

**NAVITAS ASSETS, LLC
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021**

Includes Independent Auditor's Report Issued By



NAVITAS ASSETS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Navitas Assets, LLC

Opinion

We have audited the accompanying consolidated financial statements of Navitas Assets, LLC which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income and members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Navitas Assets, LLC as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Navitas Assets, LLC and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Navitas Assets, LLC's ability to continue as a going concern within one year after the date of the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Navitas Assets, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Navitas Assets, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

HBC CPAs & Advisors

Oklahoma City, Oklahoma
March 22, 2023

NAVITAS ASSETS, LLC
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2021

ASSETS

Current assets:	
Cash in bank	\$ 556,250
Accounts receivable	1,688,589
Underbillings and other assets	1,236,532
Total current assets	<u>3,481,371</u>
Property and equipment:	
Land	1,364,754
Systems	21,648,352
Equipment	477,579
Leasehold improvements	1,759,922
Accumulated depreciation	(14,069,771)
Property and equipment, net	<u>11,180,836</u>
Other assets:	
Acquisition and related costs, net of accumulated amortization of \$1,494,870	<u>179,083</u>
Total assets	<u><u>\$ 14,841,290</u></u>

LIABILITIES & MEMBERS' EQUITY

Current liabilities:	
Accounts payable, vendors	\$ 221,903
Payable to affiliated entity	3,463,548
Customer deposits	147,488
Other accrued expenses	561,326
Line of credit	995,000
Current portion of long-term debt and other obligations	564,842
Total current liabilities	<u>5,954,107</u>
Long-term debt and other obligations, less current portion	7,867,761
Members' equity	
Members' equity	457,948
Minority member interests	561,474
Total members' equity	<u>1,019,422</u>
Total liabilities and members' equity	<u><u>\$ 14,841,290</u></u>

NAVITAS ASSETS, LLC
CONSOLIDATED STATEMENT OF INCOME AND MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2021

Revenue:		
Revenue	\$	8,667,760
Total revenue		<u>8,667,760</u>
Commodity cost		3,932,845
Bad debt expense		<u>(172,072)</u>
Total cost of goods sold		<u>3,760,773</u>
Net commodity revenue		4,906,987
Direct costs:		
Direct costs		1,179,672
Depreciation and amortization		<u>467,154</u>
Total direct costs		<u>1,646,826</u>
Other operating expenses		<u>3,258,996</u>
Operating income		1,165
Other income (expense):		
Interest income		3,722
Interest expense		<u>(517,291)</u>
Total other income (expense)		<u>(502,435)</u>
Net income (loss)		(501,270)
Members' equity, beginning		959,218
Members' contributions (distributions)		<u>-</u>
Members' equity, ending	\$	<u><u>457,948</u></u>

NAVITAS ASSETS, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

OPERATING ACTIVITIES

Net income (loss)	\$ (501,270)
Adjustments to reconcile net income	
(Increases) decreases in:	
Accounts receivable	(338,733)
Notes Receivable	1,000
Inventories	286,108
Underbillings and other prepaids	(744,504)
Increases (decreases) in:	
Accounts payable	42,432
Customer deposits	62,636
Payable to affiliate	1,377,341
Overbillings and other accruals	(287,359)
Net cash provided by operating activities	<u>364,805</u>

INVESTING ACTIVITIES

Purchase of property and equipment	<u>(1,722,502)</u>
Net cash provided by investing activities	(1,722,502)

Proceeds from long-term debt and other obligations	5,233,225
Repayment of long-term debt and other obligations	(3,911,154)
Capital contributions	<u>(171,733)</u>
Net cash provided by financing activities	1,150,338

Net cash increase for year (207,359)

Cash at beginning of year 763,609

Cash at end of year \$ 556,250

Interest expense of \$517,291 was paid for the year ended December 31, 2021.

NAVITAS ASSETS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

(1) Summary of Significant Accounting Policies

Organization and structure - We are an energy-assets holding company formed on March 20, 2007. We acquire relatively small, operating, rural assets and secondarily pursue the development of energy projects. We currently own over 1000 miles of regulated distribution pipeline as well as certain unregulated transmission assets. Navitas Utility Corporation is the managing member of our limited liability company and is the operator of our energy assets.

