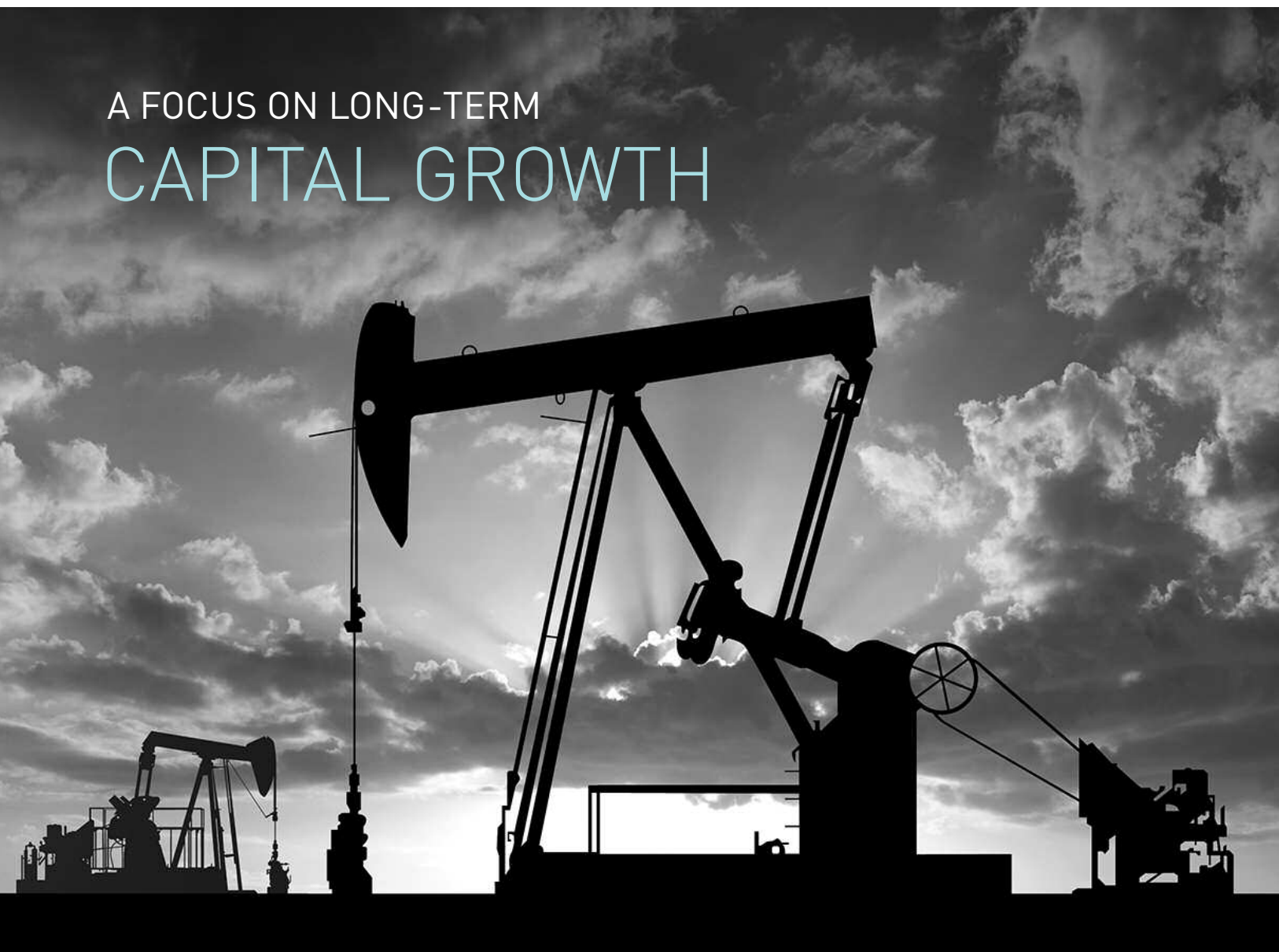


# 2017

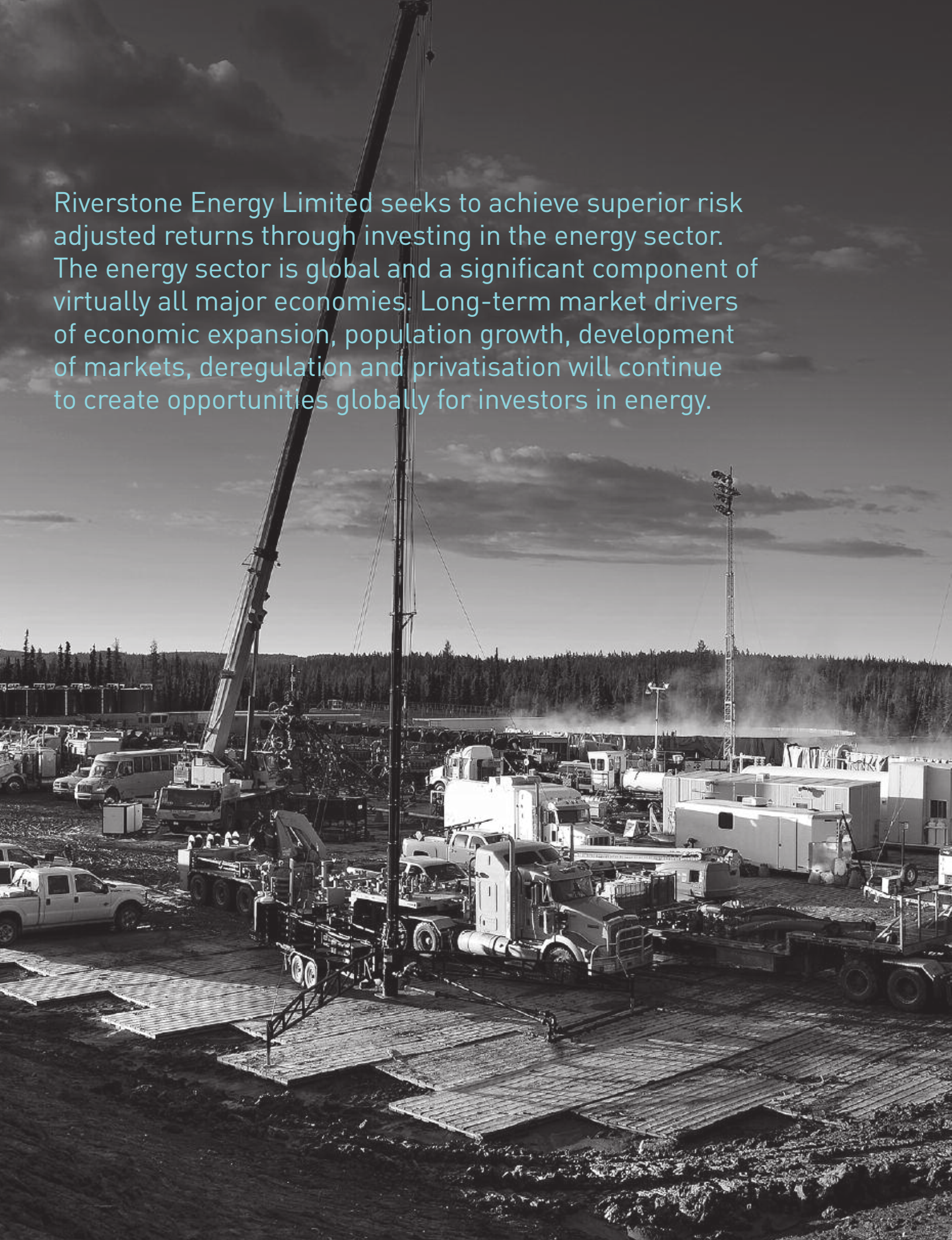
ANNUAL REPORT AND FINANCIAL STATEMENTS  
for the year ended 31 December 2017

A FOCUS ON LONG-TERM  
CAPITAL GROWTH



Riverstone  
Energy  
Limited  
(LSE: RSE)

Riverstone Energy Limited seeks to achieve superior risk adjusted returns through investing in the energy sector. The energy sector is global and a significant component of virtually all major economies. Long-term market drivers of economic expansion, population growth, development of markets, deregulation and privatisation will continue to create opportunities globally for investors in energy.



# RIVERSTONE ENERGY LIMITED

The Company's investment manager is Riverstone International Limited, which is majority-owned and controlled by affiliates of Riverstone.

Riverstone is an energy and power-focused private investment firm founded in 2000 by David M. Leuschen and Pierre F. Lapeyre with over \$38 billion of capital raised. Riverstone conducts buyout and growth capital investments in the E&P, midstream, credit, oilfield services, power and renewable sectors of the global energy industry. With offices in New York, London, Houston, Mexico City and Amsterdam, the firm has committed over \$37 billion to more than 150 investments in North America, Latin America, Europe, Africa, Asia and Australia.

The registered office of the Company is Heritage Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY, Channel Islands.

