

*This report is a translation of Ratio Petroleum Energy - Limited Partnership's Hebrew-language financial statements. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.*

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP**

**2018 ANNUAL REPORT**

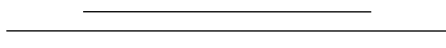
*Ratio Petroleum Energy - Limited Partnership ("Partnership") is a "Small Entity" as this term is defined by Article 5 C of Securities Regulations (Periodic and Immediate Reports), 1970 ("Regulations") and accordingly can apply the relief for small entities, available under Securities Regulations (Periodic and Immediate Reports) (Amendment), 2014 to the extent relevant or will be relevant to the Partnership.*

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP**

**2018 ANNUAL REPORT**

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**AUDITORS' REPORT TO THE PARTICIPATION UNIT HOLDERS AND PARTNERS OF  
RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP**

We have audited the attached consolidated statements of financial position of Ratio Petroleum Energy - Limited Partnership ("partnership") as at December 31, 2018 and 2017, and the consolidated statements of profit or loss and other comprehensive loss, changes in partners' equity, and cash flows for the years ended December 31, 2018 and 2017, and for the period from June 8, 2016 until December 31, 2016. These financial statements are the responsibility of the Board of Directors and Management of Ratio Petroleum Ltd. - the general partner in the partnership ("general partner"). Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the partnership and its consolidated company as at December 31, 2018 and 2017, and the results of their operations, changes in partners' equity and cash flows for the years ended December 31, 2018 and 2017, and for the period from June 8, 2016 until December 31, 2016, in accordance with International Financial Reporting Standards (IFRS) and Securities Regulations (Annual Financial Statements), 2010.

**Tel-Aviv, Israel  
February 26, 2019**

**Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A Member Firm of PricewaterhouseCoopers International  
Limited**

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Note	December 31	
		2018	2017
		U.S. Dollars, Thousands	
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4C	10,989	23,109
Financial assets, at fair value through profit or loss	7	8,908	
Receivables:			
Ratio Petroleum Ltd. – General Partner – current account	11	3	-
Ratio Petroleum Energy Trustees Ltd. - Trustee - current account	11	57	57
Other receivables		138	213
<b>Total current assets</b>		20,095	23,379
<b>Non-current assets:</b>			
Fixed assets, net		75	76
Investments in exploration and evaluation properties	5	6,852	6,852
<b>Non - current assets</b>		6,927	6,928
<b>Total assets</b>		27,022	30,307
<b>Liabilities and Partners' Equity</b>			
<b>Current liabilities:</b>			
Payables:			
Ratio Petroleum Ltd. - General Partner - current account	11	-	31
Accrued payables - joint venture		41	15
Trade and other payables		211	191
<b>Total current liabilities</b>		252	237
<b>Commitments and contingencies</b>	13		
<b>Partners' equity</b>	9	26,770	30,070
<b>Total liabilities and partners' equity</b>		27,022	30,307

**Approved by Ratio Petroleum Ltd. – General Partner:**

\_\_\_\_\_  
**Ligad Rotlevy**  
Chairman of the Board  
of Directors

\_\_\_\_\_  
**Itai Raphael (Tabibzada)**  
Chief Executive Officer

\_\_\_\_\_  
**Adi Mizrahi**  
Chief Financial Officer

**Date of Financial Statements Approval by the Board of Directors of the General Partner:  
February 26, 2019.**

**The Accompanying Notes are an Integral Part of the Financial Statements.**

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE LOSS**

	<u>Note</u>	<u>Year Ended December 31,</u> <u>2018</u>	<u>2017</u>	<u>Period from</u> <u>June 8, 2016</u> <u>* up to</u> <u>December</u> <u>31,</u> <u>2016</u>
<u>U.S. Dollars, Thousands</u> <u>(Except for Loss Per Participation Unit)</u>				
Expenses relating to oil and gas explorations	12 A	1,066	2,989	-
Management and general expenses	12 B	1,427	1,439	-
Other losses, net		329	-	-
		<u>2,822</u>	<u>4,428</u>	<u>-</u>
Loss from ordinary operations				
Financial income	12 C	(137)	(1,880)	-
Financial expense	12 D	762	16	**
Financial expense (income), net		<u>625</u>	<u>(1,864)</u>	<u>**</u>
Total loss and comprehensive loss for the period		<u>3,447</u>	<u>2,564</u>	<u>**</u>
Loss per participation unit (expressed in U.S. Dollars), basic and diluted	10	<u>0.03</u>	<u>0.024</u>	<u>-</u>

\* Partnership establishment date.

\*\* Reflects an amount less than \$1,000.

**The Accompanying Notes are an Integral Part of the Financial Statements.**

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY**

	<u>Partner's Equity</u>	<u>Warrants</u>	<u>Capital Reserve</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	U.S. Dollars, Thousands				
<b>Balance, June 8, 2016 *</b>	**	-		-	**
<b>Changes during the period from June 8, 2016 * up to December 31, 2016:</b>					
Loss and comprehensive loss for the period	-	-		**	**
<b>Balance, December 31, 2016</b>	**	-		**	**
<b>Changes during 2017:</b>					
Issuance of participation units and Series 1 and Series 2 Warrants, net ***	26,546	6,088	-	-	32,634
Loss and comprehensive loss for the year	-	-	-	(2,564)	(2,564)
<b>Balance, December 31, 2017</b>	26,546	6,088	-	(2,564)	30,070
<b>Changes during 2018</b>					
Exercise of Series 2 Warrants, net	6	**	-	-	6
Benefit component – warrant grants to officers and employees	-	-	141	-	141
Loss and other comprehensive loss for the year	-	-	-	(3,447)	(3,447)
<b>Balance, December 31, 2018</b>	<u>26,552</u>	<u>6,088</u>	<u>141</u>	<u>(6,011)</u>	<u>26,770</u>

\*) Partnership establishment date.

\*\*) Reflects an amount less than \$1,000.

\*\*\*) Net of issuance costs of \$ 1,500 thousand

**The Accompanying Notes are an Integral Part of the Financial Statements.**

**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>	<b>Year Ended December 31,</b>	<b>Period from June 8, 2016 * up to December 31, 2016</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. Dollars, Thousands</b>		
<b>Cash flows from operating activities:</b>			
Net cash used for operating activities, see Appendix A	(11,498)	(4,759)	**
Interest received, net	129	-	-
Dividends received	3	-	-
Total net cash used for operating activities	(11,366)	(4,759)	**
<b>Cash flows from investing activities:</b>			
Purchase of fixed assets	(25)	(11)	-
Purchase of a subsidiary that does not constitute a business combination, see Appendix C	-	-	-
Consideration as part of the "Farmout Agreement," for the transfer of rights, see Note 6 B	-	455	-
Investment in exploration and evaluation properties	-	(1,838)	-
Net cash used for investment activities	(25)	(1,394)	-
<b>Cash flows from financing activities:</b>			
Loan repayment - related party	-	(1,967)	-
Consideration from issuance of participation units and Series 1 and Series 2 Warrants, net	-	29,429	**
Net cash provided by financing activities	-	27,462	**
<b>Increase (decrease) in cash and cash equivalents</b>	(11,391)	21,309	**
<b>Cash and cash equivalents, beginning of the period</b>	23,109	**	-
<b>Gain (loss) - exchange rate differences on cash and cash equivalents</b>	(729)	1,800	**
<b>Cash and cash equivalents, end of the period</b>	10,989	23,109	**

\*) Partnership establishment date.

\*\*\*) Reflects an amount less than \$1,000.

**The Accompanying Notes are an Integral Part of the Financial Statements.**

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**RATIO PETROLEUM ENERGY - LIMITED PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(CONTINUED)**

	Year Ended December 31, 2018	2017	Period from June 8, 2016 * up to December 31, 2016
	U.S. Dollars, Thousands		
<b>A) Appendix to the consolidated statement of cash flows</b>			
<b>- Net cash used for operating activities:</b>			
Loss for the period	(3,447)	(2,564)	**
Adjustments for:			
Interest and dividend income	(132)	-	-
Depreciation	26	1	-
Amortization	-	1,838	-
Income and expense items, not involving cash flows:			
Loss (gain) from exchange rate differences in respect of cash and cash equivalents	729	(1,800)	**
Loss from change in fair value of financial instruments at fair value through profit or loss	361	-	-
	<u>(2,463)</u>	<u>(2,525)</u>	<u>**</u>
Changes in operating assets and liabilities:			
Decrease (increase) in receivables:			
Miscellaneous receivables	75	(104)	-
Change in balance with Ratio Petroleum Ltd. – General Partner	(34)	31	**
Change in balance with Ratio Petroleum Energy Trustees Ltd.	6	(57)	**
Increase (decrease) in payables:			
Trade and other payables	20	(2,119)	-
Expenses payable - joint venture	26	15	-
Benefit component – warrant grants to officers and employees	141	-	-
Purchase of financial instruments at fair value through profit or loss, net	(9,269)	-	-
	<u>(9,035)</u>	<u>(2,234)</u>	<u>**</u>
Net cash used for operating activities	<u>(11,498)</u>	<u>(4,759)</u>	<u>**</u>
<b>(B) Information on activities not involving cash flows:</b>			
Fair value of participation units issued to the subsidiary's previous shareholders	-	(3,205)	-
Purchase of fixed assets on credit	-	66	-
Exercise of Series 2 Warrants	6	-	-
		<b>January 24, 2017</b>	
<b>C) Acquisition of a subsidiary which does not constitute a business combination (see note 5 C)</b>			
Receivables		(109)	
Loan from a related party		1,767	
Trade and other payables		2,444	
Exploration and evaluation properties – exploration rights		(7,307)	
		<u>(3,205)</u>	
Less - fair value of participation units issued to the subsidiary's previous shareholders		<u>3,205</u>	
		<u>-</u>	

\*) Partnership establishment date.

\*\*\*) Reflects an amount less than \$1,000.

The Accompanying Notes are an Integral Part of the Financial Statements.



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - GENERAL:**

- A. Ratio Petroleum Energy - Limited Partnership ("partnership") was established on the basis of the partnership agreement signed on May 16, 2016, as amended and to be amended from time to time ("partnership agreement") between Ratio Petroleum Ltd., as the general partner ("general partner") and Ratio Petroleum Energy Trustees Ltd., as limited partner ("limited partner" and / or "Trustee"). The partnership was incorporated in Israel and is domiciled in Israel. The registered address of the Partnership is 85 Yehuda Halevy Street, Tel Aviv.

The general partner and the limited partner hold 0.1% and 99.9% of the partnership's equity, respectively. The limited partner serves as Trustee for the participation units.

The general partner is a private company owned by D.L.I.N. Ltd. ("Dalin") and Hiram Landau Ltd. ("Hiram"), each holding 50% of the issued share capital of the general partner and each holding 34% of the issued share capital of Ratio Oil Exploration Ltd. ("Ratio Ltd."), the general partner in Ratio Oil Exploration (1992) - Limited Partnership ("Ratio partnership).

From January 26, 2017, the partnership is a public limited partnership. Its participation units and warrants are traded on the Tel Aviv Stock Exchange Ltd. (for further details regarding the public issue of the partnership's securities, see Note 9 C).

The objective of the partnership is to engage, by itself and/or through investee entities, in the exploration and/or development of hydrocarbons and/or their production outside the State of Israel, in the area of oil properties listed below: Area 5 in Malta, Block B ("Kaieteur Block") in Guyana, a license with an option right (No. 16/28) in Ireland, Block 47 in Suriname, Service Contract 76 ("SC 76") in the Philippines, as well as in areas adjacent to said oil properties, that will be included in said oil properties following border changes, or for which the partnership will receive (directly or through entities owned by it) oil rights.

- B. On January 3, 2017, prior to the public offering, the partnership, along with Ratio Petroleum Limited ("Ratio Gibraltar"), the shareholders of Ratio Gibraltar and Itay Raphael (Tabibzada), Chief Executive Officer of the general partner and the partnership, signed an agreement to issue and transfer the shares of Ratio Gibraltar, against an issuance of participation units and warrants of the partnership. For further details, see Note 5 C below.

As at reporting date, the partnership is the controlling shareholder (100%) in Ratio Gibraltar. Ratio Gibraltar is a private company incorporated under the laws of Gibraltar on April 15, 2013.

- C. Ratio Gibraltar holds 100% of the issued share capital and voting rights of Ratio Malta Limited ("Ratio Malta"), Ratio Guyana Limited ("Ratio Guyana"), Ratio Suriname ("Ratio Suriname"), Ratio North Sea ("Ratio North Sea") and Ratio Philippines ("Ratio Philippines). For additional details, see Note 6 below. The partnership, Ratio Gibraltar, and the consolidated subsidiaries of Ratio Gibraltar together shall be called the "Group."

The results, assets, and liabilities of Ratio Gibraltar and its investee companies are consolidated in the Group's financial statements, from the date of acquisition of control in Ratio Gibraltar.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

**A. Basis of Presentation of the Financial Statements:**

1. The Group's financial statements ("financial statements" or "consolidated financial statements") as at December 31, 2018 and 2017, for the years ended December 31, 2018 and 2017, and for the period from June 8, 2016 up to December 31, 2016 conform to International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board ("IFRS") and include any additional disclosures required under Securities Regulations (Annual Financial Statements), 2010.

