Navitas Petroleum (Limited Partnership)

Consolidated Interim Financial Statements as at March 31, 2022

USD thousands

Unaudited

Contents



- - - - - - - - - - - - -

Building a better working world

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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 March 31 2022, and the condensed consolidated statements of comprehensive income, changes in the Partnership's equity and cash flows for the three-month period then ended. The board of directors and management of the General Partner are responsible for the preparation and presentation of financial information for this interim period in accordance with IAS 34, "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for this interim period 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,
May 16, 2022

Kost Forer Gabbay & Kasierer
Certified Public Accountants

**Consolidated Statements of Financial Position**

| | As of March 31 | | As at December 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand | | |
| Current assets | | | |
| Cash and cash equivalents | 43,167 | 111,487 | 38,624 |
| Short-term deposits | 15,673 | 10,796 | 14,970 |
| Trade receivables | 14,958 | 10,286 | 7,144 |
| Other receivables | 1,111 | 4,109 | 2,004 |
| Financial derivatives | 703 | 500 | 1,007 |
| Interest receivable | - | 2,080 | - |
| Current maturities of loans provided | - | 159,452 | - |
| | 75,612 | 298,710 | 63,749 |
| Non-current assets | | | |
| Investments in oil and gas assets, net | 270,772 | 151,281 | 251,239 |
| Restricted amounts | 388,255 | 400 | 406,568 |
| Deferred costs | 34,202 | - | 31,661 |
| Financial derivatives | 516 | 124 | 401 |
| Deferred tax assets | - | 5,551 | - |
| Right-of-use assets | 721 | 947 | 712 |
| Property, plant, and equipment, net | 190 | 249 | 197 |
| | 694,656 | 158,552 | 690,778 |
| | 770,268 | 457,262 | 754,527 |

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

## Consolidated Statements of Financial Position

| | As of March 31 | | As at December 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand | | |
| Current liabilities | | | |
| Trade payables and other payables | 14,772 | 14,026 | 16,307 |
| Interest payable for debentures and long-term loans | 5,432 | 4,716 | 794 |
| Financial derivatives | 10,060 | 2,538 | 5,255 |
| Current maturities of a long-term loan | 11,488 | 9,848 | 11,488 |
| Current maturity of debentures | - | 160,275 | - |
| Current maturity of lease liabilities | 403 | 473 | 460 |
| | 42,155 | 191,876 | 34,304 |
| Non-current liabilities | | | |
| Debentures | 330,445 | 120,899 | 336,245 |
| Long-term borrowings from banking corporations and financial institutions | 90,558 | 42,273 | 90,289 |
| Financial derivatives | 2,416 | 551 | 1,533 |
| Provision for a commitment to dispose of oil and gas assets | 6,570 | 7,008 | 6,467 |
| Deferred taxes | 2,280 | - | 23 |
| Lease liabilities | 367 | 597 | 345 |
| | 432,636 | 171,328 | 434,902 |
| Partnership's equity capital | | | |
| Capital of participation units | 309,936 | 161,079 | 309,936 |
| Conversion component of debentures | 3,318 | - | 3,318 |
| Capital reserve for share-based payment | 3,245 | 2,462 | 2,437 |
| Capital reserve for transactions with a controlling shareholder | 8,004 | 8,004 | 8,004 |
| Reserve for cash flow hedges | (11,072) | (3,364) | (5,217) |
| Retained loss | (68,097) | (74,123) | (80,629) |
| | 245,334 | 94,058 | 237,849 |
| Non-controlling interests | 50,143 | - | 47,472 |
| Total capital | 295,477 | 94,058 | 285,321 |
| | 770,268 | 457,262 | 754,527 |

| May 16, 2022 | | | |
|---|---|---|---|
| Approval date of the financial statements | Gideon Tadmor<br>Chairman of the board of directors<br>FLR Oil and Gas Management Ltd.<br>The General Partner | Amit Kornhauser<br>CEO<br>FLR Oil and Gas Management Ltd.<br>The General Partner | Tamar Rosenberg<br>CFO<br>FLR Oil and Gas Management Ltd.<br>The General Partner |