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# Financial and Operational Highlights

Riverstone Energy Limited Annual Report and Financial Statements 2017

→ Net Committed Capital to Date	\$1,669 million / 114 per cent. of net capital available <sup>(1)</sup>
→ Commitments reduced during the year ended 31 December 2017	Commitments reduced by a total of \$116 million: (i) \$59 million in CanEra Inc. (ii) \$57 million in Origo Exploration Holding AS
→ Net Capital Invested to Date	\$1,316 million / 90 per cent. of net capital available <sup>(1)</sup>
→ Investments during the year ended 31 December 2017 <sup>(2)</sup>	Invested a total of \$194 million <sup>(3)</sup> : (i) \$64 million in Hammerhead Resources Inc. (formerly Canadian International Oil Corp.) (ii) \$49 million in ILX Holdings III LLC (iii) \$21 million in Liberty Resources II LLC (iv) \$18 million in Three Rivers Natural Resources Holdings III LLC (v) \$10 million in Canadian Non-Operated Resources LP (vi) \$8 million in Castex Energy 2014 LLC (vii) \$7 million in Sierra Oil and Gas Holdings, L.P. (viii) \$6 million in Eagle Energy Exploration, LLC (ix) \$5 million in Carrier Energy Partners II LLC (x) \$4 million in Meritage Midstream Services III, L.P. (xi) \$2 million in aggregate in Origo Exploration Holding AS and Fieldwood Energy LLC
→ Realised Capital to Date	\$425 million / 27 per cent. of total capital invested
→ Realisations during the year ended 31 December 2017	Realised a total of \$114 million <sup>(3)</sup> : (i) \$87 million in Centennial Resource Development, Inc. (ii) \$14 million in Rock Oil Holdings, LLC (iii) \$12 million in Riverstone Credit Opportunities, L.P. (iv) \$2 million in aggregate in CanEra Inc., Fieldwood Energy LLC and Hammerhead Resources Inc.

## Key Financials

	2017	2016
NAV as at 31 December	<b>\$1,743 million / £1,290 million<sup>(4)</sup></b>	\$1,699 million / £1,376 million <sup>(4)</sup>
NAV per Share as at 31 December	<b>\$20.63 / £15.27<sup>(4)</sup></b>	\$20.11 / £16.29 <sup>(4)</sup>
Market capitalisation at 31 December	<b>\$1,409 million / £1,043 million<sup>(4)</sup></b>	\$1,402 million / £1,135 million <sup>(4)</sup>
Share price at 31 December	<b>\$16.68 / £12.35<sup>(4)</sup></b>	\$16.59 / £13.44 <sup>(4)</sup>
Total comprehensive profit for the year ended 31 December	<b>\$44.6 million</b>	\$351.4 million
Basic Earnings per Share for the year ended 31 December	<b>52.82 cents</b>	415.97 cents

<sup>(1)</sup> Net capital available of \$1,464 million is based on total capital raised of \$1,320 million, bank loan of \$100 million (maturing 27 June 2018), realised profits and other income net of fees, expenses and performance allocation. The Board does not expect to fully fund all commitments in the normal course of business

<sup>(2)</sup> Art. 105 of the Delegated Regulation 213/2013

<sup>(3)</sup> Amounts may vary due to rounding

<sup>(4)</sup> Based on exchange rate of 1.351 \$/£ at 31 December 2017 (1.234 \$/£ at 31 December 2016)

# A Resilient Portfolio...



REL's investments remain centred in some of the most attractive basins in North America, with investments in the Permian, Eagle Ford and Western Canada accounting for 88 per cent. of the Company's gross unrealised value.

A Resilient Portfolio...



Three Rivers III

ILX III





Hammerhead / CIOC

Rock Oil



## Stabilisation in oil market provides attractive backdrop for crystallising value

The oil market finally showed signs of a sustained recovery in the second half of last year, with WTI exiting 2017 at its highest levels in over two and a half years.

However, prices were turbulent for much of the year, with WTI dropping below \$43 per barrel over the summer as North American oil production remained resilient despite weakening prices. Today, the macro backdrop has improved considerably, supported by robust global oil demand and OPEC's production cuts, which are helping to alleviate oversupply and reduce excess stockpiles.

Unfortunately, the improvement in the underlying commodity price did not translate into strong returns for energy equities overall. The total shareholder return for the S&P Oil & Gas E&P Index was negative nine per cent. over the course of the year, resulting in yet another year of underperformance relative to the S&P Index. This was a result of several themes that weighed on the minds of investors in 2017. In particular, there was a renewed focus on the ability for energy producers to show financial discipline by prioritising returns and free cash flow generation over production growth.

While it is too early to tell how the industry will respond, we expect companies which are differentiated – whether through outstanding operational capabilities, attractive acreage positions or balance sheet strength – will be best positioned to grow value as the sector recovers.

Our investment in Centennial is an excellent example of REL's differentiated approach in practice. In the span of less than two years, the company has completed three sizeable acquisitions to establish an 88,000 net acre position in the highly attractive Delaware Basin of the Permian. Under the leadership of CEO Mark Papa and his highly experienced technical team, Centennial has used leading edge completion technology to deliver outstanding well results and grow production, while avoiding the excessive use of leverage. Recently, the company began testing an additional zone (3rd Bone Spring) and has utilised its relationships to enter into a long-term proppant supply agreement with a local sand provider, which will help mitigate the impact of cost inflation from a tightening services market.

In the fourth quarter, REL took advantage of strength in the Centennial share price to de-risk its position through the sale of 18 per cent. of its shareholding for \$87 million, which resulted in strong returns to Shareholders with a Gross MOIC<sup>(1)</sup> of 1.8x and a Gross IRR<sup>(1)</sup> of 74 per cent. The increased share price through the fourth quarter however meant that the unrealised value of REL's holding in Centennial remained at approximately the same level as in the third quarter.

Overall, the portfolio is now largely invested, having deployed 90 per cent. of net capital available. REL's "build-up" strategy has meant that the Company has gradually deployed its capital throughout the cycle, with an increased focus on oil-weighted, highly productive basins with low costs of production. As a result, REL's investments remain centred in some of the most attractive basins in North America, with investments in the Permian, Eagle Ford and Western Canada accounting for 88 per cent. of the Company's gross unrealised value. Investment platforms with strategies better suited to higher oil prices have either been discounted, or seen their commitments withdrawn with minimal capital exposure to investors.

At the end of 2017, the United States Government passed and signed the Tax Cuts and Jobs Act, which will have a positive impact for investors in REL. The main impact of the Tax Cuts and Jobs Act for REL is a reduction in the federal corporate tax rate from 35 per cent. to 21 per cent., effective 1 January 2018 which resulted in a Financial Statement benefit of approximately \$48 million (57 cents per share). Going forward, the lower federal corporate tax rate will improve net returns for REL's future realisations in the United States.





## Performance

REL ended 31 December 2017 with an NAV of \$20.63 per share. This equates to an increase of 52 cents (2.6 per cent.), when compared to NAV per share at 31 December 2016. The growth since REL's half year results at 30 June 2017 was even greater, with an uplift of 89 cents (4.5 per cent.), as the oil market rebounded from its lows.

The increase in NAV over the period was primarily driven by U.S. tax reform and a recovery at REL's third largest investment, Liberty II, which grew from Gross MOIC of 1.0x to 1.3x, on the success of its drilling programme in the Powder River Basin and opportunistic acquisitions in the Bakken. Another key contributor was Meritage III, which completed its second gas processing facility, and is now marked at 1.8x Gross MOIC.

Sierra experienced the largest multiple uplift in the portfolio following the historic discovery at its "Zama 1" well, though the impact on NAV is relatively small given the amount of capital invested to date.

Fieldwood was the largest detractor to performance over the period. REL made its \$59 million investment in early 2014, when the price of oil hovered around \$100 per barrel. Although the terms of its investment were attractive at the time, substantial borrowings and the sharp slide in commodity prices since then have proved challenging for the company. This has been exacerbated by recent production issues stemming from third-party infrastructure downtime and tropical storm activity in the second half of the year. As a result, REL has written down its investment to 20 per cent. of cost. The company now accounts for less than one per cent. of REL's gross unrealised value. Subsequent to year end, Fieldwood announced a comprehensive restructuring transaction, which is designed to reduce leverage, improve liquidity for the development and growth of its asset base, and to pursue a significant strategic acquisition.

The valuation of REL's investments is conducted quarterly by the Investment Manager and subject to approval by the independent Directors. In addition, the valuations of REL's investments are audited by Ernst & Young LLP in connection with the annual audit of the Company's Financial Statements. The Company's valuation policy is compliant with both IFRS and IPEV Valuation Guidelines and has been applied consistently from period to period since inception. As the Company's investments are generally not publicly quoted, valuations require meaningful judgment to establish a range of values, and the ultimate value at which an investment is realised may differ from its most recent valuation and the difference may be significant. Further information on the Company's valuation policy can be found in the Investment Manager's Report on page 21.

Following a 70 per cent. increase in 2016, shares in REL declined by 8 per cent. over the calendar year 2017. This coincides with weakness of the U.S. Dollar, which fell by 9 per cent. relative to Pounds Sterling. Despite a volatile commodity backdrop since IPO, shares have performed relatively well, with an increase of 24 per cent. through the end of 2017 compared with the total return for the S&P Oil & Gas E&P Index of negative 46 per cent. Shares closed 2017 at a 19 per cent. Discount to NAV.

The Board and Investment Manager carefully monitor the capital requirements of the portfolio, anticipated realisations and liquidity levels. REL finished the year with \$1,316 million net invested, equating to 90 per cent. of net capital available. Over the past year, REL has focussed on maintaining capital flexibility for its existing investments and as a result has not participated in new investments by Riverstone's Global Energy & Power Fund VI. Should REL experience a significant change in capital availability due to one or more realisations, the Board will evaluate the conditions for new investment as well as the option of returning capital to its Shareholders. The Board also continues to monitor where its shares trade relative to NAV and to evaluate all options available to close any discount that would be in the best interests of its Shareholders.