The significant accounting policies described below have been consistently applied to all periods presented unless noted otherwise.

The preparation of financial statements in accordance with IFRS requires the use of specific material accounting estimates. It also requires management of the general partner to exercise discretion in the process of applying the partnership's accounting policy. For further details, see Note 3 below.

2. The Group's operating cycle is 12 months.
3. The Group classifies its expenses recognized in the statement of comprehensive loss, according to a classification method based on the activity characteristic of the expenses.

**B. Consolidated Financial Statements:**

A subsidiary is an entity controlled by the partnership. The partnership controls the entity when the partnership influences the investee, has exposure or rights to variable returns from its involvement in the entity and can use its influence on the investee to affect the returns that will derive from that entity. A subsidiary is fully consolidated from the date that control is achieved by the partnership. Its consolidation ceases when the control ceases.

Inter-group balances and transactions, including income and expenses in respect of transactions between Group companies, have been eliminated. The accounting policies applied by the subsidiaries were adopted in a manner that ensures consistency with the policies applied by the partnership.

**C. Joint Ventures:**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, such as oil and gas explorations on a property jointly owned. Certain joint ventures often involve joint operations by the participants in one or more assets invested in the joint venture. Transactions in which there is no formal requirement for the unanimous agreement of the parties to the transaction do not meet the definition of joint control said in accordance with IFRS 11. As for treatment under a joint operations agreement ("JOA"), see J below.

If the partnership completes any cash calls to the operator of the joint venture, and the operator of the joint venture has not yet made use of said funds, the partnership recognizes its share of the payments made under "other receivables," as these funds do not meet the definition of cash and cash equivalents.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**D. Translation of Balances and Transactions in Foreign Currency:**

**1. Functional Currency and Presentation Currency:**

Items in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the partnership operates ("functional currency"). The consolidated financial statements are reported in US Dollars ("US Dollar"), which is the functional currency of all Group companies and the presentation currency of the partnership.

**2. Transactions and Balances:**

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using exchange rates in force on the dates of the transactions. Exchange rate differences, resulting from the settlement of such transactions, and the translation of monetary assets and liabilities denominated in a foreign currency at exchange rates at the end of the period, are charged to profit or loss.

**E. Fixed Assets:**

Fixed assets items initially are recorded at acquisition cost. Subsequent costs are included as incurred, in the carrying amount of the asset or are recognized as a separate asset, as appropriate, only when future economic benefits attributed to the fixed asset item expected to flow to the Group and the cost of the item can be measured reliably. All fixed asset items are reported at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method, to reduce cost to residual value over their estimated useful lives as follows:

Electronic equipment	3-7 years
Furniture	6-20 years

Residual values of the assets, their useful life, and the depreciation method are reviewed and updated as necessary, at least once a year. A decrease in the carrying amount of an asset to its recoverable amount is immediately recognized if the carrying amount of the asset exceeds the recoverable amount (see H below). Fixed assets reported in the statement of financial position are located in Israel.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**F. Financial Assets:**

**1. Classification:**

- 1) On January 1, 2018, IFRS 9 "Financial Instruments" ("IFRS 9") took effect. The initial implementation of IFRS 9 had no material effect on the Group's financial statements.
- 2) The Group's policy with respect to financial assets, implemented as at January 1, 2018, according to IFRS 9:

**a. Classification:**

The Group classifies its financial assets under the following categories: financial assets at fair value through profit or loss, and financial assets at amortized cost. The classification depends on the business model under which the financial assets are held, and the contractual terms of the cash flows in respect thereof.

For assets measured at fair value, changes in fair value are recognized in profit or loss.

The Group reclassifies its financial assets that are debt instruments, only and only when, there is a change in its business model for management of the financial assets.

**1) Financial Assets at Amortized Cost:**

Financial assets at amortized cost are financial assets held within the framework of a business model, whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual terms provide entitlement on defined dates to cash flows that are only principal and interest payments in respect of the principal amount that has not yet been repaid.

These assets are classified as current assets, except for maturities of more than 12 months after reporting date, which are classified as non-current assets. The Group's financial assets at depreciated cost are included under "other receivables" and "cash and cash equivalents" in the statement of financial position (see also I below).

**2) Financial Assets at Fair Value Through Profit or Loss:**

Financial assets at fair value through profit or loss are financial assets that are not classified under one of the other categories. They are classified as non-current assets unless management intends to realize the investment within a period of up to 12 months after reporting date or whose redemption date does not exceed 12 months after reporting date, and then they are classified as current assets.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**2. Classification (continued):**

**b. Recognition and Measurement:**

Purchases and sales in the ordinary course of financial assets are recorded in the Group's books on the date of transaction settlement - the date on which the asset was delivered to the Group or delivered by the Group.

Financial assets measured at fair value through profit or loss are initially recognized at fair value, with transaction costs charged to profit or loss. Financial assets are de-recognized when the rights to receive cash flows from them, have expired or have been transferred and the Group has substantially transferred all risks and rewards in respect of ownership of these assets. Financial assets at fair value through profit or loss are measured in subsequent periods at fair value. Financial assets at amortized cost are measured in subsequent periods at amortized cost, based on the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are reported in profit or loss under "other losses (gains), net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in profit or loss under "other income", when the Group's right to receive the payment is established, the economic benefits attributed to the dividend are expected to flow to the entity and the amount of the dividend can be measured reliably. Regarding the method of measuring the fair value of the Group's financial instruments - see Note 4.

**c. Impairment of Financial Assets:**

At reporting date, the Group considers whether there has been a significant increase in the credit risk of the financial asset from initial recognition. For this purpose, the Group compares the risk of a failure in the financial instrument on reporting date with the risk that the financial instrument will fail on the initial recognition date, taking into account all reasonable and substantiating information, including forward-looking information.

For financial assets with a significant increase in credit risk from the date of initial recognition, the Group measures a provision for loss at an amount equal to the expected credit losses throughout the life of the instrument. Otherwise, the provision for loss will be measured at an amount equal to expected credit losses over a period of 12 months. The amount of the forecasted credit differentials (or their reversals) is recognized in profit or loss under "gains (losses) from impairment of financial assets."

For financial instruments with low credit risk, the Group assumes that the credit risk did not increase significantly from the date of initial recognition.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**G. Oil and Gas Explorations Investments and Costs:**

The provisions of International Financial Reporting Standard 6 regarding the exploration and evaluation of mineral resources ("IFRS 6") prescribe the accounting treatment of oil and gas exploration costs. The partnership applies the "successful efforts" approach to its investments and costs relating to oil and gas exploration. Following are the main points:

1. Participation costs in geological and seismic surveys and surveys that occur in the preliminary stages of any exploration are recognized in profit or loss as soon as they are incurred, until the stage when a specific drilling plan is formulated.
2. Investments in oil and gas drillings, which are in the drilling stages for reservoirs that have not yet been proven whether they produce oil or gas, and which have not yet been determined as non-commercial, and the acquisition of exploration rights and activities in connection with the evaluation of the technical feasibility and commercial viability of the production of an oil and gas resource will be recognized as exploration and evaluation properties, at cost, in the statement of financial position.
3. Investments in oil and gas drillings, in respect of reservoirs that have been proven to be dry and abandoned or which have been determined as non-commercial, are fully amortized to profit or loss.
4. Investments in oil and gas drillings in respect of reservoirs for which technical feasibility and commercial viability of producing gas or oil (which are examined in a series of events and circumstances), will be deemed oil and gas properties and will be reclassified from "investments in exploration and evaluation properties" to "investments in oil and gas properties," and shall be reported in the statement of financial position at cost.

Oil and gas properties will be reported at cost and will also include the costs incurred in planning the development of the proven reservoir infrastructure required for the development and production of the oil and gas from the reservoir and the planning costs of the system used for gas transmission. These costs may include, inter alia, engineering planning, development drilling planning, purchase costs for the construction of production facilities and a gas pipeline, as well as the capitalization of borrowing costs during the construction period.

Investments in oil and gas properties will be derecognized from the date of production to the statement of comprehensive loss, by an amortization method that reflects the pattern by which the partnership is expected to consume the future economic benefits of the property.

Exploration and evaluation properties are not systematically amortized but are tested for impairment. Regarding consideration of the impairment in the value of exploration and evaluation properties, see Note 3 below.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**H. Impairment of Non-Financial Assets:**

The partnership examines the need for recording a provision for impairment of non-financial assets when there are signs as a result of events or changes in circumstances that indicate that the balance in the financial statements is not recoverable.

In cases where, in light of the impairment test, it becomes apparent that the balance in the financial statements of the non-financial assets exceeds their recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss on an asset is reversed only when there have been changes in the estimates used to determine the asset's recoverable amount from the date on which the impairment loss was last recognized.

As for assets classified as exploration and evaluation properties (see G above), unique criteria are applied that may indicate that their book value exceeds the recoverable amount attributed to them, as specified in IFRS 6. In accordance with this Standard, such facts and circumstances may include, inter alia:

1. The period in which the entity has the right to explore in a particular area expires during the period or expires shortly and is not expected to be renewed.
2. No substantial expenditures are budgeted nor planned for the continued exploration and evaluation of mineral resources in a particular area.
3. The exploration and evaluation of mineral resources in a particular area did not lead to the discovery of commercially viable quantities of mineral resources, and the entity decided to discontinue these activities in that particular area.
4. While it is likely that the development in the particular region will continue, there is sufficient information to indicate that the carrying amount of the exploration and evaluation property is not fully accounted for by successful development or sale.

When such indications of impairment exist, an examination is conducted in accordance with the provisions of IAS 36 - "Impairment of Assets" ("IAS 36").

**I. Cash and Cash Equivalents:**

In the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits with short-term banks whose deposit period does not exceed three months and is not restricted in use.

**J. Joint Operation Agreements:**

Oil and gas explorations are carried out under joint operating agreements ("JOA"). The main characteristics of a JOA are as follows:

1. The JOA is a contractual arrangement whereby two or more parties undertake oil and gas exploration activities in a jointly owned property;
2. The ownership of the oil property (all intangible properties relating to it "oil property") remains with the parties to the JOA, and is not transferred or its intelligence to the hands of any entity or joint venture;

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

3. Also the products of the oil property - the share of each in the crude oil or natural gas produced if they are found, less the State's share - are wholly owned by each of the parties to the JOA (each according to its share) and each of them is entitled to market its share of said products, and to engage with customers in their respect.
4. On the other hand, each of the parties to the JOA is obligated to bear its share in the joint operating costs of the oil property(including the exploration, drilling, development, and production of oil/gas).

Accordingly, the JOA is treated as an undivided right in the oil property. Thus, the partnership recognizes in its financial statements, its share and/or shares of the entities it holds in the oil property (after any impairments in value, if any) and in its share and / shares of the entities held by it in the products deriving from the oil property.

In addition, and since the partnership is required to bear its relative share of the operating costs that were incurred, the partnership also recognizes its share of costs as incurred (and as a result, also partially recognizes the liabilities incurred in respect of these costs).

**K. Partners' Equity:**

The partnership's participation units are classified as partners' equity.

The number of warrants issued, whose exercise premium received (which will be calculated in the partnership's functional currency) and the number of participating units that will be issued when they are exercised, is fixed and known and are classified under partners' equity as warrants.

Incremental transaction costs directly attributable to the issuance of new participation units or warrants are reported under partners 'equity as a deduction from the proceeds from the issue.

**L. Loss Per Participation Unit:**

The calculation of the basic loss per participation unit, as a rule, is based on the loss that can be distributed to the holders of participation units, which is divided by the weighted average of the number of participation units outstanding during the period.

In calculating the diluted loss per participation unit, the weighted average of the number of participation units in circulation is added to the weighted average of the number of participation units in circulation, assuming that all dilutive potential participation units have been converted.

Potential participation units are taken into account only when their effect is dilutive (reduces income or increases loss per participation unit).

**M. Trade Suppliers:**

Trade supplier balances include the Group's liabilities for services purchased from suppliers in the ordinary course of business. Trade supplier balances are classified as current liabilities when the payment is due to be made within one year or less; otherwise, they are reported as non-current liabilities.



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**N. Share-Based Payments:**

The partnership operates a share-based payment plan for officers and employees, which is settled in equity instruments of the partnership, whereby the partnership receives services from employees in exchange for equity instruments (warrants) of the partnership. The fair value of services received from employees in exchange for the warrants is recognized as an expense in profit or loss. The total amount recognized as an expense is determined by reference to the fair value of the warrants granted, without taking into account the effect of service terms and execution terms which are non-market vesting conditions.

Vesting terms which are not market terms are included among the assumptions used to estimate the number of warrants that are expected to vest. The total expense is recognized during the vesting period, which is the period during which it is required to comply with all terms defined for the vesting of a share-based payment arrangement. The fair value is assessed at the date of grant.