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

## Consolidated Statements of Comprehensive Income

| | For the 3 months ended March 31 | | For the year ended Dec. 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand (excluding net income per participation unit) | | |
| Revenue from oil and gas sales, net of royalties | 35,697 | 20,380 | 86,356 |
| Cost of oil and gas production | (7,827) | (6,848) | (26,676) |
| Depreciation and depletion expenses | (3,580) | (2,661) | (10,830) |
| Gross profit | 24,290 | 10,871 | 48,850 |
| Expenses for oil and gas exploration and project development | (405) | (246) | (1,003) |
| Derecognition of exploration and evaluation assets | - | - | (355) |
| General and administrative expenses | (2,966) | (1,962) | (10,777) |
| Other income | - | 2,454 | 5,836 |
| Operating profit | 20,919 | 11,117 | 42,551 |
| Finance income | 2,496 | 6,769 | 8,885 |
| Finance expenses | (4,399) | (5,972) | (38,508) |
| Reversal of impairment of financial assets | - | 524 | 1,313 |
| Profit before taxes on income | 19,016 | 12,438 | 14,241 |
| Taxes on income | (3,813) | (2,011) | (7,086) |
| Net income | 15,203 | 10,427 | 7,155 |
| Other comprehensive loss (net of tax effect): | | | |
| Amounts classified or reclassified to profit or loss under specific conditions: | | | |
| Loss for cash flow hedges | (6,357) | (3,061) | (8,014) |
| Transfer to profit or loss for cash flow hedges | 502 | 1,155 | 4,255 |
| Total other comprehensive loss | (5,855) | (1,906) | (3,759) |
| Total comprehensive income | 9,348 | 8,521 | 3,396 |
| **Net profit attributable to:** | | | |
| **Owners of the Partnership's participation units** | 12,532 | 10,427 | 3,921 |
| **Non-controlling interests** | 2,671 | - | 3,234 |
| | 15,203 | 10,427 | 7,155 |
| Total comprehensive income attributed to: | | | |
| **Owners of the Partnership's participation units** | 6,677 | 8,521 | 162 |
| Non-controlling interests | 2,671 | - | 3,234 |
| | 9,348 | 8,521 | 3,396 |
| Net income per participation unit (in USD): | | | |
| Basic earnings | 0.134 | 0.171 | 0.053 |
| Diluted earnings | 0.133 | 0.171 | 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 capital |
| | Unaudited | | | | | | | | |
| | USD thousand | | | | | | | | |
| Balance as at December 31, 2021 (audited) | 309,936 | 3,318 | 8,004 | 2,437 | (5,217) | (80,629) | 237,849 | 47,472 | 285,321 |
| Net income | - | - | - | - | - | 12,532 | 12,532 | 2,671 | 15,203 |
| Other comprehensive loss | - | - | - | - | (5,855) | - | (5,855) | - | (5,855) |
| Total comprehensive income (loss) | - | - | - | - | (5,855) | 12,532 | 6,677 | 2,671 | 9,348 |
| Share-based payment | - | - | - | 808 | - | - | 808 | - | 808 |
| Balance as at March 31, 2022 | 309,936 | 3,318 | 8,004 | 3,245 | (11,072) | (68,097) | 245,334 | 50,143 | 295,477 |

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 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 | - | - | - | - | - | 10,427 | 10,427 |
| Other comprehensive loss | - | - | - | - | (1,906) | - | (1,906) |
| Total comprehensive income (loss) | - | - | - | - | (1,906) | 10,427 | 8,521 |
| Share-based payment | - | - | - | 85 | - | - | 85 |
| Exercise of marketable options | 8 | (1) | - | - | - | - | 7 |
| Expiry of marketable options | 602 | (602) | - | - | - | - | - |
| Balance as at March 31, 2021 | 161,079 | - | 8,004 | 2,462 | (3,364) | (74,123) | 94,058 |

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 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 3 months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand | | |
| Cash flows from operating activities | | | |
| Net income | 15,203 | 10,427 | 7,155 |
| **Adjustments to reconcile cash flows from operating activities:** | | | |
| **Adjustments to profit and loss line items:** | | | |
| Depletion, depreciation and amortization | 3,716 | 2,885 | 11,760 |
| Share-based payment | 808 | 85 | 639 |
| Impairment of financial assets | - | (524) | (1,313) |
| Profit from exercise of rights in oil and gas assets | - | - | (3,319) |
| Deferred taxes | 3,813 | 2,006 | 7,081 |
| Finance expenses, net | 817 | (1,749) | 23,472 |
| Exchange differences for cash balances, net | 502 | 520 | 684 |
| | 9,656 | 3,223 | 39,004 |
| Changes in assets and liabilities: | | | |
| Increase in trade receivables | (7,815) | (4,675) | (1,533) |
| Decrease (increase) in receivables and debit balances | 274 | (2,090) | (16) |
| Cash flow hedges | (1,068) | 1,380 | 3,015 |
| Increase (decrease) in other trade payables and other payables | 3,230 | 262 | (3,827) |
| | (5,379) | (5,123) | (2,361) |
| Interest received | 32 | 6,241 | 12,717 |
| Interest paid | (1,743) | (6,323) | (26,628) |
| Net cash from operating activities | 17,769 | 8,445 | 29,887 |
| Cash flows from investing activities | | | |
| Investment in oil and gas assets | (25,477) | (9,999) | (122,772) |
| Proceeds from exercise of rights in oil and gas assets | - | - | 6,304 |
| Repayment of loans provided | - | - | 161,058 |
| Movements in restricted amounts | 18,399 | - | (404,775) |
| Investment in deposits | - | - | (4,223) |
| Acquisition of property, plant and equipment | (17) | - | (15) |
| Net cash used for investing activities | (7,095) | (9,999) | (364,423) |