While the improvement in oil price was beneficial to REL's underlying portfolio companies, the valuation of its investments did not move up in line with the oil price. Over the past year, the underperformance of energy equities meant that comparable valuation multiples generally did not experience the same level of improvement as the commodity. In addition, net asset value analysis takes into account the forward curve for the underlying commodity, which did not experience the same degree of recovery as spot prices. As ever, Riverstone relies upon its disciplined investment strategy to grow value through the "drill-bit" rather than rely on commodity price movements.

I am pleased to report that there were several examples of this operational focus in 2017. Sierra, which was established as the first private Mexican E&P company following the country's energy market reform, made a historic oil discovery in the shallow waters of the Gulf of Mexico. With estimates between 1.4 billion and 2.0 billion barrels of oil in place, the discovery ranks as one of the largest shallow water discoveries anywhere in the world over the last twenty years. Although significant work will be required to bring the well to production, the result validates Riverstone's strategy of being an early mover as the Mexican energy market opened to foreign investors.

# Chairman's Statement (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

Our largest investment, Hammerhead, has grown production to just under 30,000 boepd, up from 4,000 boepd at the time of Riverstone's initial investment. Also in Western Canada, Meritage III signed several third party agreements for its midstream services, which have supported the construction of a second gas gathering and processing facility, which came online in November. In the Permian, Centennial doubled oil production over the course of 2017, to over 20,000 bopd. Liberty II had another active year, adding 40,000 net acres in the East Nesson area of the Bakken on attractive terms, where it has also begun drilling. On the U.S. side of the Gulf of Mexico, ILX III continued to achieve drilling success with three discoveries over the course of 2017, resulting in a success rate of 75 per cent. on the 12 wells drilled to date.

Subsequent to year end, REL took advantage of the improved market environment to agree the sale of its investment in Three Rivers III. This investment was formed by Riverstone in April 2015 to pursue acquisition, exploitation and development opportunities in the Permian Basin of West Texas and Southeast New Mexico, following successful partnerships with the same team. Shortly after formation, Three Rivers III made several acquisitions to establish a contiguous acreage position in the core of the Delaware Basin, which it subsequently grew to approximately 57,000 net acres through leasing offset acreage. As a result of Three Rivers III's early entry into the basin, REL was able to achieve a strong return on its \$94 million investment, with the sale resulting in gross cash proceeds of approximately \$205 million, representing a Gross MOIC<sup>(1)</sup> of 2.2x and a Gross IRR<sup>(1)</sup> of 49 per cent. for Shareholders.

2017 was another good year for REL as its investments continued to execute upon their strategies and the market environment improved. While there are a number of factors which could disrupt the recovery, industry has emerged from the down-cycle with improved health after slashing costs and repairing balance sheets. This, along with constructive fundamentals for crude oil, should provide a fertile environment for REL to grow value, capitalise upon improved market sentiment and make attractive realisations for investors.



**Richard Hayden**

Chairman

27 February 2018

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

REL's portfolio of fourteen active investments with a strong emphasis on North America's low-cost basins makes it well placed to take advantage of the improving market environment.



## Poised to Take Advantage of the North American Shale Recovery

Oil prices have spent most of the past two years oscillating in a range of \$40 to \$55 per barrel. However, prices finally broke above \$60 per barrel in the second half of 2017 as the market rebalanced. This is due to five consecutive years of strong global oil demand growth, high OPEC compliance levels and various supply disruptions. REL's portfolio of fourteen active investments with a strong emphasis on North America's low-cost basins makes it well placed to take advantage of the improving market environment.

The oil market spent much of early 2017 seeking equilibrium. However, steadily improving fundamentals became clearer through the second half as oversupplied inventories began to decline and revert towards their five year average. Drilling activity in U.S. basins, as measured by oil rigs, slightly declined over the same period. Meanwhile, geopolitical risk remains ever-present, with potential disruptions to supply from Venezuela and Iran, as well as ongoing tensions in Saudi Arabia, Northern Iraq and elsewhere in the Middle East. Prices have shifted to reflect these bullish developments, with prompt prices rallying and pushing the forward curve into backwardation. While this has helped improve market sentiment, energy equities have not experienced the same level of uplift as many fund managers have remained underweight on the sector.

While there is little doubt that higher prices will incentivise additional drilling and producer hedging, one of the key questions hanging over the market in 2018 is whether E&P companies will prove disciplined by focusing on returns, or ramp-up production. This ability for North American producers to "turn on the shale tap" has continually weighed on the market as prices have increased. However, there are some signs that U.S. oil production may be more restrained than the market expects. One potential obstacle is the exhaustion of "core" drilling locations in North America's more mature shale plays, such as the Eagle Ford and Bakken. This is a result of both the extensive drilling that has occurred in these basins and the "high-grading" of prospects towards the most economic acreage as oil prices collapsed.

In addition, there have been no new substantial resource plays to augment the loss of core drilling locations and the inherent declines from existing wells. As a result, the trajectory for North American oil production may depend on whether improvements in drilling and completion technology can offset geological constraints.

While Riverstone believes this dynamic is constructive for oil prices over the medium-term, we are not in the business of forecasting commodity prices. Riverstone's investment strategy is focussed on generating attractive absolute and relative returns throughout the commodity cycle. We seek to accomplish this in a number of ways. First, we leverage our extensive expertise across the energy ecosystem and capital structure to identify opportunities as they shift over time. For example, we quickly established platforms in emerging, low-cost basins such as the Permian and Western Canada as oil prices declined. In addition, we utilised our basin expertise to spot new opportunities, such as Meritage III, which provides a solution to infrastructure constraints as Hammerhead and other producers grow production. Throughout all of our investments, we have sought to partner with the best management teams in the energy industry. Their operational excellence, deep local relationships and focus on safety generates an "alpha" beyond simply investing in the underlying commodity.

Another key component of Riverstone's investment strategy remains the "build-up" approach. Riverstone and its investment professionals have many years of experience successfully investing in, and operating, energy businesses through multiple commodity price cycles. The firm applies a disciplined approach to maintain maximum operational and financial flexibility through any commodity price environment. While energy prices have been particularly volatile since REL's IPO in October 2013, when prices hovered around \$100 per barrel, Riverstone's investment strategy has helped mitigate the impact of commodity price volatility on the portfolio. As a result, REL has deployed capital at a weighted average oil price of approximately \$51 per barrel. Over the same time period, NAV per share has increased by 29 per cent. on a US Dollar basis and the share price by 24 per cent. on a Pounds Sterling basis, compared with a negative 46 per cent. total shareholder return for the S&P Oil & Gas E&P Index.

Because of the build-up approach, the weighted average life of REL's investments is only 1.9 years. However, several of the companies are now reaching a stage whereby they have successfully executed upon their strategies and achieved a level of scale which makes them candidates for sale or an IPO. While we will continue to focus on growing Shareholder value within the portfolio, we will seek to take advantage of favourable market conditions to make realisations on attractive terms. With fourteen active investments across E&P and midstream in North America, REL offers investors a unique opportunity to invest in the most dynamic area of the energy market, and we believe those with a long-term outlook will be handsomely rewarded.

## Investment Strategy

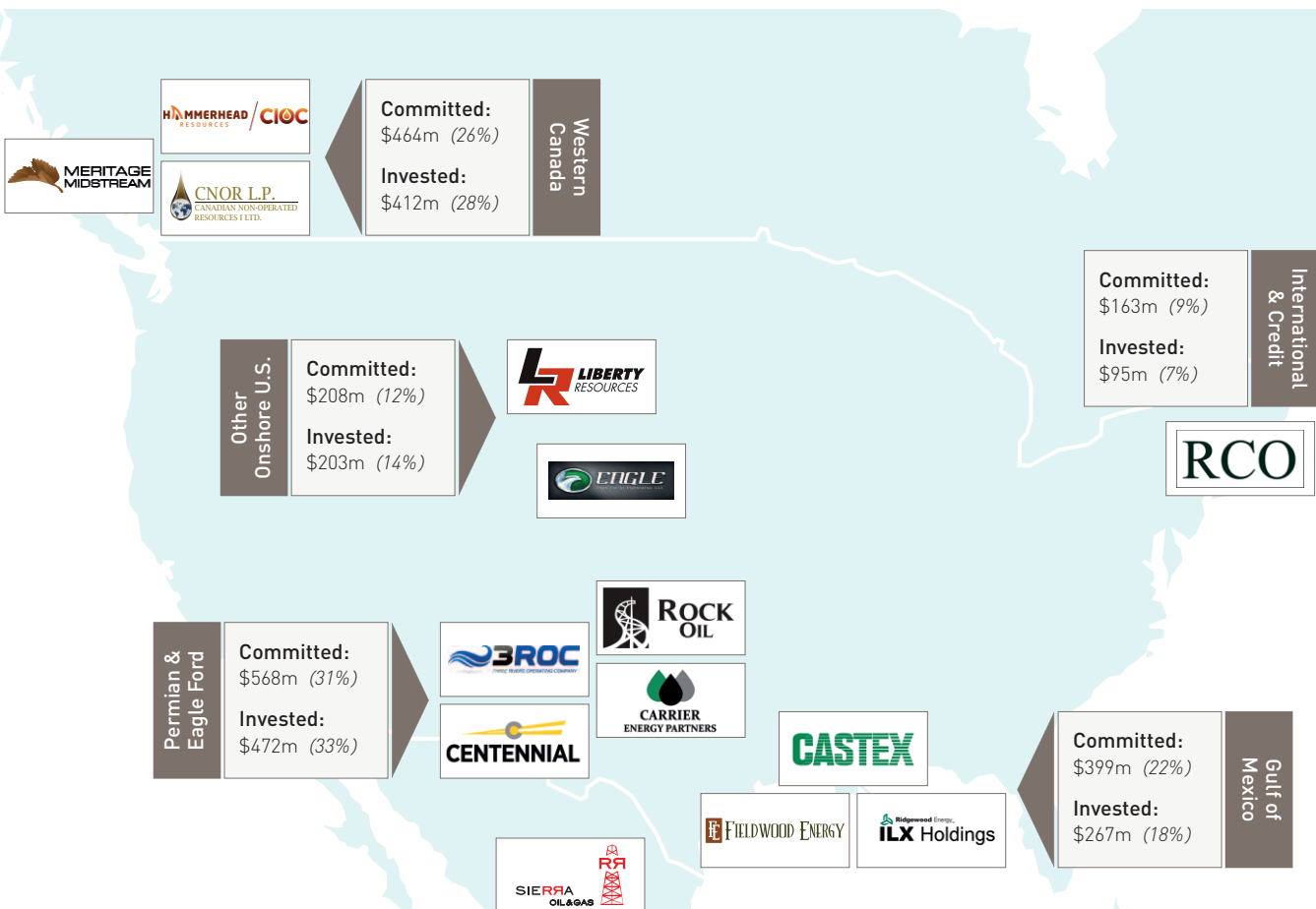
The Investment Manager’s objective is to achieve superior risk adjusted after tax returns by making privately negotiated control investments primarily in the E&P and midstream energy sectors, which is a significant component of virtually all major economies. Long-term market drivers of economic expansion, population growth, development of markets, deregulation, and privatisation allied to near-term commodity price volatility are expected to continue to create opportunities globally for Riverstone.