On each reporting date, the partnership updates its estimates vis-à-vis the number of warrants that are expected to vest, based on vesting terms that are non-market conditions, and recognizes the effect of the change in comparison with the original estimates, if any, in profit or loss.

Upon exercise of the warrants, the partnership will issue new participation units. Receipts, net of transaction costs that can be directly attributed, are charged to partnership equity.

**O. New International Financial Reporting Standards; Amendments to Standards and New Interpretations:**

1. Standards and amendments to existing standards that came into force and are binding for reporting periods commencing on January 1, 2018:

A. IFRS 9 "Financial Instruments" ("IFRS 9"):

IFRS 9 deals with the classification, measurement, and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014. This Standard replaces the guidance in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") regarding the classification and measurement of financial instruments. IFRS 9 retains the mixed measurement model for the measurement of financial assets but simplifies it and provides three main categories - amortized cost, fair value through other comprehensive income, and fair value through profit or loss. The classification is based on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit or loss. However, entity management, upon initial recognition, may irrevocably choose to record the changes in the fair value of an equity instrument under other comprehensive income, with no reclassification to profit or loss.

IFRS 9 offers a new model for the impairment of financial assets, based on the expected credit loss model. This model replaces the existing model in IAS 39, which was based on an "incurred loss model."

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

Regarding the classification and measurement of financial liabilities, there were no changes, except for recognition of a change in liabilities designated at fair value through profit or loss, deriving from the entity's credit risk under other comprehensive income.

IFRS 9 facilitates the requirements for evaluating the effectiveness of a hedge by replacing the requirement to comply with clear quantitative guidelines for examining the effectiveness of a hedge. IFRS 9 requires that there be an economic relationship between the hedging instrument and the hedged item and that the "hedge ratio" will be identical to the hedging ratio used by the entity's management for its risk management purposes. The Standard preserves the requirement for documentation throughout the hedging period, but the documentation is different from that required by IAS 39.

The Standard was applied retrospectively as from January 1, 2018. The Group elected the transitional directive that allows recognition of the cumulative effect of initial implementation as an adjustment to the opening balance of retained earnings as at January 1, 2018.

As part of the implementation of IFRS 9, the Group's management reconsidered the business models within which the Group's financial assets are held as at the date of initial application of the Standard, and classified its financial instruments into the appropriate categories within the scope of IFRS 9.

The initial implementation of IFRS 9 had no material effect on the Group's financial statements.

2. Standards, amendments, and interpretations to existing standards that are not yet binding, and which the Group did not choose to early-apply:

IFRS 16 "Leases" (IFRS 16):

IFRS 16 will replace upon initial implementation, the existing guidance in IAS 17 "Leases" ("IAS 17"). The Standard deals with the recognition, measurement, presentation, and disclosure of leases, and is expected to have a significant impact, mainly on the accounting treatment applied by the lessee party in a lease transaction.

IFRS 16 amends the existing guidelines in IAS 17 and requires lessees to recognize a lease liability that reflects the discounted value of the future lease payments, and on the other hand, an "asset in respect of the right to use", said with respect to all lease contracts (except for the following), without distinction between finance leases and operating leases. However, IFRS 16 allows lessees not to apply these provisions for short-term leases, by groups of underlying assets, and for leases when the underlying asset that is the subject of the lease is of low value.

IFRS 16 also amends the definition of a "lease" and the manner of determining whether a contract contains a lease.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

IFRS 16 requires that each lease element in a contract be treated as a separate lease for elements other than a lease in the contract. However, as practical relief, IFRS 16 allows the lessee to choose, by groups of an underlying asset, not to separate non-lease components from lease components, and in lieu, treat each lease component and any non-related components associated with it, as a single component of a lease.

The partnership intends to apply IFRS 16 as at January 1, 2019. The partnership has chosen the transitional provision that allows recognition of the cumulative effect of the initial implementation as an adjustment to the opening balance of retained earnings as at January 1, 2019.

The partnership considered the expected impact of IFRS 16 on its financial statements and reviewed the contracts it has signed, which have not yet terminated as at December 31, 2018.

In respect of transactions where the partnership is the lessee, the partnership chose to apply the Standard for the first time in the manner in which it recognizes lease liabilities for leases previously classified as operating leases, based on the present value of the remaining lease payments discounted using the incremental interest rate of the lessee on the date of initial application. Concurrently, the partnership will recognize assets in respect of the rights to use the leased assets in an amount equal to the amount of the liabilities in respect of the lease, adjusted for the amount of any pre-paid or accrued lease payments relating to these leases. As a result, the adoption of the Standard is not expected to affect retained earnings.

It should be noted that as part of the initial implementation of the Standard, the partnership chose to use the practical relief not to reconsider whether a contract contains a lease on the initial implementation date. The partnership will apply the Standard to contracts previously identified as leases according to IAS 17 and IFRIC 4 only.

In the opinion of partnership management, with the implementation of IFRS 16 on January 1, 2019, assets in respect of rights to use assets and liabilities in respect of a lease will be recognized in the consolidated statement of financial position in the total amount of \$ 160 thousand. The assets of the right to use will be reported separately in the statement of financial position, from other assets.

In the opinion of partnerships management, the expected primary effects of implementation of the Standard on the 2019 consolidated statement of profit or loss are a decrease in rental expenses of \$ 36 thousand (classified under management and general expenses), an increase in depreciation expenses of \$ 32 thousand (classified under management and general expenses), and an increase in financing expenses of \$ 7 thousand. In all, the expected effect of implementation of the Standard on the 2019 consolidated statement of profit or loss is an increase in loss of \$ 3 thousand.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

In addition, in the opinion of partnerships management, the expected main effects of the implementation of the Standard on the 2019 consolidated statement of cash flows for 2019 will be reflected in an increase in cash flows from operating activities and a decrease in cash flows from financing activities, of \$ 29 thousand.

Said information constitutes an assessment of the partnership and may differ from the information that will ultimately be included in the financial statements for the initial implementation period.

**NOTE 3- ESTIMATES, SIGNIFICANT ACCOUNTING CONSIDERATIONS AND UNCERTAINTY:**

Estimates and judgments are examined continuously and are based on experience and other factors, including expectations regarding future events, which are considered reasonable, in light of the existing circumstances.

The partnership formulates estimates and assumptions regarding the future. By their very nature, it is rare for the accounting estimates obtained to be identical to the actual results. The estimates and assumptions for which there is a significant risk of material adjustments to the carrying amounts of assets and liabilities during the subsequent financial period or material considerations used in determining the accounting policies of the partnership related to the following issues:

**A. Examination of Indicators of Impairment in Intangible Assets - Investment in Exploration and Evaluation Properties:**

In accordance with the provisions of IFRS 6 and IAS 36, the partnership examines, periodically, whether facts and circumstances have been met, which are specified in IFRS 6 and IAS 36 ("impairment significance", see also note 2 H above), which indicate that it must examine for any impairment of investment in its exploration and evaluation properties. An assessment of whether indications of impairment in the value of a particular investment may require significant judgment and some of the indications of impairment may also involve material estimates of certain matters. In the event of any indications of impairment, the partnership undertakes an examination of impairment in accordance with IAS 36.

The discretion exercised by the partnership and the assessment of the various estimates made by it in determining whether or not there were indications of impairment, may have a material effect on the results or financial position reported in its financial statements. In addition, if there is an indication of impairment, and an impairment test is undertaken, an overestimation or underestimation of the quantities of oil and gas and the value of their expected production costs may have a material effect on the results or financial condition to be reported in such case, as reported in the partnership's financial statements. For further regarding a 2017 drilling that turned out to be dry and abandoned, see Note 5 D below.

**B. As to material judgments used in 2017 vis-à-vis the acquisition of assets and liabilities of Ratio Gibraltar, see Note 5 C.**

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:**

**A. Financial Risk Management:**

**1. Financial Risk Factors:**

The Group's activities expose it to a variety of financial risks, such as market risks, credit risks, and liquidity risks. The Group's overall risk management plan focuses on the fact that the behavior of the financial markets cannot be expected and, in an attempt, to minimize potential adverse effects on the Group's financial performance.

Risk management is undertaken by the various committees of the general partner, in accordance with the policy approved by the Board of Directors of the general partner and its committees.

The Group's finance department identifies and considers the financial risks in close co-operation with the various committees of the general partner.

**A. Market Risks:**

**Exchange Rate Risks:**

An exchange rate risk results from future commercial transactions, assets or liabilities denominated in a currency other than the functional currency. The Group's operations are exposed to exchange-rate risks deriving from exposures to New Israel Shekels.

Group management has established a policy that requires the management of exchange-rate risk against its functional currency. From time to time, the Group examines the proper allocation between holding the cash balances and investments in securities in its functional currency and investing in the New Israel Shekel, thereby reducing exchange-rate risk.

The changes are mainly due to gains/losses from exchange rate fluctuations in respect of balances of cash and cash equivalents, denominated in New Israel Shekels.

If the New Israel Shekel had strengthened or weakened by 5% against the US Dollar, and all the other variables remained constant, the loss (income) for the year and the partnership equity would have changed as follows:

	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
	<b>U.S. Dollars, Thousands</b>			
	<b>Increase of 5%</b>		<b>Decrease of 5%</b>	
Impact on partners equity	(469)	(695)	469	695
Impact on the partnership's loss (income)	469	695	(469)	(695)

**B. Credit Risk:**

Credit risk is treated at the level of the partnership. Credit risks arise from cash and cash equivalents balances, financial instruments, deposits with banks and credit exposures concerning outstanding receivables, including receivable balances in respect of joint oil and gas exploration transactions.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):**

The Group deposits its cash and cash equivalent balances in large and recognized banks, which it believes to have low credit risk.

**C. Liquidity Risk:**

A cash flow forecast is made by the Group's finance department, which reviews current forecasts of Group liquidity requirements. These forecasts take into account several factors, such as the Group's plans to use debt to finance its operations and to finance the activities of the investee companies.

Cash surpluses held by the Group are invested in interest-bearing investment tracks, such as current accounts, term deposits, shares and other solid investments, all in accordance with the Group's investment policy, which are chosen according to the desired repayment period or according to their liquidity level, or in accordance with the degree of their liquidity, such that the Group will hold sufficient balances of cash, in accordance with said forecasts. For a breakdown of investments as at December 31, 2018, see Note 7.

As at reporting date, all partnership financial liabilities are due to be repaid within one year of reporting date. These balances do not differ from their fair values since the effect of capitalization in such period is not material.

**2. Fair Value Estimates:**

Following is an analysis of the financial instruments measured at fair value by valuation methods. The various levels were classified as follows:

- Prices quoted (unadjusted) in active markets where identical assets or liabilities are traded (Level 1).
- Data other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, as price derivatives) (Level 2).
- Data on the asset or liability that is not based on observable market data (unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets is based on the quoted market price as at reporting date. A market is considered active if quoted prices are readily available and updated regularly by a stock exchange, traders, brokers, industry entities, pricing agencies or government regulatory authorities, and if prices in this market are determined on the basis of actual and regular transactions between unrelated parties.

All partnership financial assets measured at fair value are included at level 1. During the reported years, there were no transfers between the fair value levels.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):**

**B. Fair Value of Financial Instruments:**

**Financial Instruments, by Groups:**

The accounting policy for the treatment of financial instruments has been applied for the following items:

The partnership's financial instruments, as at reporting date, are classified as financial assets at fair value through profit or loss, financial assets measured at amortized cost, or as financial liabilities measured at amortized cost. The financial instruments reported at amortized cost and their reported amounts are not materially different from fair value.

**December 31, 2018:**

	<b>Financial Assets Measured at Amortized Cost</b>	<b>Assets at Fair Value Through Profit or Loss</b>	<b>Total</b>
<b>U.S. Dollars, Thousands</b>			
<b>Assets:</b>			
Receivables - current	168	-	168
Financial assets at fair value, through profit or loss	-	8,908	8,908
Cash and cash equivalents	10,989	-	10,989
<b>Total</b>	11,157	8,908	20,065
<b>Financial Liabilities Measured at Amortized Cost</b>			
<b>U.S. Dollars, Thousands</b>			
<b>Liabilities:</b>			
Trade and other payables	211		
Accrued payables - joint venture	41		
<b>Total</b>	252		

The partnership's financial instruments as at December 31, 2017, are classified as financial assets at amortized cost or as financial liabilities measured at amortized cost. Financial instruments are reported at amortized cost and the amount reported is not materially different from fair value.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):**

**C. Linkage Terms of Monetary Balances:**

	<b>December 31, 2018</b>		
	<b>In US Dollars</b>	<b>In New Israel Shekels, Unlinked</b>	<b>Total</b>
	<b>U.S. Dollars, Thousands</b>		
<b>Current assets:</b>			
Cash and cash equivalents *	6,162	4,827	10,989
Financial assets at fair value through profit or loss	4,396	4,512	8,908
Receivables	39	129	168
<b>Total current assets</b>	<b>10,597</b>	<b>9,468</b>	<b>20,065</b>
<b>Current liabilities:</b>			
Accrued payables - joint venture	41	-	41
Trade and other payables	133	78	211
<b>Total current liabilities</b>	<b>174</b>	<b>78</b>	<b>252</b>

\* Cash and cash equivalents as at December 31, 2018, include Dollar bank deposits for a deposit period not exceeding three months - of \$ 4,484 thousand, and Shekel bank deposits for a deposit period not exceeding three months - \$ 4,670 thousand.

