leases by two years.
- Reaching agreements with the Falkland Islands Government on the cancellation of the present obligation to perform an additional drilling under Lease PL032 against payment.
- The Falkland Islands Government's commitment to protect the lease holders against future regulatory changes (investment protection agreement).

As of the approval date of the financial statements, the key regulatory approvals required for completion of the Transaction were obtained from the UK and Falkland Islands' governments, including the Falkland Islands Government's approval regarding the two-year extension of the term of the leases. To date, not all conditions precedent have been fulfilled, and the completion of the transaction is subject to the fulfillment of other conditions precedent. In the Partnership's opinion, the other conditions precedent for the completion of the Transaction are expected to be fulfilled during the third quarter of 2022.

NOTE 4 – DEBENTURES

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 1.017 per each NIS 1 p.v. of Series B debentures; the overall issuance proceeds amounted to NIS 81,360 thousand (approx. USD 23,951 thousand), and the issuance costs amounted to USD approx. 138 thousand. The effective interest rate in the said series expansion is 6.25%. For more information regarding the Series B debentures, see Note 11(1) to the Partnership's annual consolidated financial statements.

NOTE 5 – SHARE-BASED PAYMENTS

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.

The RSUs were awarded in accordance with the equity compensation plan adopted by the General Partner's board of directors as described in Note 14(2) to the consolidated annual financial statements.

NOTE 6 – RANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS

A. Appointment of a CEO

Further to what is stated in Note 18D to the consolidated annual financial statements concerning the termination of the employment of one of the shareholders of the General Partner as the General Partner's CEO, 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.

NOTE 6 – RANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)

A. Appointment of a CEO (cont.)

Benefits and related benefits

Mr. Kornhauser shall be entitled to social benefits in accordance with the law, and to perquisites 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.

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 tranches on the date of compliance with two cumulative conditions: (a) continuous employment of the Offeree by the Partnership and/or an 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 lot, the RSU units for that lot will expire without consideration.

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.

NOTE 6 – RANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)

B. 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 7 – FINANCIAL INSTRUMENTS

Fair value

Following are carrying amounts and fair values of financial instruments measured at amortized cost (excluding those whose amortized cost is not materially different from their fair value):

	June 30, 2022		June 30 2021		December 31, 2021	
	Carrying amount	Fair value*)	Carrying amount	Fair value*)	Carrying amount	Fair value*)
	Unaudited				Audited	
	USD thousand					
Financial liabilities						
Debentures (Series B)	189,438	198,861	123,980	145,609	187,086	207,621
Debentures (Series C)	95,325	92,683	-	-	105,423	107,913
Debentures (Series D)	44,970 **)	52,788	-	-	44,530 **)	49,490
Debentures issued by a subsidiary	-	-	166,029	166,856	-	-

*) According to quoted market price.
**) Represents the liability value.

Hedging transactions

1) As at June 30, 2022, Navitas Buckskin has open hedging transactions on put options to hedge WTI oil prices of July 2022 and January to July 2023, for a total volume of 440 thousand barrels of oil at a minimum price of USD 60 per barrel.

The fair value of the asset in respect of the foregoing hedging transactions as at June 30, 2022, was USD 1,321 thousand.

NOTE 7 – FINANCIAL INSTRUMENTS (cont.)

Hedging transactions (cont.)

2) Further to what is stated in Note 8(2) to the consolidated annual financial statements regarding NPO's undertaking to hedge the oil prices under the financing agreement, as of June 30, 2022, NPO has open hedge transactions amounting to 470 thousand barrels of oil, as outlined below:

- Collar hedges for approximately 127 thousand barrels of oil in the period from July 2022 and December 2022, at a minimum price per barrel of USD 45 and a maximum price of USD 55 per barrel.

- 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 79 per barrel.

- A put option hedge for approximately 107 thousand barrels of oil in the first half of 2024, at a minimum price of USD 55 per barrel.

The fair value of the net liability for these hedging transactions as of June 30, 2022, amounts to USD 8,243 thousand.

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