We own a 100% membership interest in Fort Cobb Fuel Authority, LLC ("FCFA"). FCFA wholly owns membership interests in two LLCs and a majority interest in a third LLC. We also own 100% membership interests in Navitas TN NG, LLC ("NTNNG"), Navitas KY NG, LLC ("NKYNG"), and Navitas Utility Texas, LLC ("NUTX"). FCFA, NTNNG, NKYNG, and NUTX provide distribution services to customers in smaller municipalities and rural areas in Oklahoma, Tennessee, Kentucky, and Texas.

Consolidation – We have included the accounts of FCFA, NTNNG, NKYNG, and NUTX in these financial statements and have eliminated all intercompany accounts and transactions. FCFA, NTNNG, NKYNG, and NUTX are disregarded entities for tax purposes.

Use of estimates - Accrual accounting is used to prepare these financial statements. Financial statement preparation requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingencies as of the date of these financial statements and for the period of these financial statements. Items that may be estimated include, but are not limited to, the economic useful life of assets, the fair value of some assets and liabilities, bad debt expense, unbilled revenues for natural gas delivered but for which meters have not been read, gas purchases for which gas has been delivered but no invoice has been received and various other recorded or disclosed amounts.

We evaluate estimates on an ongoing basis using historical experience, consultation with experts and other methods we consider reasonable given the circumstances. Nevertheless, actual results could differ significantly from the estimates. Any effects on our financial position or results of operations from revisions of these estimates are recorded when the facts that gave rise to the revision become known.

Cash and cash equivalents - Cash and cash equivalents consist of highly liquid investments, which are readily convertible in to cash, and have original maturity dates of three months or less.

Accounts receivable – Accounts receivable represent valid claims, both billed and unbilled, against non-affiliated customers for products sold or services rendered. We assess the credit worthiness of our counterparties and generally require security, usually in the form of prepayments or deposits, when appropriate. Outstanding customer receivables are evaluated for potential write-offs at six-month intervals and we use the direct write-off method for recording bad debts in our financial statements.

Inventory – Inventories are valued at the lower of cost or market, using the first-in, first-out method.

Property, plant and equipment – Our properties are generally stated at cost. Maintenance and repairs are charged to expense. Depreciation of these properties is charged to operations using the straight-line method. We assign lives to our properties based on our estimates of their useful economic lives. Lives of regulated assets are sometimes determined during rate proceedings or by regulatory statutes. Lives of our properties generally range from five to forty years.

Intangible assets – We amortize organizational costs, rate case expenses and acquisition costs over periods ranging from 24 to 120 months. The amortization periods are sometimes based on recovery periods granted during rate proceedings or by regulatory statutes.

NAVITAS ASSETS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

(1) Summary of Significant Accounting Policies (continued)

Revenue recognition – We generally bill our customers on a cyclical basis prior to the end of the month. We estimate and accrue unbilled revenues at the end of each month.

Income taxes – We are a limited liability company subject to United States income tax laws and have elected to be treated as a partnership for income tax reporting purposes. No income tax expense is recorded in these financial statements because our taxable income is passed on to our members and reported in their individual income tax returns.

Regulation – We are subject to the rate regulation and accounting requirements of the Oklahoma Corporation Commission (“OCC”) and the Tennessee Regulatory Authority (“TRA”). During the rate-making process, these regulatory bodies set the framework for what we can charge customers for our services and it also establishes the manner in which our costs are accounted for.

(2) Cash and cash equivalents

At December 31, 2021, we had deposits exceeding FDIC insurance at one financial institution. These deposits exceeded the FDIC insurance by \$269,617.

(3) Line-of-Credit

For working capital needs we have multiple line-of-credit arrangements with a bank totaling \$1,200,000. These notes bear interest at 6% and are due November 15, 2022. During the year, we drew \$3,315,000 and paid down \$3,120,000 on this line, so the remaining balance on the note at December 31, 2021 is \$995,000. It is secured by company assets and the personal guarantees of certain owners/members.