	<b>December 31, 2017</b>		
	<b>In US Dollars</b>	<b>In New Israel Shekels, Unlinked</b>	<b>Total</b>
	<b>U.S. Dollars, Thousands</b>		
<b>Current assets:</b>			
Cash and cash equivalents	9,210	13,899	23,109
Other receivables	101	111	212
<b>Total current assets</b>	<b>9,311</b>	<b>14,010</b>	<b>23,321</b>
<b>Current liabilities:</b>			
Ratio Petroleum Ltd. -General Partner - current account	31	-	31
Accrued payable - joint venture	15	-	15
Trade and other payables	96	95	191
<b>Total current liabilities</b>	<b>142</b>	<b>95</b>	<b>237</b>

\*Cash and cash equivalents as at December 31, 2017, include Dollar bank deposits of \$ for a deposit period not exceeding three months of \$ 6,501 thousand, and Shekel bank deposits for a deposit period not exceeding three months of \$ 11,538 thousand.



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - INVESTMENT IN EXPLORATION AND EVALUATION PROPERTIES:**

**A. 2018 Changes in the Balance of Investment in Exploration and Evaluation Properties:**

	<b>2018</b>	<b>2017</b>
	<b>U.S. Dollars, Thousands</b>	
Balance, beginning of the year	6,852	-
Rights as part of an asset and liability acquisition transaction (see B below)	-	7,307
Consideration under the "Farmout Agreement" for the transfer of rights (see Note 6 B below)	-	(455)
Costs of the North Sea drilling (see D below)	-	1,838
Abandonment of the Ratio North Sea drilling (see D below)	-	(1,838)
Balance, end of the year	6,852	6,852

**B. The Balance of the Investment in Exploration and Evaluation Properties is as Follows:**

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. Dollars, Thousands</b>	
Area 5 - Ratio Malta	5,252	5,252
Kaieteur Block - Ratio Guyana	1,078	1,078
Option 16/28 - Ireland (Ratio Gibraltar)	522	522
	6,852	6,852

**C. Ratio Gibraltar Investment Agreement:**

On January 3, 2017, the partnership contracted with Ratio Gibraltar, the shareholders of Ratio Gibraltar and Itai Rafael (Tabibzada) in an "allocation and transfer agreement," the main points of which are as follows:

1. After completion of the issuance under the prospectus ("offering"), and prior to listing the partnership's securities for trading ("listing"), Ratio Gibraltar allocated to the partnership 999,000 shares of £ 1 par value each at par value, which constituted, after allocation, 99.9% of the issued share capital of Ratio Gibraltar ("share allocation").
2. Along with the share allocation, 1,000 shares of Ratio Gibraltar, £ 1 par value each, held in trust for the shareholders of Ratio Gibraltar (which constituted 100%, before allocation, of the issued share capital of Ratio Gibraltar) were transferred to the partnership, at par value ("share transfer").
3. Following the share allocation and the share transfer, on January 24, 2017, the partnership holds 100% of the issued share capital of Ratio Gibraltar.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - INVESTMENT IN EXPLORATION AND EVALUATION PROPERTIES (CONTINUED):**

4. The transaction was accounted for in the consolidated financial statements as an acquisition of assets and liabilities (mainly acquisition of exploration rights in Guyana and Malta) and not as a business combination since the acquired companies are in the process of in the exploration stage and said has not yet attained business status. Regarding the balances of assets and liabilities acquired, as at acquisition date, see Appendix C to the cash flow statement.
5. After completion of the issuance, the partnership invested \$ 2.5 million in Ratio Gibraltar, from the proceeds from the issue proceeds according to the Prospectus ("initial investment amount"). The amount of the initial investment is partly comprised of a payment for the par value of the shares of Ratio Gibraltar, which were allocated to the partnership, as noted in 1 above (£ 999,000), and, Ratio of Gibraltar, from the initial investment amount, repaid a shareholder loan (denominated in Dollars and not bearing interest) of \$ 2 million granted to Ratio Gibraltar by Landlan Investments Ltd. (a company jointly held by Dalin and Hiram, the controlling shareholders of the general partner), for the purpose of financing its operations and the operations of entities held by it (see Note 6 below), from the date of operations of Ratio Gibraltar and up to prospectus date, in the absence of other financial means.
6. On January 24, 2017, before the listing of the securities offered under the Prospectus, concurrently with the transfer and allotment of the shares of Ratio Gibraltar as noted above, on January 24, 2017, Eitan Eisenberg, Shibolet Trusts Ltd., Adv. Orit Marom Elbak and Itai Raphael (Tabibzada) jointly held 11,745,916 participation units of the partnership, NIS 1. par value each, 5,872,958 Series 1 Warrants and 5,872,958 Series 2 Warrants against shares of Ratio Gibraltar, that they transferred to the partnership, (and in relation to Itai Raphael (Tabibzada) in accordance with his entitlement as one of the initiators of the operations and the establishment of the partnership).

**D. Exploration Drilling - North Sea:**

On August 15, 2017, drilling began at license P.1989 (for further details, see Note 6 F below). An analysis of the drilling findings revealed that insignificant measures of hydrocarbons were discovered and therefore the drilling was declared to be a dry drilling. Accordingly, in 2017, the drilling was sealed and abandoned. The partnership's expenses in respect of the drilling totaled \$ 1.8 million. Considering said, and in accordance with IFRS 6, all drilling costs were fully charged to the statement of comprehensive loss under "oil and gas exploration expenses" (see A above).

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS:**

**A. Area 5 - Ratio Malta:**

Ratio Malta is a private company incorporated under the laws of Gibraltar on January 8, 2015, to participate in oil and gas explorations in Malta.

On February 4, 2015, Ratio Malta signed an Exploration Study Agreement ("agreement") with the Government of Malta, which was amended on November 11, 2016, and again on February 11, 2019, pursuant to which the Government of Malta granted Ratio Malta rights to explore for offshore oil on the continental shelf of Malta, in Area 5.

Ratio Malta holds 100% of the oil property.

The purpose of the agreement is to regulate the relationship between the parties in connection with the exploration study in the study area ("agreement area or "Area 5") by Ratio Malta. Following is a description of the main provisions of the agreement:

1. The original validity of the agreement was from February 4, 2015, and for 24 months. In accordance with provisions of the Malta agreement and Ratio Malta's request, on May 24, 2016, the Government of Malta agreed to extend the agreement until February 4, 2019 ("initial period"). During November 2018, Ratio Malta requested to extend the validity of the agreement. After reporting date, and during February 2019, Ratio Malta received the approval of the Government of Malta for an extension of the agreement and accordingly the agreement was amended, and its validity was extended by three months. Ratio Malta agreed, during this period, to continue to examine advanced techniques for further processing of any seismic information. According to the agreement amendment, the agreement may be extended for an additional period of up to 18 months, by notice by Ratio Malta to the Government of Malta 14 days in advance and subject to the approval of the Government of Malta ("additional period").
2. The agreement establishes a work plan which Ratio Malta agrees to carry out in the agreement area. Processing and decoding of the 3 D seismic survey data carried out in the last quarter of 2016 has been completed, and an examination of advanced techniques for further processing of the existing seismic information is expected to be completed during the second quarter of 2019. The extension of the agreement for the additional period, as noted, is contingent upon the commitment of Ratio Malta to additional work in the area of the agreement, which will include advanced re-processing of the seismic information, re-decoding and identifying suitable drilling prospects.
3. The partnership provided guarantees of up to \$ 350 thousand on behalf of Ratio Malta, to ensure implementation of the work plan
4. In addition to expenses in respect of the work plan, Ratio Malta made a one-time bonus of \$ 50 thousand to the Government of Malta, and once a year makes an annual payment of \$ 253 thousand (including, inter alia, \$ 78 thousand for annual rental).

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

5. The Government of Malta granted Ratio Malta the option to notify, up to three months prior to the end of the term of the Agreement, if it wished to enter into a production sharing agreement with the Government of Malta, for the acquisition of oil and/or natural gas exploration and production rights, in the agreement area. If Ratio Malta wishes to exercise said option, all costs and expenses incurred by it under said Agreement (excluding bonus payments and annual payments as detailed above, and except for other amounts that may be exceeded, with the consent of the parties) will be returned to Ratio Malta from the production of hydrocarbons, if any, said pursuant to a formula for the reimbursement of expenses, as per the production sharing agreement.
6. The production sharing agreement is attached as an annex to the Malta Agreement and will be signed and become active after any commercial discovery, if any, in the agreement area. The agreement, inter alia, includes the term of the agreement, payments to the Government of Malta for discovery and production, the minimum work plan for the period, calculation of profits from production, if any, etc.

Exploration expenses of Ratio Malta during 2018 and 2017 totaled \$396 thousand and \$495 thousand respectively. Said expenses were charged to profit or loss in 2017, under "oil and gas exploration expenses."

The investment in the project from the date of its inception, and up to reporting date, totaled \$ 3.8 million.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

**B. Kaieteur Block - Ratio Guyana:**

Ratio Guyana is a private company incorporated under the laws of Gibraltar on April 15, 2013, for participating in oil and gas explorations in Guyana.

On April 28, 2015, Ratio Guyana, together with a company owned by a local partner ("local partner") signed a Petroleum Agreement with the Government of Guyana whereby the Government of Guyana granted Ratio Guyana and the local partner, rights to explore for oil in maritime waters off the continental shelf of Guyana, known as Block B or as the Kaieteur Block ("Guyana Agreement," "Guyana Permit," or "Kaieteur Block", respectively). For further details of the Guyana Agreement, including an accompanying letter to the Guyana Agreement, see 1 below.

On July 25, 2016, the "Farmout Agreement" for the transfer of rights was signed in connection with the Kaieteur Block, was signed between Ratio Guyana and the local partner (jointly or severally, "transferors" and "transferor") and Esso Exploration and Production Guyana Limited (a subsidiary of ExxonMobil) ("Esso"). For further details on the transfer agreement, see 2 below.

On April 29, 2018, Esso signed a rights transfer agreement with Hess Corporation through a company under its control ("Hess"), vis-à-vis the Kaieteur Block ("Esso-Hess Agreement"). Under the Esso-Hess agreement, Esso transferred to Hess 15% of its rights in the Kaieteur block. Said rights were transferred to Hess along with all of Esso's obligations to Ratio Guyana in accordance with the existing agreement between them. Esso has guaranteed all its obligations to Ratio Guyana even after completion of the Esso-Hess agreement.

As at reporting date, Esso serves as operator of the Kaieteur block. Participation rights in the Kaieteur block are as follows:

Esso	35%
Local partner	25%
Ratio Guyana	25%
Hess	15%

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

1. Following are details of the main provisions of the Guyana Agreement:
  - A. The agreement grants the rights holders, the right to oil and/or natural gas exploration in the Kaieteur Block area for a period of 4 years, from February 2, 2017 ("initial agreement period") with an option to extend for two additional periods of three years each, subject to agreement terms ("extension periods").
  - B. The agreement establishes minimum work commitments which the rights holders must comply with during each of the periods of the agreement, and the principles for determining the annual work plan and budget.
  - C. Payments to the Guyana Government during the exploration period (in 100% terms):
    1. Annual rental in respect of the authorization area (whether a search license or a production license) - \$ 200 thousand annually.
    2. An annual payment of \$ 60 thousand to the Geological Survey and Mines Committee.
  - D. In the event of a commercial hydrocarbon discovery, if any, the rights holders must apply for a production license. In the event of a commercial discovery, the agreement provides, inter alia, the method of calculating profits and the State's share in the production, if any, additional payments to the Government of Guyana, provisions relating to the stability of the agreement, confidentiality, the manner of notifications, etc.
  - E. Supplementary letter to the Guyana Agreement - along with the signing of the Guyana Agreement, the parties also signed a supplementary letter, according to which the Government of Guyana will act to find solutions to the claims of other countries, insofar as they may be, regarding the Kaieteur Block area, In addition, the letter noted that there might be circumstances when explorations in the Kaieteur Block would be undermined by Venezuelan attempts to question Guyana's sovereignty over its economic waters. Accordingly, it was agreed that no search or production operations would be carried out in the Kaieteur Block without explicit written permission from the appropriate entity in the Government of Guyana. As long as the holders of the rights in the Block continue to comply with the terms of the Guyana Agreement and in particular with the work plan, there will be no fine as a result of any breach of the terms of the Guyana Agreement, if no approval, as noted above, was given by the Government of Guyana. On February 2, 2017, such approval was received. The letter accompanying the Guyana Agreement shall remain in force for the area north of the area in respect of which such approval has been given. For the work plan and a 3D seismic survey, see Note 2 D below.
2. Following is a description of the main provisions of the transfer agreement dated July 25, 2016:
  - A. The parties have signed a Joint Operating Agreement ("JOA"), vis-à-vis the Kaieteur Block, which came into force on the date of the transfer of the rights ("approval date"). For further details regarding the JOA, see Note 13 C 1 below.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