Key Drivers:

- Capital constraints among companies with high levels of leverage;
- Industry distress and pressures to rationalise assets;
- Increases in ability to extract hydrocarbons from oil and gas-rich shale formations; and
- Historical under-investment in energy infrastructure.

The Investment Manager, through its affiliates, has a strong track record of building businesses with management teams and of delivering consistently attractive returns and significant outperformance against both crude oil and natural gas benchmarks. The Company aims to capitalise on the opportunities presented by Riverstone’s pipeline of investments.

The Investment Manager, having made over 150 investments globally in the energy sector since being founded in 2000, utilises its extensive industry expertise and relationships to thoroughly evaluate investment opportunities and uses its significant experience in conducting due diligence, valuing assets and all other aspects of deal execution, including financial and legal structuring, accounting and compensation design. The Investment Manager also draws upon its extensive network of relationships with industry-focussed professional advisory firms to assist with due diligence in other areas such as accounting, tax, legal, employee benefits, environmental, engineering and insurance.



# Investment Manager's Report (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Current Portfolio

Target Basin	Gross Committed Capital (\$mm)	Invested Capital (\$mm)	Gross Realised Capital (\$mm) <sup>(1)</sup>	Gross Unrealised Value (\$mm) <sup>(2)</sup>	Gross Realised Capital & Unrealised Value (\$mm) <sup>(3)</sup>	Gross MOIC <sup>(3)</sup>
<b>Hammerhead Resources (formerly CIOC)</b>						
Deep Basin (Canada)	307	295	23	538	561	1.9x
<b>Centennial</b>						
Permian (U.S.)	268	268	87	392	479	1.8x
<b>Three Rivers III</b>						
Permian (U.S.)	167	94	–	206	206	2.2x
<b>Liberty II</b>						
Bakken, PRB (U.S.)	142	142	–	177	177	1.3x
<b>ILX III</b>						
Deepwater GoM (U.S.)	200	116	–	139	139	1.2x
<b>Carrier II</b>						
Permian (U.S.)	133	110	–	131	131	1.2x
<b>RCO<sup>(4)</sup></b>						
North America	125	87	82	17	99	1.1x
<b>CNOR</b>						
Western Canada	90	83	–	83	83	1.0x
<b>Meritage III<sup>(5)</sup></b>						
Western Canada	67	34	–	59	59	1.8x
<b>Eagle II</b>						
Mid-Continent (U.S.)	67	62	–	56	56	0.9x
<b>Castex 2014</b>						
Gulf Coast Region (U.S.)	67	44	–	44	44	1.0x
<b>Sierra</b>						
Mexico	38	8	–	20	20	2.4x
<b>Fieldwood</b>						
GoM Shelf (U.S.)	82	59	3	9	12	0.2x
<b>Castex 2005</b>						
Gulf Coast Region (U.S.)	50	48	–	5	5	0.1x
<b>Total Current Portfolio<sup>(6)</sup></b>	<b>\$1,803</b>	<b>\$1,450</b>	<b>\$195</b>	<b>\$1,876</b>	<b>\$2,071</b>	<b>1.4x</b>

## Realisations

Target Basin	Gross Committed Capital (\$mm)	Invested Capital (\$mm)	Gross Realised Capital (\$mm) <sup>(1)</sup>	Gross Unrealised Value (\$mm)	Gross Realised Capital & Unrealised Value (\$mm) <sup>(3)</sup>	Gross MOIC <sup>(3)</sup>
<b>Rock Oil<sup>(8)</sup></b>						
Permian (U.S.)	–	114	229	11	240	2.1x
<b>CanEra III</b>						
Western Canada	–	1	1	–	1	0.4x
<b>Origo</b>						
North Sea (Norway, U.K.)	–	9	–	–	–	0.0x
<b>Total Investments<sup>(6)</sup></b>		<b>\$1,574</b>	<b>\$425</b>	<b>\$1,887</b>	<b>\$2,312</b>	<b>1.5x</b>

Note: Please refer to the Investment Portfolio Summary on pages 13 to 20 for additional details on the valuation of the Company's portfolio as of 31 December 2017.

<sup>(1)</sup> Gross realised capital is total gross proceeds realised on invested capital. Of the \$425 million of capital realised to date, \$248 million is the return of the cost basis, and the remainder is profit

<sup>(2)</sup> Net invested capital is total invested capital less cost basis of the realised capital

<sup>(3)</sup> Gross MOIC is Multiple of Invested Capital. Gross Unrealised Value and Gross MOIC are before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Total Net Value and Net MOIC will be materially less than Gross Unrealised Value and Gross MOIC. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

<sup>(4)</sup> Credit investment

<sup>(5)</sup> Midstream investment

<sup>(6)</sup> Amounts may vary due to rounding

<sup>(7)</sup> Net capital available of \$1,464 million is based on total capital raised of \$1,320 million, bank loan of \$100 million (maturing 27 June 2018), realised profits and other income net of fees, expenses and performance allocation. The Board does not expect to fully fund all commitments in the normal course of business

<sup>(8)</sup> The unrealised value of the Rock Oil investment consists of rights to mineral acres

## Investment Portfolio Summary

As of 31 December 2017, REL's portfolio comprised fourteen active investments including twelve E&P investments, one midstream investment and one credit investment.



### HAMMERHEAD

As of 31 December 2017, REL, through the Partnership, has invested \$295.3 million of its \$307.3 million commitment to Hammerhead. Hammerhead is a private E&P company focussed on liquids-rich unconventional resources in Western Canada. Since its establishment in 2010, Hammerhead has aggregated one of the largest and most advantaged land positions in the emerging Montney and Duvernay formations of Western Canada's Deep Basin. The company controls and operates 100 per cent. of this asset base, which comprises over 2,000 net drilling locations across 400,000 net acres in the Montney and Duvernay. Since Riverstone's initial investment, Hammerhead has increased production almost ten-fold to 28,000 boepd since time of entry and significantly grown reserves to 260 mmbob (as of December 2016, pro forma for acquisitions in Q1 2017).

In the second half of 2017, Hammerhead changed its name from Canadian International Oil Corp. (CIOC) to Hammerhead Resources Inc. In Q3 2017, Hammerhead issued \$160 million senior notes, the proceeds of which were used to redeem second lien notes and fund drilling for continued development and delineation of its asset base.

As of 31 December 2017, REL's interest in Hammerhead, through the Partnership, was valued at 1.9x Gross MOIC<sup>(1)</sup> or \$561.2 million (Realised: \$23.1 million, Unrealised: \$538.1 million). The headline multiple on REL's investment in Hammerhead decreased over the period, reflecting the \$64 million warrant exercise in Q1 2017 being valued at cost.

### CENTENNIAL

As of 31 December 2017, REL, through the Partnership, has invested in full its \$267.9 million commitment to Centennial. Centennial is an E&P company focussed on the acquisition and development of oil and liquids-rich natural gas resources in the Permian Delaware Basin, West Texas. The company, led by former EOG Resources, Inc. chief executive Mark Papa, has rapidly aggregated an 88,000 net acre position in the Delaware Basin of the Permian. The company's development plan envisages growing oil production from approximately 21,000 bopd as of Q3 2017 to 60,000 bopd in 2020.

REL, through the Partnership, owns approximately 19.5 million shares which are publicly traded (NASDAQ:CDEV), at a weighted average purchase price of \$11.21. REL has borrowed \$100 million through a margin loan secured by REL's investment in Centennial. In addition, REL has interests in approximately \$6 million of sponsor warrants.