(4) Long-Term Debt and Other Obligations

Long-term debt

We have five loans at a bank with outstanding balances totaling \$7,016,545 at December 31, 2021. The largest of these five notes has a remaining balance of \$3,766,345. Interest on these notes is at prime but is capped, in five-year increments, currently at 6.75%. Principal and interest payments on the notes total \$125,436 per month. Three notes, including the largest, mature in 2033, and one matures in 2035. They are secured by our gas distribution systems, real estate, equipment, and are also guaranteed by certain owner/members.

We have a loan at a bank with a balance of \$623,688 at December 31, 2021. Interest is at 3.95%. There is a five year amortization on the note, with principal and interest payments of \$7,008 per month, however the final payment and remaining balance on the note is due August, 2022. The note is secured by real estate.

Other third-party obligations

Outside of our normal and customary CIEB or BIEC associated with our pass through of gas costs.

Two of our customers agreed to advance funds to assist us with the cost of a utility line being constructed to accommodate service to their plant. The amounts initially advanced were \$724,000 and \$25,000, per the terms of our agreement with them, these advances will be reduced each month by the amount of gas they are obligated to take or pay for. A third advancement by customers of \$99,656 was included as part of an acquisition, this will be reduced based on a tariff refund.

We have an obligation to a County of \$66,000 for a future buildout of pipelines.

NAVITAS ASSETS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

(4) Long-Term Debt and Other Obligations (continued)

Other obligations (continued)

We have an agreement to defer collections connected to winter storm Uri totaling \$388,153. This amount is offset by a corresponding liability. The two are being worked off together over a thirty-three month period beginning in August 2021.

The balance of all other obligations as of December 31, 2021 was \$792,370.

Principal maturities are as follows:

2022	\$	607,536
2023		641,430
2024		581,017
2025		527,111
2026		555,318
Thereafter		<u>4,727,821</u>
Total long-term debt		7,640,232
Other obligations		<u>792,370</u>
	\$	8,432,603

Reconciliation to balance sheet

Current portion of long-term debt and other obligations	\$564,842
Long-term debt and other obligations, less current portion	<u>7,867,761</u>
	\$8,432,603

(5) Concentrations

Our ten largest customers make up approximately 14% of the total revenues for the year ended December 31, 2021.

We almost exclusively purchase all of our natural gas from a related entity, Navitas Utility Corporation. NUC purchases gas for resale to us from a limited number of suppliers, and two suppliers provide 95% of commodities purchased by NUC. Clearwater Enterprises is their largest supplier making up approximately 63% of commodity purchases, Petrol 24%, and CIMA 10%.

(6) Transactions With Affiliates and Related Parties

We pay service and construction costs to a related corporation, Navitas Utility Corporation (NUC), which controls fifteen percent of our membership units. NUC shareholders also own our membership units. The majority of our commodity charges and operating expenses are paid to NUC. During the course of operations, we bill and are charged for products and services and sometimes we advance and receive money for cash flow needs. We also have a liability to NUC in the amount of \$3,463,548 at December 31, 2021 resulting from their billings for goods and services and we are required to pay interest of WSJ prime +2% on the unpaid balance.

Our members have guaranteed some of the debt of the Company.

NAVITAS ASSETS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

(7) Income Taxes

We file our income taxes as a partnership and, therefore, all tax liability is passed on to the members/partners. We did adopt standards to account for uncertainty in income taxes as required by generally accepted accounting principles. During 2021, we evaluated tax positions and it was our determination that we had not taken any positions that would be subject to uncertainty, nevertheless, any estimated liability due to uncertain tax positions would ultimately be the responsibility of the members/partners. The statute of limitations for examining our federal and state tax returns is generally three years from the filing date, therefore, our 2019 through 2021 income tax returns would still be subject to examination.

(8) Subsequent Events

At the request of the Oklahoma Corporation Commission, in October 2021, Fort Cobb Fuel Authority, took over the operations of the gas systems for City of Jennings and the Town of Hallett from the operator. In January 2022, FCFA acquired these systems from their respective municipalities. Subsequently, the third-party pipeline supplying these systems went into bankruptcy. In order to maintain supply to these systems we negotiated and agreed to become the Chief Restructuring Officer as well as the equity sponsor for Keystone Gas Corporation.

We have accounted for subsequent events through March 22, 2023 the date our consolidated financial statements were issued, and we believe that all required subsequent events disclosures have been made.