- B.** Esso was appointed operator for the Kaieteur Block and has assumed all rights and obligations as Operator.
- C.** Reimbursement of past expenses, carrying expenses and royalties;
  - 1.** In accordance with the terms of the agreement, Esso paid \$ 455 thousand to Ratio Guyana, which reflects a partial refund of its past expenses in the Kaieteur Block.
  - 2.** From the approval date and up to decisions by the parties transferring, vis-à-vis the work plan (as relevant), as noted in D below, Esso bears, in addition to its proportionate share, also the relative share of the transferees in the expenses of the joint account (as defined in the Joint Operating Agreement), which are incurred vis-à-vis the Kaieteur Block ("joint expenses"). Any amount paid and to be paid by Esso for the relative share of the transferees shall be credited to Esso for the purpose of reimbursement of recognized expenses (in accordance with the mechanism established in the Guyana Agreement). Expenses paid by Esso for operations in Guyana, including a 3D seismic survey and survey data processing, from the date of the approval and up to December 31, 2018, totaled \$ 32 million (in 100% terms).
- D.** Work Plan:
  - 1.** In accordance with the work plan, during 2017, a 3D seismic survey was held, covering an area of some 5,750 square kilometers of the Kaieteur Block. As at financial statements signing date, the processing and decoding stages of the collected data are continuing.
  - 2.** During the first half of 2019, Esso will notify the transferors if:
    - A.** It intends to proceed with the first drilling of the Kaieteur Block ("first drilling") - in such case, each transferor will notify Esso within 90 days if: (a) to transfer 10% of its participation rights in Kaieteur Block to Esso, and Esso will continue to bear the joint expenses, including those of the first drilling attributed to the transferor (as noted above, any amount to be paid by Esso vis-à-vis its relative share of the transferees, will be credited to Esso for a reimbursement of recognized expenses); or (b) remain with the transferor's participation rights (25%) in the Kaieteur Block and begin to bear the share of the joint expenses, including those relating to the first drilling.
    - B.** It intends to withdraw from the agreement - in this case, Esso will cease to serve as operator (and Ratio Guyana will be re-appointed as operator in lieu of Esso) and return the participation rights transferred to it under the transfer agreement, to the transferors, in equal shares, all in accordance with the provisions of the transfer agreement.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS**  
**(CONTINUED):**

On February 14, 2019, Esso informed Ratio Guyana that, as part of the process of deciphering the seismic survey data and in accordance with provisions of the transfer agreement, Esso decided to carry out exploratory drilling in the Kaieteur block, at a point located in the southern part of the block. Esso also announced that Hess had announced its intention to participate in said drilling. Esso's decision was made after several leads were identified in the block and that the work was in various stages of maturity. In accordance with the transfer agreement, Ratio Guyana must inform Esso, within 90 days of the date of the Esso notice, whether it wishes to participate in the drilling, whether according to its share or to dilute its rights.

3. After the first drilling (if any), the parties will discuss the potential of the prospect and the possibility of a potential discovery, and within nine months from the end of the first drilling, Esso will inform the transferors if:
  - A. It intends to carry out further drilling in the Kaieteur Block ("additional drilling") - in said case, each of the transferors shall notify Esso within 90 days if: (a) to transfer 7.5% of its participation rights in the Kaieteur Block to Esso and Esso will continue to bear the expenses, including those of the additional drilling attributed to the transferor (as noted above, any amount to be paid by Esso vis-à-vis its relative share of the transferees, will be credited to Esso for a reimbursement of recognized expenses); or (b) remain with the transferor's participation rights (25% or 15%, in accordance with the decision of the transferor, upon first drilling) in the Kaieteur Block and to bear the relative share of the joint expenses, including those relating to the additional drilling.
  - B. It intends to exit the agreement - in this case Esso will cease to serve as operator (and Ratio Guyana will be re-appointed as operator in lieu of Esso), and will return the participation rights transferred to it under the transfer agreement to the transferors, in equal shares, all in accordance with the provisions of the transfer agreement. It should be noted that if after the first drilling, the parties will conclude that there is a potential discovery, Esso's departure from the agreement will relate only to the areas of the Kaieteur Block, which are outside the scope of the potential discovery.
4. If it is decided to undertake an appraisal drilling, each party shall bear according to its share in the joint costs associated with the appraisal drilling and in accordance with the provisions of the JOA. If one of the transferors is in breach, because of its inability to bear such costs, said shall be deemed the transferor's choice to transfer 7.5% of its participation rights in the Kaieteur Block to Esso, and said shall not be deemed in breach.



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

5. From the date of the approval and during the initial work plan period, Esso provided the guarantee required of the holders of the rights under the Guyana Agreement. Insofar as any party to the transfer agreement chooses to transfer its participation rights to Esso, as noted in 2 above, Esso will continue to provide the guarantee in respect of its share, even after the period of the initial work plan.

6. Additional Provisions:

The agreement includes, inter alia, provisions regarding the manner of collecting payments during the cash calls, the purchase of insurance (Esso will bear the costs in accordance with the terms set out in the agreement), confidentiality, the manner of notifications, applicable law and more.

Exploration expenses of Ratio Guyana for the Company's consultants, for 2018 and 2017 totaled \$ 229 and \$ 81 thousand, respectively, and were charged to profit or loss under "oil and gas exploration expenses."

**C.Block 47 - Ratio Suriname:**

Ratio Suriname is a private company incorporated under the laws of Gibraltar July 25, 2017, to participate in oil and gas explorations in Suriname.

On August 3, 2017, Ratio Suriname agreed to the transfer of the rights ("Farmout Agreement") with Tullow Suriname B.V. ("Tullow"), a subsidiary of Tullow Oil Plc., to acquire 20% of Tullow's rights in Block 47, located in Suriname's economic waters. For details of the main terms of the rights transfer agreement, see 2 below.

On September 30, 2010, Tullow and the Staatsolie National Oil and Gas Company ("Staatsolie") signed a production sharing agreement in connection with Block 47 ("Block 47 agreement"), which grants Tullow the right to explore, develop and produce oil and / or natural gas in Block 47.

After Ratio Suriname signed said agreement with Tullow, on August 23, 2017, said agreement entered into force, and therefore the provisions of the Block 47 agreement apply also to Ratio Surinam.

1. Following are the main details of the Block 47 agreement:

A. The Block 47 agreement is valid for 30 years or 25 years from the date on which approval was received for the development plan of the first commercial field, whichever is later. In addition, there is an option to extend it in accordance with the agreement of the parties.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS  
(CONTINUED):**

- B.** The Block 47 agreement period is divided into six years of exploration and one or more development and production periods.

The search period is divided into three Sub-Periods, as follows:

Sub-Period A - Three and a half years during which the owner of the right to acquire and process 2,000 square kilometers of a seismic (3D) and a geological analysis of Block 47 area, up to 60 days before the end of said Sub-Period, the right holder give notice if it wishes to continue to Sub-Period B or to abandon the block. In accordance with the approval of Staatsolie, the Sub-Period A was extended until September 30, 2019.

Sub-Period B - a year and a half, which will begin at the end of Sub-Period A, during which time the owner of the right will have to drill and undertake geological analysis of the findings; up to 60 days prior to the end of the said Sub-Period B, the owner of the right must notify whether it wishes to continue to Sub-Period B or to abandon the Block.

Sub-Period C - a year and a half, which will begin at the end of Period C, during which the owner of the right will be required to carry out an additional drilling and a geological analysis of the findings.

At the end of said sub-period, the owner of the right has to declare whether it wishes to develop the commercial fields that were discovered, if discovered, (and at the same time, abandon the remaining areas of the Block) or abandon the Block. There is a possibility of extending each of the sub-periods in six months. In addition, the search period can be extended for an additional 18 months. In addition, the exploration period may be extended by an additional 18 months, if a commercial discovery is made, said to evaluate the discovery and prepare a development plan.

As at reporting date, Tullow has complied with most of its commitments under the terms of Sub-Period A and is in the process of geological examination and before deciding whether to continue to Sub-Period B.

The period of development and production of a commercial field will begin on the day on which the development and production plan for that field is approved.

- C.** At the beginning of each Sub-Period, the holder of the right is to provide Staatsolie with a parent company guarantee for its obligations under the minimum work plan for that Sub-Period (the parent company guarantee). If the minimum work plan is not completed for a certain Sub-Period, the owner of the right or the parent company will be required to pay Staatsolie the balance of the amounts set out in said work plan.
- D.** The Block 47 Agreement provides that Tullow shall be the operator and the standards, responsibilities, and manner in which it shall act as operator and the principles for determining the annual work program and budget.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS**  
**(CONTINUED):**

**E.** In addition, the Block 47 agreement sets out the conditions for examining the existence of a commercial discovery, the content of the development plan that the operator must submit for approval by the Staatsolie Operations Committee in the event of any discovery, payments to Staatsolie and the Suriname Government for the discovery and production, if any, provisions regarding the stability of the fiscal conditions set out in the agreement, provisions relating to supplies to the local market, provisions regarding the manner of abandoning the Block, etc.

- 2.** On August 3, 2017, Ratio Suriname entered into a Farmout Agreement with Tullow to acquire 20% of Tullow's rights in Block 47 ("transfer of rights agreement" or "agreement").

On November 14, 2018, Tullow and Pluspetrol Resources Corporation BV, through a company under its control ("Pluspetrol") signed a rights transfer agreement vis-à-vis Block 47. According to the agreement, Tullow transferred to Pluspetrol 30% of its rights in Block 47 to Pluspetrol.

Therefore, as at reporting date, the participation rights in Block 47 are held as follows:

Tullow	50%,
Ratio Suriname	20%,
Pluspetrol	30%.

Following is a description of the main provisions of the rights transfer agreement between Ratio Suriname and Tullow:

- A.** Tullow will serve as Block 47 operator.
- B.** Reimbursement of expenses and carrying expenses
- 1.** On approval date, Ratio Surinam paid Tullow, \$ 14 thousand, equal to 20% (for its share in Block 47) of the total expenses that Tullow paid for Block 47 from the signing date of the agreement and until the date of the approval.
  - 2.** Insofar as Tullow and Ratio Surinam decide to move to sub-period B and carry out an exploration drilling, Ratio Surinam will pay Tullow, in addition to its relative share in the drilling costs, \$ 3,225 thousand. Said payment will be in installments according to the dates of the payment calls from Tullow.
  - 3.** Insofar as the results of the trial drilling in which Ratio Suriname will participate, will be declared a discovery, Ratio Suriname will pay Tullow \$ 3.5 million.

In accordance with the terms of the transfer agreement, the partnership has guaranteed the commitments of Ratio Suriname vis-à-vis Tullow, as detailed above.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS  
(CONTINUED):**

The transfer agreement provides that if Tullow signs an agreement with another party, vis-à-vis a financial transaction (or another type of transaction that Ratio Suriname may compare to its terms) for the transfer of its remaining rights in Block 47 and the terms of such agreement shall be superior to the terms of Ratio Surinam's contract, Ratio Suriname will have the right to demand similar terms.

**C. Work Plan:**

1. As at reporting date, and according to Block 47's work plan, Tullow must decide whether to proceed to Sub-Period B and carry out trial drilling in the Block area.
2. Under the terms of the rights transfer agreement, Ratio Suriname will be required to notify Tullow if it wishes to advance to Sub-Period B up to 15 days prior to the date on which Staatsolie must be notified of the decision as to whether to proceed to Sub-Period ("notification date").
3. Ratio Suriname is committed that to the extent that at the time of the notice, Tullow holds 40% or less of the rights in Block 47 and decides to proceed to Sub-Period B, Ratio Suriname would support said decision.

**D.** As noted above, the partnership is a guarantor vis-à-vis Tullow in favor of Ratio Suriname in respect of its commitments to pay the amounts noted in B above. In addition, as noted in 1 C above, the partnership is a guarantor vis-à-vis Staatsolie in respect of Ratio Suriname's share (20%) of commitments according to the minimum work plan for Block 47.

**E.** Additional provisions - the transfer of the rights agreement includes, inter alia, representations by the parties, provisions regarding confidentiality, the manner of issuing notices, applicable law, and a dispute resolution mechanism.

**3. Joint Operating Agreement:**

For details of the Block 47 Joint Operating Agreement, See Note 13 C 2.

Exploration expenses of Ratio Suriname for 2018 and 2017 totaled \$ 206 and \$ 80 thousand, respectively, and were charged to profit or loss under "oil and gas exploration expenses."

The investment in the project from the date of Ratio Suriname's entry into the license and up to reporting date totaled \$ 286 thousand.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

**D. Option 16/28 - Ireland (Ratio Gibraltar):**

On June 3, 2016, Ratio Gibraltar received written approval from the Minister of Communications, Energy and Natural Resources of Ireland ("Minister of Energy of Ireland"), according to which, pursuant to the request submitted, the company was granted Licensing Option (No. 16/28), covering an area of 1,562 square kilometers ("Minister's approval" and the "right in Ireland", respectively).