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

**Consolidated Statements of Cash Flows**

| | For the 3 months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand | | |
| Cash flow from financing activities | | | |
| Receipt of loan from banks and a financial institution | - | 9,602 | 69,688 |
| Repayment of loan from banks and a financial institution | - | - | (8,887) |
| Repayment of lease liabilities | (146) | (62) | (454) |
| Issue of debentures, net | - | - | 210,841 |
| Costs of raising loans and debentures | (5,483) | - | (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 financing activities (used in financing activities) | (5,629) | 9,547 | 269,830 |
| Effect of changes in exchange rates on cash balances held in foreign currency | (502) | (520) | (684) |
| Increase (decrease) in cash and cash equivalents | 4,543 | 7,473 | (65,390) |
| Cash and cash equivalent balance at the beginning of the period | 38,624 | 104,014 | 104,014 |
| Cash and cash equivalent balance at the end of the period | 43,167 | 111,487 | 38,624 |
| Significant non-cash activities | | | |
| Investment in oil and gas assets against other payables | 1,396 | 2,460 | 3,897 |
| Deferred costs against other payables | 1,092 | - | 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 have been prepared in condensed format as at March 31, 2022 and for the three-month period 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, with the exception of the following:

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 Section 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:

| | March 31 | | December 31 |
|---|---|---|---|
| | 2022 | 2021 | 2021 |
| | Unaudited | | Audited |
| | USD thousand | | |
| Oil and gas assets | | | |
| Buckskin project | 44,132 | 41,140 | 41,927 |
| Shenandoah project | 128,473 | 36,128 | 111,484 |
| Yucatan project | 837 | 701 | 836 |
| Denbury project | 79,378 | 53,948 | 78,735 |
| Neches project | 16,973 | 18,088 | 17,283 |
| | 269,793 | 150,005 | 250,265 |
| Exploration and evaluation assets | 979 | 1,276 | 974 |
| | 270,772 | 151,281 | 251,239 |

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

B. Completion of a third drilling in the 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. Furthermore, the Operator anticipates that the completion work for well production is expected to begin early in the third quarter of 2022. The Partnership's total share in the drilling costs amounts to USD 8 million.

C. 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:

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 share 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.

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

C. 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") (cont.)

- 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.

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.

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

C. 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”) (cont.)

- 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 Parntership) 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 (hereinafter and above: “FID”).
  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.

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

C. 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.)

- Until conclusion of the Transaction, Navitas England shall not bear the costs involved with the Oil As-set, 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 licenses 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 licenses and making PMO the operator in all the leases.
- 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).

## NOTE 4 – 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 5 – TRANSACTIONS 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 5 – TRANSACTIONS 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 5 – TRANSACTIONS AND BALANCES WITH INTERESTED PARTIES, RELATED PARTIES, AND CONTROLLING SHAREHOLDERS (CONT.)**

B. Authorization of the bonus to Mr. Chanan Wolf

Subsequent to balance sheet date, on May 15, 2022 the General Meeting of the holders of participation units approved the award of a bonus at an amount equal to 14.6 gross monthly salaries (USD 400 thousand), to Mr. Chanan Wolf, one of the General Partners' owners, in accordance with the provisions of the compensation policy.

**NOTE 6 – 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):

| | March 31 2022 | | March 31 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) | 186,207 | 200,996 *) | 122,946 | 140,034 *) | 187,086 | 207,621*) |

*) According to quoted market price.

Hedging transactions

1) As at March 31, 2022 Navitas Buckskin has open hedging transactions on put options to hedge WTI oil prices of April 2022 and January to May 2023, for a total volume of 475 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 March 31, 2022 was USD 1,218 thousand.

**NOTE 6 – 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 March 31, 2022, NPO has open hedge transactions amounting to 482 thousand barrels of oil, as outlined below:

- Collar hedges for approximately 192 thousand barrels of oil in the period from April 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 54 thousand barrels of oil in the first quarter of 2024, at a minimum price of USD 55 per barrel.

The fair value of the net liability for the said hedging transactions as of March 31, 2022 amounts to USD 9,835 thousand.

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