In Q4 2017, Centennial completed an underwritten secondary public offering of 25.0 million shares. REL participated by selling 4.3 million shares (equal to its proportional share) at a price of \$19.95. The transaction resulted in gross proceeds to REL of \$86.7 million and implied a Gross MOIC<sup>(1)</sup> of 1.8x (Net MOIC of 1.6x) and Gross IRR<sup>(1)</sup> of 74 per cent. (Net IRR of 59 per cent.). Also in the quarter, Centennial completed a \$400 million private offering for senior unsecured notes due 2026 yielding 5.375 per cent., which it intends to use to repay its credit facility and for general corporate purposes.

As of 31 December 2017, REL's interest in Centennial, through the Partnership, was valued at 1.8x Gross MOIC<sup>(1)</sup> or \$479.2 million (Realised: \$86.7 million, Unrealised: \$392.5 million). The Gross MOIC<sup>(1)</sup>, which reflects the mark-to-market value of REL's shareholding, remained unchanged over the year.

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

## Investment Portfolio Summary (continued)



### THREE RIVERS III

As of 31 December 2017, REL, through the Partnership, has invested \$94.3 million of its \$166.7 million commitment to Three Rivers III. Similar to Riverstone's two prior successful partnerships with this management team, Three Rivers III focuses on oil and gas acquisition and development opportunities in the Permian Basin. Through a series of acquisitions, Three Rivers III has built a position of approximately 60,000 net acres in the Permian Delaware basin, primarily in Culberson & Reeves counties. The company drilled five wells in the second half of 2017 as the team continues to delineate its position and was producing approximately 10,000 boepd at the end of January 2018.

As of 31 December 2017, REL's interest in Three Rivers III, through the Partnership, was valued at 2.2x Gross MOIC<sup>(1)</sup> or \$205.6 million. The valuation for Three Rivers III decreased over the year, reflecting reduced M&A activity and acreage multiples in the Permian.

Subsequent to year end, REL announced the sale of Three Rivers III. Under the terms of the transaction, the Company's investment, through the Partnership, will realise gross cash proceeds of approximately \$205 million, representing a Gross MOIC<sup>(1)</sup> of 2.2x (Net MOIC of 1.9x) on the \$94 million investment and a Gross IRR<sup>(1)</sup> of 49 per cent. (Net IRR of 41 per cent.). This represents a gross profit of \$111 million, which will be subject to a performance fee upon closing of the sale, which is expected to occur in April 2018 and is subject to customary closing conditions. The realised gain from this transaction was fully offset by net operating losses from prior years, with the tax effect of the transaction fully reflected in the tax component of the valuation of the Company's investment in the Partnership, resulting in no tax due.



### CARRIER II

As of 31 December 2017, REL, through the Partnership, has invested \$109.6 million of its \$133.3 million commitment to Carrier II. Carrier II is focussed on the acquisition and exploitation of upstream oil and gas assets by partnering with select operators that are developing both unconventional and conventional reservoirs in North America. Shortly after its establishment in May 2015, Carrier II entered into a joint venture agreement with a highly experienced operator group made up of Henry Resources and PT Petroleum targeting 19,131 net acres for development in the southern Midland Basin. Subsequently through three separate acquisitions the company has acquired 3,489 net acres in Karnes County in the Eagle Ford basin, targeting the Sugarloaf Project and the Chisholm Project, both operated by Marathon Oil Corp. As of end of the period, Carrier II was producing over 8,000 boepd net.

As of 31 December 2017, REL's interest in Carrier II, through the Partnership, was valued at 1.2x Gross MOIC<sup>(1)</sup> or \$131.5 million. The Gross MOIC<sup>(1)</sup> decreased slightly over the year, reflecting weaker performance of publicly traded comparables.





## LIBERTY II

As of 31 December 2017, REL, through the Partnership, has invested \$141.7 million of its \$141.7 million commitment to Liberty II. As of December 2017, Liberty II had established an approximately 97,000 net acre position in the Williston (Bakken) and Powder River Basins through a series of acquisitions, which benefit from Liberty II's sophisticated and proprietary well completion technology. Liberty II has an inventory of over 1,000 gross drilling locations, and is currently producing approximately 7,700 boepd.

In 2017, Liberty II was successful in leasing 40,000 net acres in the East Nesson area of the Bakken, at an average cost of approximately \$600 per acre. The company initiated a drilling campaign on this acreage in late 2017.

As of 31 December 2017, REL's interest in Liberty II, through the Partnership, was valued at 1.3x Gross MOIC<sup>(1)</sup> or \$177.1 million. The valuation multiple increased over the year, reflecting improved performance at the company and a recovery in M&A activity in the basins in which it operates.

## RCO

## RCO

As of 31 December 2017, REL, through the Partnership, has invested \$87.0 million of its \$125.0 million commitment to RCO, of which \$82.0 million has been realised. RCO was formed in January 2015 to take advantage of the dislocation in the leveraged capital markets for energy companies. Since its inception, RCO has made a total of 32 investments, 27 of which have already been fully exited.

As of 31 December 2017, REL's interest in RCO, through the Partnership, was valued at 1.1x Gross MOIC<sup>(1)</sup> or \$99.0 million (Realised: \$82.0 million, Unrealised: \$17.0 million). The valuation decreased over the year, reflecting the mark-to-market value of RCO's remaining underlying securities.

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

## Investment Portfolio Summary (continued)



### ILX III

As of 31 December 2017, REL, through the Partnership, has invested \$116.1 million of its \$200.0 million commitment to ILX III. ILX III, based in Houston, Texas, is a repeat joint-venture with Ridgewood Energy Corporation. The new entity maintains the same strategy of acquiring non-operated working interests in oil-focused exploration projects in the shallow Gulf of Mexico. ILX III acquired offshore leases with 15 defined deepwater prospects at inception, but has since opportunistically farmed into two additional prospects and added 12 additional prospects through the 2016 central Gulf of Mexico Lease Sale.

In 2017, ILX III drilled four wells, of which three were discoveries. The company has a 75 per cent. success rate on its 12 wells drilled to date and is currently progressing plans to develop its nine discoveries.

As of 31 December 2017, REL's interest in ILX III, through the Partnership, was valued at 1.2x Gross MOIC<sup>(1)</sup> or \$139.3 million. The Gross MOIC<sup>(1)</sup> for ILX III decreased over the year, reflecting recent discoveries being valued at cost.



### CNOR

As of 31 December 2017, REL, through the Partnership, has invested \$83.3 million of its \$90.0 million commitment to CNOR. CNOR is a Calgary-based oil and gas company focussed on the Western Canadian Sedimentary Basin. CNOR has invested in a joint venture with Tourmaline Oil targeting the Peace River High area (111,700 net acres) and is currently also pursuing a delineation programme in the Pipestone Montney, where it has a position of approximately 25,000 net acres.

As of 31 December 2017, REL's interest in CNOR, through the Partnership, was valued at 1.0x Gross MOIC<sup>(1)</sup> or \$83.3 million. The Gross MOIC<sup>(1)</sup> remained unchanged over the year.



## FIELDWOOD

As of 31 December 2017, REL, through the Partnership, has invested \$58.7 million of its \$82.4 million commitment to Fieldwood. Riverstone formed Fieldwood in partnership with CEO Matt McCarroll and his team in December 2012. REL made its investment in Fieldwood in 2014, as the company acquired the GoM interests from Apache and SandRidge. The company has subsequently made three bolt-on acquisitions, and now has an interest in ~400 GoM leases and ~1,000 GoM wells, making it one of the largest oil and gas producers in the shallow Gulf of Mexico.

As of 31 December 2017, REL's interest in Fieldwood, through the Partnership, was valued at 0.2x Gross MOIC<sup>(1)</sup> or \$11.6 million (Realised: \$2.8 million, Unrealised: \$8.8 million). The valuation for Fieldwood decreased over the year, reflecting a combination of lower production, liquidity pressures, and ongoing balance sheet initiatives. Some portion of decreased valuation represents a permanent impairment of value.

Subsequent to year end, Fieldwood filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Chapter 11 plan of reorganisation encompasses a comprehensive restructuring of the company's balance sheet through reducing current debt by approximately \$1.6 billion and raising capital of approximately \$525 million through an equity rights offering. In addition, Fieldwood is expected to acquire the deepwater Gulf of Mexico oil and gas assets of Noble Energy, Inc., which complement and enhance the company's existing asset base and operations. The transaction is expected to close in the second quarter of 2018, subject to court approval.

## EAGLE II

As of 31 December 2017, REL, through the Partnership, has invested \$61.7 million of its \$66.7 million commitment to Eagle II. The company owns approximately 11,300 net acres in the SCOOP and approximately 13,800 net acres in the Mississippi Lime. At the end of 2017, the company sold a circa. 5,000 acre portion of its SCOOP assets, the proceeds of which were used to pay down debt. Eagle II is currently producing approximately 2,100 boepd.

As of 31 December 2017, REL's interest in Eagle II, through the Partnership, was valued at 0.9x Gross MOIC<sup>(1)</sup> or \$55.5 million. The Gross MOIC<sup>(1)</sup> for Eagle II decreased over the year, reflecting less active M&A markets for Mississippi Lime assets.