The Minister's approval established the terms of the right in Ireland, according to which it came into effect on July 1, 2016, for two years, that is, until June 30, 2018. Until that date, Ratio Gibraltar may apply for a license area to explore in the area of the right in Ireland or abandon it.

On June 28, the partnership reported that in May 2018, Ratio Gibraltar submitted a request to the Ministry of Energy of Ireland for a Frontier Exploration License on the property, (a license granted in areas with physical, geological, geophysical or environmental difficulties). In addition, Ratio Gibraltar applied to update and change the boundaries. As at signing date of the financial statements, the Minister's approval for said request has not yet been received.

A Frontier License is granted for a period of at least 12 years, divided into four stages (maximum). At each stage of the license, the licensee must act in accordance with the work plan approved by the Minister of Energy of Ireland for that stage, with a commitment to drill only during the work plan in the second stage.

At the end of the first stage, the licensee must waive 25% of the license area and at the end of the second stage, 50% of the remaining license area.

Annual payments during the period of the Frontier License at the property level - the licensee must pay annual rents calculated according to the license area (in the first stage - € 29 per square kilometer, in the second stage - € 60 per square kilometer and in subsequent stages - € 121 per square kilometer).

In addition, the licensee must pay € 87 thousand per year to the Irish Shelf Petroleum Study Group and € 17 thousand per year to the Expanded Offshore Support Group (said amounts are linked to a particular index).

In the event of any commercial discovery, the exploration license holder must apply to the Ministry of Energy of Ireland for a production license, the period of which he will determine.

In the event of a discovery and receipt of a production license, if any, the license will determine, inter alia, various payments to the Government of Ireland, instructions for payment of the State's share in the production period (if any), and more.

Exploration expenses of Ratio Gibraltar for Option 16/28 for 2018 and 2017 totaled \$ 76 and \$ 283 thousand, respectively, and were charged to profit or loss under "oil and gas exploration expenses."

The total investment in the project from the date of its inception until reporting date amounted to \$ 420 thousand.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS (CONTINUED):**

**E. SC 76– Ratio Philippines:**

Ratio Philippines is a private company incorporated under the laws of Gibraltar on December 13, 2018, to participate in oil and gas exploration activities in the Philippines.

During June 2015, Ratio Gibraltar submitted a request in the framework of a tender to receive rights in an oil property (which in the framework of said tender is termed ("Area 4").

On October 17, 2018, Ratio Gibraltar signed an exploration and production agreement (this section – "agreement") with the Government of the Republic of the Philippines, the Philippine Ministry of Energy and Ratio Philippines, according to which Ratio Philippines was granted rights to explore for oil and gas in marine areas in the economic waters of the Republic of the Philippines, in an area identified as SC 76 (as at reporting date, Ratio Gibraltar is working on transferring its rights to Ratio Philippines). Ratio Philippines holds 100% of the oil property.

The main provisions of the agreement are as follows:

- 1) The agreement grants the rights holder the right to carry out oil and/or natural gas explorations in the SC 76 area for a period of 7 years with the possibility of extension for an additional period of three years, provided that the rights holder will not be in breach of any of its obligations under the Philippines Agreement, and that the rights holder has a work plan and budget for the extension period. If hydrocarbons are not found in SC 76 at the end of the extension period, the agreement will terminate automatically. If hydrocarbons are found, the rights holder shall have an additional year to decide whether this is a commercial discovery or not. Should it be decided that the discovery is commercial and subject to the approval of the Philippine Department of Energy of a proposed work plan for an appraisal drilling, the agreement will be extended for an additional 25 years. The production period can be extended for three additional periods of 5 years each, according to terms of the agreement.
- 2) Work plan - the agreement establishes minimum work commitments which the rights holder must meet during each of the periods of the agreement and the relevant budget. The rights holder must commence operations within six months from the date of the entry into force of the Philippines Agreement. The rights holder must notify the Ministry of Energy, at least thirty days before the end of each sub-period, whether it chooses to continue with the work plan, if it so chooses, in the event that a discovery is found, if any, to conduct only evaluation activities in the area where the discovery was found, or if it wishes to terminate the agreement. If the rights holder has chosen to terminate the agreement prior to the end of the sub-period and insofar as the planned work budget for that sub-period has not been fully expended, the rights holder shall pay the remaining amount of the budget to the Philippine Ministry of Energy.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS  
(CONTINUED):**

- 3) Annual work plan and implementation guarantee – the rights holder must submit to the Philippine Ministry of Energy's approval an annual work plan and an annual budget for the coming year. The rights holder must provide a performance guarantee for the planned work plan at a minimum amount equal to the planned annual budget.
- 4) Payments - The rights holder will pay the Philippine Department of Energy one-time grants as follows:
  - A. A signing grant of \$ 100 thousand was paid during December 2018.
  - B. A discovery grant of \$ 300 thousand within 60 days from the beginning of production, if any.
  - C. A production grant of \$ 500- \$ 2,000 thousand, depending on the rate of production.
  - D. An annual fee for training programs, scholarships, guidance, and similar activities for employees of the Philippine Ministry of Energy - \$ 20 thousand per year during the drilling and exploration period and the development period, if any, and \$ 50 thousand per year during the production period if any.
  - E. Assistance for the development of the Philippine Ministry of Energy - a one-time payment minimum of \$ 100 thousand, to be paid within 60 days of the Ministry of Energy's request for such payment.
  - F. A scholarship program for students living in the area close to SC 76 or in another area to be determined by the Philippine Ministry of Energy - \$ 5 thousand per year during the drilling and exploration period and the development period, if any, and \$ 10 thousand per year during the production period, if any.
- 5) Taxes - Under the terms of the Philippines Agreement, the rights holder will be subject to Philippine income tax laws applicable to companies (at a rate of 30% of net income), but said will be paid, if any, to a state department. It should be noted that as at reporting date, there are disagreements between the Philippine Ministry of Energy and the Philippine Comptroller's Office regarding the method of collecting the corporate tax. While the Philippine Ministry of Energy supports the above, according to the Comptroller's Office, corporate tax should be collected from the rights holder. As at this date, a legal proceeding underway, which has not yet been decided. The decision of the Philippine Supreme Court on the matter, if any, will also apply to Ratio Philippines. As at this date, it is not possible to assess the decision of the Philippine Supreme Court and its impact on Ratio Philippines.
- 6) The State's share - The Philippines Agreement provides that the State's share shall be 60% of the natural gas and/or oil to be produced, with the remaining 40% with the rights holder.

Exploration expenses of Ratio Philippines for SC 76 during 2018 totaled \$ 127 thousand and were charged to profit or loss under "oil and gas exploration expenses."

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - GROUP OPERATIONS - EXPLORATION AND EVALUATION RIGHTS  
(CONTINUED):**

**F. P.1989 - Ratio North Sea:**

Ratio North Sea is a private company incorporated under the laws of Gibraltar on July 25, 2017, to participate in oil and gas explorations in the North Sea.

On August 11, 2017, Ratio North Sea signed a rights transfer agreement with Azinor Catalyst Limited ("Azinor Agreement") for the purchase of 15% of the rights in license P.1989 and 5% of the rights in license P.1763 (and 10% of the rights in the drilling which is anticipated in this license), located in the North Sea, in the territorial waters of Great Britain.

As noted, on August 15, 2017, drilling commenced under license P.1989. An analysis of the drilling findings showed insignificant hydrocarbon indicators, and therefore the drilling was declared to be a dry drilling. Considering said, the drilling was sealed and abandoned, during 2017. See Note 5 D above.

After completing the analysis of the drilling findings, the parties decided not to extend the validity of the P.1989 license. In addition, since until January 8, 2018, it was not decided to drill under the P.1763 license, and in accordance with the terms of the Azinor Agreement, the parties decided to terminate the Azinor Agreement. Accordingly, Ratio North Sea does not hold the rights in the said licenses

**NOTE 7 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:**

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. Dollars,</b>	
	<b>Thousands</b>	
Marketable securities - held for trading:		
Investments in government bonds	2,198	-
Investments in corporate bonds	5,555	-
Investments through mutual funds	44	-
Investment in shares in Israel	1,111	-
Total, reported under current assets	8,908	-

The expected exercise date of the securities held by the partnership is up to 12 months from the reporting date. The securities are reported under current assets.

Financial assets held for trading are reported under "current activities" as part of the changes in working capital in the statement of cash flows. Changes in the fair value of financial assets at fair value through profit or loss are charged to "other gains (losses), net" in the statement of comprehensive income (loss)



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - TAXES ON INCOME:**

Section 63 (d) of the Income Tax Ordinance (New Version), 1961 ("Ordinance") provides that the Minister of Finance may prescribe, by an Order, the types of partnerships that shall be deemed to be for the purpose of the Ordinance as a company, and if the Minister of Finance does so, the partnership will be considered as if it was a company for the purposes of the Ordinance, and amounts distributed by the partnership to the partners shall be deemed to be a dividend.

On January 1, 2017, Income Tax Order (Types of Partnerships to be Considered as a Company), 2017, was published in the Official Gazette ("Reshumot") ("Order"), stipulating the conditions that a partnership must meet to be considered a company for tax purposes. The two main conditions are that the activities of the partnership, in whole or in part, include the exploration, development or production of oil, directly and indirectly, in Israel or abroad, and that the partnership is not a partnership as defined by Income Tax Regulations (Rules for the Calculation of Tax for the Holding and Sale of Participation Units in an Oil Exploration Partnership), 1988, ("Regulations") The partnership is in compliance with said conditions, therefore, the provisions of the Order shall apply to the partnership. Therefore, in accordance with the provisions of the Order, the tax regime applicable to the partnership shall be as if it is a company for all intents and purposes, although partnerships are not usually not taxable, and its revenue and expenses are attributed to its partners. Accordingly, as opposed to other partnerships whose participation units are traded on the Tel Aviv Stock Exchange and whose revenue and expenses (other than the general partner's share) are attributed to the limited partner and through it to the holders of the participation units, in the case of the partnership, the partnership's revenue and expenses will not be attributed to the unit holders, and as long as said Order applies to it, the partnership shall report its taxable income and shall bear the applicable tax in respect of its taxable income as if it were a company. The tax rates applicable to companies are as follows: 25% in 2016, 24% in 2017 and 23 % from 2018 onwards.

Tax losses for carry forward purposes as at December 31, 2018, totaled \$ 1.8 million (equivalent to NIS 6.8 million). The partnership does not provide for deferred taxes in respect of said carryforward losses, as there is no expectation of offsetting them shortly.

The provisions of the Regulations, which regulate the method of attributing revenue and expenses of a traded partnership to the holders of participation units that are "eligible holders," will not apply to the partnership.

**NOTE 9 – PARTNERS' EQUITY:**

A. At the time of the partnership's establishment, the general partner invested NIS 1 in the partnership's capital, and the limited partner invested NIS 999 in the partnership's capital.

The general partner and the limited partner shall be entitled to and will receive 0.1% and 99.9% of income and will bear 0.1% and 99.9%, respectively, of the partnership's expenses and losses. The limited partner issued to the public registered participation units of NIS 1 par value each, Series 1 Warrants and Series 2 Warrants which are listed for trading on the Tel Aviv Stock Exchange. The units confer the right to participate in the rights of the limited partner in the partnership, which are operated and held by the limited partner in favor of the unitholders in trust, and under the supervision of Shimon Avnaim CPA ("Supervisor"). As at December 31, 2018, equity includes 114,694,236 participation units, 57,341,118 Series 1 Warrants, and 57,329,118 Series 2 Warrants. For details of exercise of the warrants, see C below.

The limited partner shall not be liable for the partnership's obligations above the amounts it shall invest in the partnership capital, as noted.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – PARTNERS' EQUITY (CONTINUED):**

**B. Issuance of Securities:**

On January 23, 2017, the partnership issued 50,058,000 participation units, 25,029,000 Series 1 Warrants, and 25,029,000 Series 2 Warrants. The total (immediate) gross proceeds from the issue to the public amounted to NIS 60.8 million (equivalent to \$16 million), while issue expenses totaled NIS 5.7 million (equivalent to \$ 1.5 million). For further details of the allocation of participation units to entrepreneurs and interested parties, in accordance with the pre-IPO commitment, see Notes 5 C, 11 C 9, 11 C 10, and 11 C 11.

The immediate gross proceeds received by the partnership from the public offering and from the allocation to the General Partner, to the Ratio partnership, to the Delek Group Ltd. ("Delek Group") and the entrepreneurs as noted, totaled NIS 117.2 million (equivalent to \$ 31 million).

Trading in securities of the partnership began on January 26, 2017.

**C. Warrant Terms:**

**1. Series 1 Warrants:**

Series 1 Warrants are exercisable until July 15, 2019, such that each Series 1 Warrant is exercisable into 1 participation unit of NIS 1 par value against a cash payment upon exercise of NIS 1.42. The amount of the payment is linked to the representative exchange rate of the Dollar (base rate - \$ 1 = NIS 3.826) and will be increased or decreased according to the known rate on exercise date. Any Series 1 Warrant not exercised by July 15, 2019, will expire, will be canceled and will not entitle the holder to any right whatsoever.

During February 2019 and after reporting date, 1,410,854 Series 1 Warrants of the partnership were exercised for 1,410,854 participation units, for a consideration of \$ 0.5 million (equivalent to NIS 1.9 million).

**2. Series 2 Warrants:**

Series 2 Warrants are exercisable until January 14, 2021, such that each Series 2 Warrant is exercisable into 1 participation unit of NIS 1 par value against a cash payment upon exercise of NIS 1.64 per share. The amount of the payment is linked to the representative exchange rate of the Dollar (base rate - \$ 1 = NIS 3.826) and will be increased or decreased according to the known rate on exercise date. Any Series 2 Warrant not exercised by January 14, 2021, will expire, will be canceled and will not entitle the holder to any right whatsoever. During 2018 and up to the signing date of the financial statements, 12,000 Series 2 Warrants of the partnership were exercised for 12,000 participation units, for a consideration of \$ 6 thousand (equivalent to NIS 18 thousand).

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – PARTNERS' EQUITY (CONTINUED):**

**D. Share-Based Payments:**

During July 2018, the Board of Directors of the General Partner of the partnership approved adoption of the "Warrants Plan - Officers and Employees 2018" ("2018 Plan"), according to which at the time of awarding a grant, the total amount of participation units to be issued shall not exceed 5% of the partnership's issued capital (taking into account also the dilution rate deriving from the allocation of the grant ), each of which can be exercised into 1 partnership unit of NIS 1. The ordinary partnership units which will be allocated following exercise of the warrants will be equal in all rights to the participation units of the partnership, immediately upon their allocation.

During August 2018, the general meeting of the holders of the partnership's participation units, approved, after the approval of the Remuneration Committee and the Board of Directors of the General Partner of July 2018, a private placement of 3,019,765 non-marketable warrants exercisable into participation units of the partnership, to the Chief Executive Officer, officers and employees of the partnership, and a framework of 3,016,142 non-marketable warrants for future private placements.

During October 2018, 3,019,765 warrants were allotted under the 2018 Plan, as noted, which are exercisable at the end of vesting periods as follows: (a) 1/3 of the quantity of warrants commencing from the end of 12 months from the grant date; (b) 2/3 of the quantity of warrants in 8 equal quarterly portions over a period of two years from the end of 15 months from the grant date (that is, during each quarter, 1/12 of the quantity of warrants will vest).

Subject to plan terms, if the warrants are not exercised earlier, the warrants will expire on the earlier of (1) the end of five years from the grant date; (2) up to 120 days after the termination of the employment relations between the partnership and the recipients. The exercise price of the warrants is NIS 1.609.

The theoretical economic value of each warrant as at grant date is calculated according to the B & S formula, reaching a warrant price of NIS 1.22, This value is based on the following assumptions: the date of grant, the value of the participation units at the time of calculation, the exercise price, the expected life span, the expected standard deviation and any risk-free interest.

The expense recognized under the partnership's profit or loss for 2018 in respect of the bonus component in the grant of warrants to officers and employees totaled \$ 141 thousand.

According to the track chosen by the partnership and according to provisions of Section 102 of the Income Tax Ordinance, the partnership is not entitled to claim as an expense for tax purposes amounts credited to the warrant recipients as a benefit, including any amounts recorded as salary benefits in the partnership's bookkeeping accounts, in respect of warrants granted under the plan, except for an income benefit component, if any, as provided at the time of grant.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – PARTNERS' EQUITY (CONTINUED):**

**E. Profit Distributions:**

1. As provided by the partnership agreement, all profits of the partnership, which are legally distributable by the partnership, as profits, net of amounts (not considered for purposes of determining profits) required by the partnership at the discretion of the general partner for the purpose or in connection with the partnership's existing or future commitments, known or estimated, (as well as the amounts required to repay loans, if relevant) including amounts required in the opinion of the general partner for compliance with unforeseen expenses (the amount of which shall not exceed \$ 250,000) ("profits") shall be distributed to the partners, in accordance with their rights, as noted above and subject to the provisions of Companies Law, in the following manner - once a year, immediately prior to the end of the year, the general partner shall, in consultation with him the partnership's accountants, an estimate of the partnership's annual taxable income. Based on this assessment, the general partner will determine the amount of the first distribution, taking into account, inter alia, the required amount, according to the assessment, for the purpose of complying with the partnership's liability under a tax collection agreement that will be signed (if signed) between the partnership on the one hand, and the tax authorities on the other hand or compliance with terms to be provided by the tax authorities with the approvals that they will grant to the partnership for issues of units or other securities or otherwise ("amount for the first distribution).

The amount for the first distribution will be published by the general partner before the end of the year and will be distributed to the partners in accordance with their rights as noted above.

2. The balance of the retained earnings (if any) for that year shall be determined by the general partner and shall be published shortly after the publication of the audited financial statements of the partnership for that year and after that distributed to the partners in accordance with their rights as noted (amount for the second distribution).
3. It is noted that if following the second distribution, and following a change in circumstances, it becomes clear that additional amounts may be distributed in respect of that year, the general partner may make further distributions in respect of that year ("additional distributions") and the general partner will be required to do so if the additional distributable amounts shall be in excess of \$ 3 million.
4. Calculation of profits will always be made for the year ending December 31.
5. It is noted that no profits shall be distributed if their acceptance by the limited partner shall be considered to be a withdrawal of investments or part thereof, as defined by Section 63 (B) of the Ordinance.
6. Amounts which will be held by the partnership and which will not be distributed to the partners in accordance with the above said (including those deriving from the partnership's capital and its unallocated profits), the general partner may, if he finds it at his sole discretion as suitable, to invest them until they are exercised for the purposes for which they were deemed appropriate, provided that such investments be made for the purpose of preserving, to the fullest extent, the "real" value of the funds and the availability of the funds for the purpose of carrying out the objectives of the partnership.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – PARTNERS' EQUITY (CONTINUED):**

7. Notwithstanding that said, the general partner shall be entitled to refrain from distributing profits or to delay the distribution of profits for the purpose of participating in exploration, development and production activities in the fields of oil properties, in which the partnership, including its investee companies, has interests or for the purpose of financing activities which were included in any prospectus or shelf prospectus, or a shelf offering, pursuant to which other units or securities will be issued, including securities that confer a right to purchase units or for other operations approved by the Supervisor. Notwithstanding the above, the general partner may not - without the approval of the general meeting of the unitholders or with the approval of the Supervisor who has received the Court's consent - refrain from distributing profits or delaying the distribution of profits for the purpose of development and production work and participating in additional exploration operations if the partnership and/or its investees have interests in oil properties.
8. It is noted that in the event of an incorrect assessment of the profits or in the event that following the provisions of Section 63 (B) of the Ordinance, and the provisions set out above, regarding said, it will become clear that any distribution, in whole or in part, was prevented even after the amount of the distribution has been published, the general partner shall be exempt from any liability, unless he acted in breach of the obligation of trust towards the partnership and/or in breach of the duty of care in the distribution.
9. Without derogating from that said, it is noted that the general partner may, at its discretion, make use of the proceeds of the profits and for this purpose to avoid their distribution and to take on behalf of the partnership for the purpose of obtaining credit, liabilities regarding restrictions on the distribution of profits and liens on the partnership's assets, including any obligation as noted, all for the purpose of financing (whether immediate financing needs and for future financing needs, as well as between known financing needs and possible financing needs) of activities and expenses which the general partner will decide on in any area of the partnership in which he believes there is a discovery or in any other area, to finance activities which were included in a prospectus or in a shelf prospectus or a shelf report, as noted, or for the purpose of financing other activities for which the Supervisor has given approval for this purpose.
10. Notwithstanding that said, it is noted that no distribution of any kind shall be made, including as noted in D above, unless the Board of Directors of the general partner has had an appropriate opportunity to determine, prior to its execution, that the distribution is not a prohibited distribution within the meaning of this term in Section 301 of the Companies Law. It is further noted that no profits shall be distributed if, in the opinion of the Supervisor, there is doubt that their acceptance by the limited partner will be considered to be a withdrawal of his investment or part thereof, as defined in Section 63 (B) of the Ordinance. In any case, where such doubt exists, the distribution shall not be effected except with the consent of the Supervisor, or with the approval of the Court. If the Court confirms that the distribution does not impose a charge on the holders of the units, the profits will be distributed according to the terms of the approval.
11. The opinion of the public auditor of the partnership (or of a public auditor who will replace him), with respect to determining the profits available for distribution as profits and calculating the partners' share under the partnership agreement of income, expenses, and losses of the partnership will be final and decisive.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - LOSS PER PARTICIPATION UNIT:**

**A. Basic:**

The basic loss per participation unit is calculated by dividing the loss attributed to the participation unitholders by the weighted average of the number of Participation Units issued.

	<b>2018</b>	<b>2017</b>
Loss attributable to participation unitholders (expressed in U.S. Dollars, Thousands)	3,447	2,564
Weighted average number of participation units issued	114,685,535	107,435,831
Basic loss per participation unit (expressed in U.S. Dollars)	0.03	0.024

**B. Diluted:**

Warrants were not considered as potential participation units are considered only when their effect is dilutive.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES:**

**A. Transactions with Interested and Related Parties:**

	<b>Year Ended December 31,</b>		<b>Period from June 8, 2016, * up to December 31,</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>U.S. Dollars, Thousands</b>			
Amounts charged to oil and gas exploration expenses:			
Geological consultation (see C 7)	144	144	-
Amounts charged to management and general expenses:			
Operator fees - to the general partner (see C 1)	480	652	-
Management fee	163	152	-
Remuneration and expenses to the limited partner, the Trustee (see C 3)	2	2	-
Benefit component – warrant grants to officers and employees	141	-	-
Issuance expenses:			
Payments to the general partner	-	10	-
Supervisor's fee	-	12	-
Return of controlling interest owners' loan (see C5)	-	1,967	-

\* Partnership establishment date.

"Interested parties" - as defined by Securities Regulations (Annual Financial Statements), 2010.

"Related Party" - as defined by International Accounting Standard 24 (Amended) - "Related Party Disclosures".

**B. Balances with Interested and Related Parties:**

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>U.S. Dollars, Thousands</b>			
General partner - current account:			
Credit balance, as at reporting date	3	(31)	-
Geologist - included in other payables and accrued expenses:			
Credit balance, as at reporting date	(12)	(12)	-
Trustee - current account:			
Debit balance, as at reporting date	57	57	-

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTINUED):**

**C. Commitments with Interested and Related Parties:**

- 1.** Commitments with interested and related parties deriving from the partnership agreement:

Partnership Management and Operator Fees (Operation and Management):

- A.** The general partner will manage the partnership, and it or anyone acting on its behalf will be responsible for the management and execution of all oil exploration activities, including development and/or production within the framework of the oil properties in which the partnership and/or its investee entities have an interest.

In consideration for said services, the general partner or anyone acting on its behalf will be entitled, vis-à-vis all oil properties which the partnership has and/or will have, and /or its investee entities an interest, even if there is another operator, to a royalty of 7.5% (plus Value Added Tax) of the total exploration expenses and the amounts attributed to their relative share of the expenses of the operations of the joint ventures during the period of exploration (which will be expended by it or by the investee entities), but not less than \$ 40,000 per month (plus Value Added Tax) during the exploration and/or development and/production period.

- B.** The calculation of operator fees shall be made once each quarter, on a Dollar basis, and shall be paid once a quarter.
- C.** The general partner shall be entitled to receive an operator's fees at such rates also from other participants if any.
- D.** The general partner shall bear, from said operator's fee, the remuneration to be paid to the directors of the general partner who are controlling shareholders of the general partner or their relatives, in respect of their service as directors and in respect of current services to be provided to the general partner in the everyday operations of the partnership, on the basis of their positions. The other partnership expenses will be paid by the partnership.
- E.** The partnership may directly employ employees and/or officers who will provide services to the partnership, and in such case, the partnership will bear the full cost of their salaries.



**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTINUED):**

**2. Commitment to Royalties:**

- A.** The partnership undertook, through an irrevocable undertaking, to cause it and any entity held and/or to be held by it, that is an owner of oil rights, as the case may be, to grant, on the date of receiving an oil right, the right to receive an overriding royalty, to the persons and/or entities detailed below, and at the rates specified below ("overriding royalty"). This undertaking is the result of a commitment undertaken by the partnership's holding entities vis-à-vis the following persons and/or entities as at the date of their establishment:

Party Entitled to an Overriding Royalty	Overriding Royalty Percentage	Remarks
DALIN	2%	Of the controlling shareholders of the general partner. The royalty was awarded as part of an overriding royalty agreement between the partners and DALIN.
Hiram	2%	Of the controlling shareholders of the general partner. The royalty was awarded as part of an overriding royalty agreement between the partners and Hiram.
Eitan (Gibraltar) Ltd.	4%	A company wholly owned by Eitan Eisenberg, one of the initiators of the partnership's operations. Serves as a geological advisor to the partnership and the Ratio partnership. The royalty was awarded as part of an overriding royalty agreement between the partnership and Eitan (Gibraltar) Ltd.
Itai Raphael (Tabibzada)	0.5%	Chief Executive Officer of the partnership, as at October 2, 2016, and one of the initiators of the operations and establishment of the partnership. In addition to his service as Chief Executive Officer, he is employed by private companies controlled by the controlling shareholders of the general partner. The royalty was awarded as part of an overriding royalty agreement between the partnership and Itai Raphael (Tabibzada).