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

## Investment Portfolio Summary (continued)



### CASTEX 2014

As of 31 December 2017, REL, through the Partnership, has invested \$43.7 million of its \$66.7 million commitment to Castex 2014. Castex 2014 is a Houston-based oil and gas company focussed on gas exploration opportunities in the U.S. Gulf Coast Region, in partnership with Castex 2005. Castex 2014 has achieved a 100 per cent success rate on the seven exploration prospects drilled since inception.

In the second half of 2017, Castex 2014 and Castex 2005 drilled the second well within the Coastal Terrebone Seismic area. The companies encountered commercial amounts consistent with pre-drill estimates.

As of 31 December 2017, REL's interest in Castex 2014, through the Partnership, was valued at 1.0x Gross MOIC<sup>(1)</sup> or \$43.7 million. The Gross MOIC<sup>(1)</sup> remained unchanged over the year.



### MERITAGE III

As of 31 December 2017, REL, through the Partnership, has invested \$33.7 million of its \$66.7 million commitment to Meritage III. REL's investment to date is related to construction of gas gathering, gas processing, and oil gathering infrastructure in Western Canada.

Since completing its initial midstream infrastructure, the company has successfully entered into additional gas gathering and processing agreements with Hammerhead and third parties. In the second half of 2017, the company completed and commissioned its second gas processing facility and related infrastructure at Patterson Creek.

As of 31 December 2017, REL's interest in Meritage III, through the Partnership, was valued at 1.8x Gross MOIC<sup>(1)</sup> or \$59.0 million. The valuation for Meritage III increased over the year, reflecting the company securing contracts for additional volumes.



## CASTEX 2005

As of 31 December 2017, REL, through the Partnership, has invested \$48.0 million of its \$50.0 million commitment to Castex 2005. Castex 2005 is a partnership focussed on a portfolio of properties in Southern Louisiana and the Gulf of Mexico Shelf that produce approximately 62 mmcfepd, as well as a seismic-driven exploration program. Castex is managed by Castex Energy Inc., which has a 27 year operating history in exploration and development in the region.

As of 31 December 2017, REL's interest in Castex 2005, through the Partnership, was valued at 0.1x Gross MOIC<sup>(1)</sup> or \$4.8 million, reflecting its balance sheet and the challenging environment for gas-focussed producers in the Gulf Coast and Gulf of Mexico shelf. The valuation remained unchanged over the year.

## SIERRA

As of 31 December 2017, REL, through the Partnership, has invested \$8.2 million of its \$37.5 million commitment to Sierra. Sierra is an independent Mexican energy company established to pursue select upstream and midstream opportunities in Mexico. Sierra's consortiums have won five offshore blocks to date, which make Sierra the third-largest non-state owned E&P company in Mexico by net acreage, with approximately 560,000 net acres.

In Q3 2017, a consortium consisting of Sierra, Talos (a Riverstone portfolio company) and Premier Oil PLC announced a historic oil discovery in the shallow waters of the Gulf of Mexico. The Zama 1 well, located in Mexico's Block 7, confirmed the presence of a light oil resource estimated to be in the range 1.4 billion and 2 billion barrels of oil in place.

As of 31 December 2017, REL's interest in Sierra, through the Partnership, was valued at 2.4x Gross MOIC<sup>(1)</sup> or \$19.7 million. The valuation for Sierra increased over the year, reflecting adjustments to the valuation of the Zama 1 discovery and spending on undrilled prospects.

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

# Investment Manager's Report (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Realised Investments



### ROCK OIL

Rock Oil was formed in March 2014 with the strategy of applying Rock Oil's land and technical expertise to the acquisition and development of assets in top-tier North American plays. Since formation, Rock Oil has entered into a series of acquisitions to establish a position of approximately 24,783 net acres in the Midland Basin of the Permian, producing approximately 4,900 boepd.

In Q3 2016, Rock Oil agreed to the sale of 100 per cent. of its membership interests to SM Energy Company (NYSE: SM), a U.S. based E&P company. The transaction subsequently closed on 4 October 2016, resulting in gross proceeds to REL of approximately \$230 million. This implies a Gross MOIC<sup>(1)</sup> of 2.0x, a Gross IRR<sup>(1)</sup> of 78 per cent. and a gain of \$116 million on the Company's investment, through the Partnership, of \$114 million.

The MOIC and IRR, net of performance allocation and taxes, are approximately 1.9x and 60 per cent., respectively. The Company received \$216 million of the gross proceeds at the close of the transaction. The Investment Manager, through RELCP, subsequently invested the net proceeds of its performance allocation, resulting in the purchase of approximately 590,000 shares.

In Q3 2017, the Company received the remaining \$14 million proceeds from the sale following completion of the nine month escrow period. Approximately \$11 million of value remains unrealised consisting of balance of cash and mineral acre reserves not included in the sale.

As of 31 December 2017, REL's total interest in Rock Oil, through the Partnership, was valued at 2.1x Gross MOIC<sup>(1)</sup> or \$240.2 million (Realised \$229.5 million, Unrealised \$10.7 million).



### CANERA III

During Q1 2017, REL, through the Partnership, terminated its commitment to CanEra III and realised \$0.6 million of its \$1.4 million investment, or 0.4x Gross MOIC<sup>(1)</sup>.



### ORIGO

In June 2017, REL, through the Partnership, transferred its interest in Origo to Norwegian oil and gas operator DNO ASA (OSE:DNO) for no proceeds.

## Valuation

The Investment Manager is charged with proposing the valuation of the assets held by REL through the Partnership. The Partnership has directed that securities and instruments be valued at their fair value. REL's valuation policy is compliant with IFRS and IPEV Valuation Guidelines and has been applied consistently from period to period since inception. As the Company's investments are generally not publicly quoted, valuations require meaningful judgment to establish a range of values, and the ultimate value at which an investment is realised may differ from its most recent valuation and the difference may be significant.

The Investment Manager values each underlying investment in accordance with the Riverstone valuation policy, the IFRS accounting standards and IPEV Valuation Guidelines. The value of REL's portion of that investment is derived by multiplying its ownership percentage by the value of the underlying investment. If there is any divergence between the Riverstone valuation policy and REL's valuation policy, the Partnership's proportion of the total holding will follow REL's valuation policy. There were no valuation adjustments recorded by REL as a result of differences between IFRS and U.S. Generally Accepted Accounting Policies for the year ended 31 December 2017 or in any period to date. Valuations of REL's investments through the Partnership are determined by the Investment Manager and disclosed quarterly to investors, subject to Board approval.

Riverstone values its investments using common industry valuation techniques, including comparable public market valuation, comparable merger and acquisition transaction valuation, and discounted cash flow valuation.

For development-type investments, Riverstone also considers the recognition of appreciation or depreciation of subsequent financing rounds, if any. For those early stage privately held companies where there are other indicators of a decline in the value of the investment, Riverstone will value the investment accordingly even in the absence of a subsequent financing round.

Riverstone reviews the valuations on a quarterly basis with the assistance of the Investment Manager's valuation committee as part of the valuation process.

The Audit Committee reviews the valuations of the Company's investments held through the Partnership, and makes a recommendation to the Board for formal consideration and acceptance.

## Uninvested Cash

As of 31 December 2017, REL, including the Partnership, had uninvested funds of over \$147 million held as cash and money market fixed deposits. The Partnership maintains deposit accounts with several leading international banks.

In addition, the Partnership invests a portion of its cash deposits in short-term money market fixed deposits. REL's treasury policy seeks to protect the principal value of cash deposits utilising low risk investments with top-tier counterparts. Uninvested cash earned approximately 128 basis points during the year ended 31 December 2017.

In connection with the listing of REL on the London Stock Exchange, all proceeds of the offering were converted to U.S. dollars at an average rate of 1.606 at inception. All cash deposits referred to above are denominated in U.S. dollars. Additionally, REL's functional currency and Financial Statements are all presented in U.S. dollars. The Partnership's commitments are denominated in U.S. dollars, except Hammerhead and CNOR which are denominated in Canadian dollars.

## Subsequent Events

In February 2018, REL announced the sale of Three Rivers III. Under the terms of the transaction, the Company's investment, through the Partnership, will realise gross cash proceeds of approximately \$205 million, representing a Gross MOIC<sup>(1)</sup> of 2.2x (Net MOIC of 1.9x) on the \$94 million investment and a Gross IRR<sup>(1)</sup> of 49 per cent. (Net IRR of 41 per cent.). This represents a gross profit of \$111 million, which will be subject to a performance fee upon closing of the sale, which is expected to occur in April 2018 and is subject to customary closing conditions. The realised gain from this transaction was fully offset by net operating losses from prior years, with the tax effect of the transaction fully reflected in the tax component of the valuation of the Company's investment in the Partnership, resulting in no tax due.

In February 2018, Fieldwood filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Chapter 11 plan of reorganisation encompasses a comprehensive restructuring of the company's balance sheet through reducing current debt by approximately \$1.6 billion and raising capital of approximately \$525 million through an equity rights offering. In addition, Fieldwood is expected to acquire the deepwater Gulf of Mexico oil and gas assets of Noble Energy, Inc., which complement and enhance the company's existing asset base and operations. The transaction is expected to close in the second quarter of 2018, subject to court approval. The effects of both transactions are fully reflected in the valuation of the Company's investment in the Partnership at the year end.

## Riverstone International Limited

27 February 2018

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

REL invests exclusively in the global energy industry, with a particular focus on the exploration and production, and midstream sectors. The Company may also make investments in other energy sub-sectors (including energy services and power and coal). REL is well positioned to take advantage of, and benefit from, the large number of investment opportunities being driven by the current commodity price environment, as well as continued growth in global energy demand, the North American energy revolution, asset rationalisation by larger companies, and growing deepwater exploration success rates.