- B.** Those entitled to the royalties will be those entitled to receive the overriding royalties from the quantities or value as detailed below, of the oil and / or gas and/or other valuable materials that will be produced and exploited from the oil property and / or the oil properties in which the partnership and any entity held by it and/or to be held by it, any interest, before deduction of royalties and / or levies and / or any other obligation for payment of any kind, but after the reduction for any oil that will be used for the production itself ("oil production").
- C.** For the avoidance of doubt, it is noted that those entitled to royalties will be entitled, subject to obtaining the approvals required by law, to assign and transfer their rights to the overriding royalty, in whole or in part, and to make such transactions without limitation, without the consent of the partnership or the investee entities.
- D.** The overriding royalty shall be paid by the entity which it has an interest in the oil property as noted.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTINUED):**

- E.** Such entities shall undertake to pay to those entitled, overriding royalties in accordance with the provisions of this section, and the partnership shall be responsible for making such payment by all of its investee entities.
- F.** The right to overriding royalties on said will be valid as long as the oil property, including any oil property granted by virtue thereof, is in force.
- G.** The right to overriding royalties on said will be linked to the share of the partnership or its investee entity, as the case may be, in each of the oil properties in which they were granted an interest and at the rate granted. If the partnership and/or its investee entity will transfer their rights to an oil property in which the entitled parties to the overriding royalties have a right, they will be transferred provided that the transferee assumes all obligations to pay the overriding royalty as noted above.
- H.** The parties entitled to the royalties will be entitled to receive said overriding royalty or part of it in kind, that is, to receive part of the oil production in kind (up to the rate noted above). If the parties eligible for the overriding royalties are entitled to receive said overriding royalty or part thereof in kind, the manner, and dates on which such overriding royalty in kind shall be received shall be determined, so that oil or gas included in the overriding royalties shall be delivered to those entitled to royalties at the wellhead.
- I.** If the parties entitled to the overriding royalties will not choose to receive the overriding royalties in kind, they will be paid to those entitled to, royalties at the wellhead value of such overriding royalties.
- J.** In the event of oil production, the payment will be made according to the price of selling the oil at the wellhead.

**3. Commitments With Interested Parties and Related Parties Deriving From the Trust Agreement Signed on January 3, 2017:**

- A.** The general partner paid the Trustee in return for assistance in the preparation of the first public offering and any prospectus afterward, pursuant to a prospectus of units or other securities, including securities granting the right to purchase units, in accordance with a fee determined between the parties.
- B. Supervisor's Fee and Expenses:**

The Supervisor's fee, as determined in the Trust Agreement, including his remuneration for additional work involved in a public offering of securities pursuant to a prospectus, and any reimbursement of expenses incurred to carry out his duties, was determined in accordance with provisions of the Ordinance.

In the event of publication of a prospectus and/or a shelf offering report in the future, the Supervisor will be entitled to additional remuneration for the additional work involved in the issue and/or shelf offering.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTINUED):**

**C. Trustee's Fee and Expenses:**

The Trustee will be entitled to receive remuneration from the trust assets for each year in which he serves as Trustee under the trust agreement (or a proportionate share of this amount in respect of part of the year). This amount will be paid to the trustee on the last day of the year for which it is paid. In addition, the Trustee will be entitled to receive repayments of expenses expressly permitted in the trust agreement or approved in writing by the Supervisor. Where the Trustee and the Supervisor are the same people, the approval of the general meeting of the holders of the participation units shall be required.

4. All issuance expenses and the offer under the Prospectus, including all coordination and distribution fees, were applied to the partnership and paid by it from the proceeds of the issuance proceeds. The partnership refunded to the trustee and the offeror, from the issuance proceeds, all issuance expenses incurred therein, if and insofar as they were borne, as detailed in the report prepared by the offeror, and approved by the Supervisor, on the date on which the proceeds of the issuance were received.
5. Reimbursement of Past Expenses:  
For details of repayment of shareholders' loans, see Note 5 C above.
6. The partnership signed agreements with Ratio Gibraltar, Ratio Malta and Ratio Guyana (effective from the closing date of the issuance), Ratio Suriname (effective January 1, 2018) and Ratio Philippines (effective January 1, 2019), according to which it will grant each of said, consultation and assistance in all matters relating to the exploration and development of its oil properties, and in any other matter as to be agreed between the parties, from time to time, for a consideration of \$ 3,000 per month, that each of which will pay the partnership. Said consideration is paid every quarter.
7. According to an agreement of January 3, 2017 between the partnership, on the one hand, and Eisenberg Ltd., on the other hand, the partnership engages the services of Eisenberg Ltd., a company controlled by Mr. Eitan Eisenberg, an interested party in Ratio Ltd. (a holder of 8.5% of the share capital of Ratio Ltd.), a shareholder of Ratio Gibraltar and a geological consultant of the Ratio partnership, for the purpose of providing geological consultation services to the partnership in connection with oil explorations. The agreement stipulates that in return for the services, the partnership will pay Eisenberg Ltd. a fee equivalent to \$ 12,000 per month (plus VAT) and will reimburse Eisenberg Ltd. each month for expenses that Eisenberg Ltd. will incur, in return for services, in an amount not to exceed the amount to be agreed between the parties, against receipts. In addition, it was determined that said consideration would be paid to Eisenberg Ltd. only so long as the partnership will engage in actual oil explorations.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES (CONTINUED):**

8. According to an agreement of January 3, 2017, between the partnership, on the one hand, and Itai Rafael (Tabibzada) ("manager"), on the other hand, the partnership engages the services of the manager, who was appointed on October 2, 2016, as CEO of the general partner and the partnership. The manager will provide his services equivalent to an 80% position. The appointment of the manager to the position is from October 2, 2016, but the entitlement to the consideration and the related terms as detailed in the agreement will take effect on the date on which the partnership's securities are listed for trading on the stock exchange. As consideration for the position and compliance with all terms, the partnership will pay the manager a fee of NIS 45,000 plus VAT and will be entitled to reimbursement of expenses
9. According to an agreement of January 3, 2017 between the general partner and the Trustee, the general partner purchased from the Trustee, prior to listing the securities offered under the Prospectus for trade on the Stock Exchange, for NIS 12 million, 9,872,480 participation units of NIS 1 par value, 4,936,240 Series 1 Warrants and 4,936,240 Series 2 Warrants at a price identical to the price at which they were allocated to the public.
10. Pursuant to an agreement of January 3, 2017 between the partnership and the Ratio partnership and in accordance with the approval of the general meeting of the holders of participation units of the Ratio partnership, on the date of closing the issue and prior to the listing of the securities pursuant to the prospectus for completion, the Ratio partnership acquired and was allocated 22,936,448 participation units of NIS 1, par value each, and 11,468,224 Series 1 Warrants and 11,468,224 Series 2 Warrants at a price reflecting a discount of 15% of the minimum price, and in total for a consideration of NIS 23,636 thousand ("securities allocated to the Ratio partnership"). The quantity of securities allocated to the Ratio partnership reflects a 20% holding of the partnership's participation units.
11. Pursuant to an agreement of November 27, 2016 between the partnership and the Delek Group, on the date of completion of the issue pursuant to the Prospectus for completion and prior to said listing for trading, the Delek Group acquired and was allocated 20,069,392 participation units of NIS 1 par value each, 10,034,696 Series 1 Warrants and 10,034,696 Series 2 Warrants, at a price reflecting a discount of 15% of the minimum price and in total for a consideration of NIS 20,682 thousand ("securities allocated to the Delek Group"). The quantity of securities allocated to the Delek Group reflects a holding of 17.5% of the partnership's total participation units.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - ADDITIONAL DETAILS - ITEMS IN THE STATEMENTS OF  
 COMPREHENSIVE LOSS:**

	<b>Year Ended December 31,</b>		<b>Period from June 8 *, 2016, up to December 31,</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. Dollars, Thousands</b>		
<b>A. Oil and gas exploration:</b>			
Exploration costs – various properties	800	940	-
Abandonment of the Ratio North Sea drilling	-	1,838	-
Geological consultation	266	211	-
	1,066	2,989	-
<b>B. Management and general:</b>			
Management services of the general partner - operator fees	480	652	-
Office expenses	66	40	-
Directors' fees and related expenses	58	64	-
Professional services	482	563	-
Benefit component – warrant grants to officers and employees	141	-	-
Trustee fees and expenses	2	2	-
Levies	32	21	-
Travel abroad	82	64	-
Public relations	25	16	-
Other items	59	17	-
	1,427	1,439	-
<b>C. Financing income:</b>			
Interest on deposits	137	35	-
Exchange rate differences	-	1,845	-
	137	1,880	-
<b>D. Financing expenses:</b>			
Bank expenses	21	16	-
Exchange rate differences	741	-	**
	762	16	**

\* Partnership establishment date

\*\* Reflects an amount less than \$1,000.

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES:**

- A. Regarding the partnership's commitments for investments in exploration and evaluation properties, see Note 6.
- B. Regarding the partnership's commitments with interested and other related parties, see Note 11.
- C. Payments Under a Joint Operating Agreement:

**1. Joint Operating Agreement in the Kaieteur Block:**

Under the joint operating agreement for the joint venture in the Kaieteur Block, it was agreed that Esso would serve as operator and would be the sole responsible party for managing the joint operations. According to the accounting principles noted in the agreement, Esso is entitled, as operator, to operator fees calculated each year according to the oil exploration costs in respect of exploration operations, according to the following formula: up to \$ 5 million - 5%, between \$ 5-15 million - 3%, more than \$ 15 million – 1.5%.

In the event of development, 1.5% of the total annual expenses incurred in respect of the development of the oil property. However, reimbursement of indirect expenses for a project more than \$ 50 million, requires the approval of the operations committee.

In the event of production, 1.25% of the total annual expenses for the production of the oil property. However, reimbursement of indirect expenses for a project more than \$ 50 million, requires the approval of the operations committee.

In accordance with the terms of the agreement, Esso, in addition to its relative share, also bears the relative share of the transferors in the joint account expenses, incurred for the Kaieteur Block. Operator's expenses are included in such expenses.

**2. Joint Operating Agreement in Block 47:**

Under the joint operating agreement for the joint venture in Block 47, it was agreed that Tullow would serve as managing operator and would be the sole responsible party for managing the joint operations. According to the accounting principles noted in the agreement, Tullow is entitled, as operator, to operator fees calculated each year according to the oil exploration costs in respect of exploration operations, according to the following formula: up to \$ 5 million - 3%, \$ 5 to \$ 8 million - 2%, more than \$ 8 million - 1%.

In the event of production, 0.75% of the total annual expenses for the production of the oil property. In the event of production, 1% of all annual expenses for production from the oil property.

Operator payments to Tullow for 2018 and 2017, were included in profit or loss, totaled \$ 5.5 thousand and \$2 thousand respectively, and were reported under "oil and gas exploration expenses".

**RATIO PETROLEUM ENERGY – LIMITED PARTNERSHIP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED):**

**D. Guarantees:**

1. Ratio Malta - The partnership provided a guarantee to the Government of Malta for Ratio Malta in the amount of \$ 350 thousand to ensure work performance, compliance and the work plan. See Note 6 A 3.
2. Ratio Guyana - According to the Guyana Agreement, the owners of the rights must provide the Guyana Government with a guarantee letter, issued by a related company, of 10% of the total budget set for the planned work plan for the period in respect of which the guarantee was given. In accordance with the Transfer Agreement during the Initial Work Period, Esso will provide the guarantee required for the rights holders.
3. Ratio Suriname - In accordance with the Block 47 Agreement, at the beginning of each Sub-Period, the rights holder are to provide Staatsolie with a parent company guarantee, for its obligations under the minimum work plan for that period and/or the Sub-Period. For details of the partnership's guarantee to Staatsolie, in respect of Ratio Suriname's rights in the Block (20%), see Note 6 C 1 C. In addition, the partnership guaranteed Tullow vis-à-vis obligations of Ratio Suriname for payments prescribed by the transfer agreement, as noted in Note 6 C 2 (D).

**NOTE 14 - EVENTS AFTER FINANCIAL STATEMENTS DATE:**

**A. Ratio Malta:**

For developments after the reporting date, see Note 6 A.

**B. Ratio Guyana:**

For developments after the reporting date, see Note 6 B.

**C. Series 1 Warrants:**

For developments after the reporting date, see Note 9 C.