Since REL, through the Partnership, invests alongside the Private Riverstone Funds in all Qualifying Investments in which the Private Riverstone Funds participate, REL presents a unique opportunity for public market investors to gain exposure to Riverstone's investments in the very attractive global energy sector.

The Investment Manager intends to manage investments for the benefit of all of its investors. If any matter arises that the Investment Manager determines in its good faith judgment constitutes an actual conflict of interest, the Investment Manager may take such actions as may be necessary or appropriate, having regard to all relevant terms of the Investment Management Agreement, to manage the conflict (and upon taking such actions the Investment Manager will be considered to have discharged responsibility for managing such conflict). The Directors are required by the Registered Collective Investment Schemes Rules 2015 issued by the GFSC to take all reasonable steps to ensure that there is no breach of the conflicts of interest requirements of those rules.

## Asset Allocation

The Company acquires its interests in each Qualifying Investment at the same time (or as near as practicable thereto) as, and on substantially the same economic and financial terms as, the relevant Private Riverstone Funds.

The Company and the current Private Riverstone Funds, (Fund V and Fund VI) invest in each Qualifying Investment in which the Private Riverstone Funds participate in a ratio of one-third to REL to two-thirds to the Private Riverstone Funds. This investment ratio is subject to adjustment on a case-by-case basis (a) to take account of the liquid assets available to each of the Company and the Private Riverstone Funds for investment at the relevant time and any other investment limitations applicable to either of them or otherwise and (b) if both (i) a majority of the Company's independent Directors and (ii) the Investment Manager agree that the investment ratio should be adjusted for specific Qualifying Investments.

For each Private Riverstone Fund subsequent to Fund V and Fund VI which is of a similar size and has a similar investment policy to the Company, Riverstone will seek to ensure that, subject to the investment capacity of the Company at the time, the Company and the Private Riverstone Fund invest in Qualifying Investments in an investment ratio of one-third to REL to two-thirds to the Private Riverstone Fund or in such other ratio as the Company's independent Directors and the Investment Manager agree at or prior to the first closing of such Private Riverstone Fund.

Such investment ratio may be adjusted by agreement between the Company's independent Directors and the Investment Manager on subsequent closings of a Private Riverstone Fund having regard to the total capital commitments raised by that Private Riverstone Fund during its commitment period, the liquid assets available to the Company at that time and any other investment limitations applicable to either of them.

The Investment Manager typically seeks to ensure that the Company and the Private Riverstone Funds dispose of their interests in Qualifying Investments at the same time, on substantially the same terms, and in the case of partial disposals, in the same ratio as the relevant Qualifying Investment was acquired, but this may not always be the case.

In addition, the Company may at any time make investments consistent with its investment policy independent from Private Riverstone Funds, which may include investments alongside Riverstone employee co-investment vehicles or other Riverstone managed or advised co-investment vehicles. In such cases, approval by the Board is required.



The Company invests in public or private securities, may hold controlling or non-controlling positions in its investments and may make investments in the form of equity, equity-related instruments, indebtedness or derivatives (or a combination of any of them). The Company does not permit any investments to be the subject of stock lending or sale and repurchase of shares.

## Diversification

Save for the Company's investment in Hammerhead, which may represent up to 35 per cent. of the Company's gross assets, including cash holdings, measured at the time the investment is made, no one investment made by the Company, through the Partnership, may (at the time of the relevant investment) represent more than 25 per cent. of the Company's gross assets, including cash holdings, measured at the time the investment is made. The Company utilises the Partnership and its subsidiary undertakings or other similar investment holding structures to make investments and this limitation does not apply to its ownership interest in any such subsidiary undertaking (nor, for the avoidance of doubt, to the Company's interest in the Partnership).

## Gearing

The Company can, but is not required to, incur indebtedness for investment purposes, to the extent that such indebtedness is a precursor to an ultimate equity investment, working capital requirements and to fund own-share purchases or retentions up to a maximum of 30 per cent. of the last published NAV as at the time of the borrowing unless approved by the Company by an ordinary resolution. This limitation does not apply to portfolio level entities in respect of which the Company is invested but it does apply to all subsidiary undertakings utilised by the Company or the Partnership for the purposes of making investments. The consent of a majority of the Company's Directors shall be required for the Company or the Partnership to enter into any credit or other borrowing facility.

The Company must at all times comply with its published investment policy. For so long as the Ordinary Shares are listed on the Official List, no material change may be made to the Company's investment policy other than with the prior approval of both the Company's Shareholders and a majority of the independent Directors of the Company, and otherwise in accordance with the Listing Rules.

## Investment Restrictions

The Company is subject to the following investment restrictions:

- for so long as required by the Listing Rules, it will at all times seek to ensure that the Investment Manager invests and manages the Company's and the Partnership's assets in a way which is consistent with the Company's objective of spreading risk and in accordance with the Company's investment policy;
- for so long as required by the Listing Rules, it must not conduct a trading activity which is significant in the context of the Company and its Investment Undertakings;
- for so long as required by the Listing Rules, not more than 10 per cent. of the value of its total assets will be invested in other UK-listed closed-ended investment funds, except for those which themselves have published investment policies to invest not more than 15 per cent. of their total assets in other UK-listed closed-ended investment funds; and
- any investment restrictions that may be imposed by Guernsey law (although no such restrictions currently exist).

Currency and interest rate hedging transactions will only be undertaken for the purpose of efficient portfolio management and these transactions will not be undertaken for speculative purposes.

**“The Company invests in the global energy sector, which is undergoing significant transformation driven in large part by a revolution in horizontal drilling and completion technology.”**

# Board of Directors

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Richard Hayden (72), Chairman and Non-executive Independent Director



**Appointment:** Appointed to the Board in May 2013 and appointed as Chairman in May 2016

**Experience:** Mr Hayden serves as non-executive Chairman of TowerBrook Capital Partners Advisory Board and member of the Investment Committee. Prior to joining TowerBrook in 2009, Mr Hayden was Vice Chairman of GSC Group Inc and Global Head of the CLO and Mezzanine Debt

business. Previously, Mr Hayden was with Goldman Sachs from 1969 to 1999. Mr Hayden held a variety of senior positions during his time at Goldman Sachs, including Deputy Chairman of Goldman Sachs International Ltd and Chairman of the Global Credit Committee. Mr Hayden has served on a number of corporate and advisory boards and is currently a non-executive Director of CQS. Mr Hayden is also on the Finance and Investment Committee of the Children's Investment Fund Foundation. Mr Hayden is a UK resident.

**Committee Membership:** Audit Committee Member; Nomination Committee Chairman; Management Engagement Committee Member

## Peter Barker (69), Non-executive Independent Director



**Appointment:** Appointed to the Board in September 2013

**Experience:** Mr Barker was California Chairman of JPMorgan Chase & Co., a global financial services firm, from September 2009 until his retirement on 31 January 2013, and a member of its Executive Committee in New York. Mr Barker was also an Advisory Director of Goldman, Sachs & Co. from December 1998

until his retirement in May 2002, and a Partner of Goldman, Sachs & Co. from 1982 to 1998, heading up Investment Banking on the West Coast, having joined Goldman, Sachs & Co. in 1971. Mr Barker is President of the Fletcher Jones Foundation and has held numerous directorships. He is currently on the board of Fluor Corporation, Avery Dennison Corporation, the W. M. Keck Foundation, the Irvine Company, Franklin Resources, Inc., and the Automobile Club of Southern California. Mr Barker is also a Trustee of Claremont McKenna College, having formerly been its Chairman, and was previously Chair of the Los Angeles Area Council of the Boy Scouts of America. Mr Barker is a U.S. resident.

**Committee Membership:** Audit Committee Member; Nomination Committee Member; Management Engagement Committee Member

## Patrick Firth (56), Non-executive Senior Independent Director



**Appointment:** Appointed to the Board in May 2013 and appointed as Senior Independent Director in May 2016

**Experience:** Mr Firth qualified as a Chartered Accountant with KPMG Guernsey in 1991 and is also a member of the Chartered Institute for Securities and Investment. He has worked in the fund industry in Guernsey since joining Rothschild Asset Management (CI) Limited in 1992 before moving to become Managing

Director at Butterfield Fund Services (Guernsey) Limited (subsequently Butterfield Fulcrum Group (Guernsey) Limited), a company providing third party fund administration services, where he worked from April 2002 until June 2009. He is a non-executive Director of a number of investment funds and management companies, including GLI Finance Limited, ICG Longbow Senior Secured UK Property Debt Investments Limited, JZ Capital Partners Limited and NextEnergy Solar Fund Limited. Mr Firth is a resident of Guernsey.

**Committee Membership:** Audit Committee Chairman; Nomination Committee Member; Management Engagement Committee Member

## Pierre F. Lapeyre (55), Non-executive Director



**Appointment:** Appointed to the Board in May 2013

**Experience:** Mr Lapeyre is a Founder and Senior Managing Director of Riverstone. He is based in New York. Prior to founding Riverstone, Mr Lapeyre was a Managing Director of Goldman Sachs in its Global Energy and Power Group. Mr Lapeyre joined Goldman Sachs in 1986 and spent his 14-year investment banking career focussed

on energy and power, particularly the midstream, upstream and energy service sectors. Mr Lapeyre's responsibilities at Goldman Sachs included client coverage and leading the execution of a wide variety of mergers and acquisitions, IPO, strategic advisory and capital markets financings for clients across all sectors of the industry.

While at Goldman Sachs, Mr Lapeyre served as sector captain for the midstream and energy services segments, led the group's coverage of Asian energy companies and was extensively involved in the origination and execution of energy private equity investments on behalf of the firm. Mr Lapeyre was responsible for managing Goldman Sachs' leading franchise in master limited partnerships. He was also asked to lead the group's agency and principal investment effort in energy/power technology. At Goldman Sachs Mr Lapeyre had relationship and deal execution responsibilities for a broad range of energy clients.

Mr Lapeyre serves on the boards of directors or equivalent bodies of a number of portfolio companies in which Other Riverstone Funds have investment interests. Mr Lapeyre is a U.S. resident.

**Committee Membership:** None

**David M. Leuschen (66),**  
*Non-executive Director*



**Appointment:** Appointed to the Board in May 2013

**Experience:** Mr Leuschen is a Founder and Senior Managing Director of Riverstone. He is based in New York. Prior to founding Riverstone, Mr Leuschen was a Partner and Managing Director at Goldman Sachs and founder and head of the Goldman Sachs Global Energy and Power Group. Mr Leuschen joined Goldman Sachs in 1977, became

head of the Global Energy and Power Group in 1985, became a Partner of that firm in 1986 and remained with Goldman Sachs until leaving to found Riverstone. Mr Leuschen has extensive mergers and acquisitions, financing and investing experience in the energy and power industry.

Mr Leuschen was responsible for building the Goldman Sachs energy and power investment banking practice into one of the leading franchises in the global energy and power industry. During this period, Mr Leuschen and his team participated in a large number of the major energy and power mergers and acquisitions transactions worldwide. Mr Leuschen also was a founder of Goldman Sachs' leading master limited partnership franchise. Mr Leuschen also served as Chairman of the Goldman Sachs Energy Investment Committee, where he was responsible for screening potential capital commitments by Goldman Sachs in the energy and power industry and was responsible for establishing and managing the firm's relationships with senior executives from leading companies in all segments of the energy and power industry.

Mr Leuschen also serves on the boards of directors or equivalent bodies of a number of portfolio companies in which Other Riverstone Funds have investment interests. Mr Leuschen is a U.S. resident.

**Committee Membership:** None

**Jeremy Thompson (62),**  
*Non-executive Independent Director*



**Appointment:** Appointed to the Board in May 2016

**Experience:** Mr Thompson has sector experience in Finance, Telecoms, Engineering and Oil & Gas. He acts as an independent non-executive directorship for both listed, including DP Aircraft 1 Limited, and PE funds. Prior to that, he has worked in private equity and was CEO of four autonomous global businesses within Cable

& Wireless Plc (operating in both regulated and unregulated markets), and earlier held CEO roles within the Dowty Group. He currently serves as chairman of the States of Guernsey Renewable Energy Team and is a commissioner of the Alderney Gambling Control Commission. He is also an independent member of the Guernsey Tax Tribunal panel. He is a graduate of Brunel (B.Sc), Cranfield (MBA) and Bournemouth (M.Sc) Universities and was an invited member to the UK's senior defence course (Royal College of Defence Studies). He is a member of the IoD and holds the IoD's Certificate and Diploma in Company Direction, is an associate of the Chartered Institute of Arbitration and a chartered Company Secretary. Mr Thompson is a resident of Guernsey and has previously lived and worked in the UK, USA and Germany.

**Committee Membership:** Audit Committee Member; Nomination Committee Member; Management Engagement Committee Member

**Ken Ryan (45),**  
*Non-executive Director*



**Appointment:** Appointed to the Board in May 2016

**Experience:** Mr Ryan is a Partner of Riverstone and is responsible for corporate development. He is based in New York. Prior to joining Riverstone in 2011, he worked for Gleacher & Company / Gleacher Partners in both London and New York, most recently as Managing Director and Co-head of Investment Banking. Prior to Gleacher,

he worked for Goldman Sachs in the European Financial Institutions Group in London, the U.S. Financial Institutions Group in New York, and the European Advisory Group. He received a law degree from University of Dublin, Trinity College.

Mr Ryan also serves on the boards of directors or equivalent bodies of a number of portfolio companies in which Other Riverstone Funds have investment interests. Mr Ryan is a U.S. resident.

**Committee Membership:** None

**Claire Whittet (62),**  
*Non-executive Independent Director*



**Appointment:** Appointed to the Board in May 2015

**Experience:** Mrs Whittet has 40 years of experience in the financial services industry. After obtaining a MA (Hons) in Geography from the University of Edinburgh, she joined the Bank of Scotland for 19 years and undertook a wide variety of roles including running two city centre offices. She moved to Guernsey in 1996 and was Global Head

of Private Client Credit for Bank of Bermuda before joining the Board of Rothschild Bank International Limited in 2003, initially as Director of Lending and latterly as Managing Director and Co-Head until May 2016 when she became a non-executive Director. Mrs Whittet is an ACIB member of the Chartered Institute of Bankers in Scotland, a Chartered Banker, a member of the Chartered Insurance Institute and holds an IoD Diploma in Company Direction. She is a non-executive Director of five other listed funds, being BH Macro Limited, Eurocastle Investment Limited, International Public Partnerships Limited, Third Point Offshore Investors Limited and TwentyFour Select Monthly Income Fund Limited. Mrs Whittet is a Guernsey resident.

**Committee Membership:** Audit Committee Member; Nomination Committee Member; Management Engagement Committee Chairman

# Report of the Directors

Riverstone Energy Limited Annual Report and Financial Statements 2017

The Directors hereby submit the Annual Report and Audited Financial Statements for the Company for the year ended 31 December 2017. This Report of the Directors should be read together with the Corporate Governance Report on pages 33 to 39.

## General Information

Riverstone Energy Limited is a company limited by shares, which was incorporated on 23 May 2013 in Guernsey with an unlimited life and registered with the Commission as a Registered Closed-ended Collective Investment Scheme pursuant to the POI Law. It has been listed on the London Stock Exchange since 29 October 2013. The registered office of the Company is Heritage Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY, Channel Islands.

## Principal Activities

The principal activity of the Company is to act as an investment entity through the Partnership and make privately negotiated equity investments in the energy sector.

The Company's investment objective is to generate long-term capital growth by investing in the global energy sector, with a particular focus on opportunities in the global exploration and production and midstream energy sub-sectors.

## Business Review

A review of the Company's business and its likely future development is provided in the Chairman's Statement and in the Investment Manager's Report on pages 10 to 21.

## Listing Requirements

Since being admitted on 29 October 2013 to the Official List of the UK Listing Authority, maintained by the FCA, the Company has complied with the applicable Listing Rules.

## Results and Dividend

The results of the Company for the year are shown in the audited Statement of Comprehensive Income on page 48.

The Net Asset Value of the Company as at 31 December 2017 was \$1,743 million (31 December 2016: \$1,699 million).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (31 December 2016: \$Nil).

## Share Capital

At incorporation on 23 May 2013, the Company issued one founder Ordinary Share of no par value. On 29 October 2013, the Company issued 71,032,057 Ordinary Shares of no par value at £10 per Ordinary Share in an initial public offering raising a total of \$1,138 million.

KFI, one of the Cornerstone Investors in the Company, paid for and acquired 10 million Ordinary Shares in two equal tranches of £50 million. The first tranche was paid on Admission and the second tranche of 5 million Ordinary Shares was paid on 26 September 2014.

On 11 December 2015, the Company raised £67.6 million (\$102.3 million)<sup>(1)</sup> through the issuance of 8,448,006 new Ordinary Shares at £8.00 per Ordinary Share.

Following admission of the new Ordinary Shares, the share capital of the Company is 84,480,064 Ordinary Shares in aggregate.

The Company has one class of Ordinary Shares. The issued nominal value of the Ordinary Shares represents 100 per cent. of the total issued nominal value of all share capital. Under the Company's Articles of Incorporation, on a show of hands, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. The Company has not declared or paid dividends from inception to 31 December 2017, and has no intention to do so.

The Ordinary Shares have no right to fixed income.

<sup>(1)</sup> Gross of share issuance costs of \$3.6 million

## Shareholdings of the Directors

The Directors with beneficial interests in the shares of the Company as at 31 December 2017 and 2016 are detailed below:

Director	Ordinary	Per cent.	Ordinary	Per cent.
	Shares held	Holding at	Shares held	Holding at
	31	31	31	31
	December	December	December	December
	2017	2017	2016	2016
Richard Hayden <sup>(1)</sup>	10,000	0.012	10,000	0.012
Peter Barker <sup>(1)(2)</sup>	5,000	0.006	5,000	0.006
Patrick Firth <sup>(2)(3)</sup>	8,000	0.009	4,000	0.005
Pierre Lapeyre <sup>(4)</sup>	50,000	0.059	50,000	0.059
David Leuschen <sup>(4)</sup>	–	–	–	–
Ken Ryan <sup>(4)</sup>	–	–	–	–
Jeremy Thompson <sup>(1)</sup>	3,751	0.004	–	–
Claire Whittet <sup>(1)(5)</sup>	2,250	0.003	–	–

<sup>(1)</sup> Non-executive Independent Director

<sup>(2)</sup> Ordinary Shares held jointly with spouse

<sup>(3)</sup> Senior Independent Director

<sup>(4)</sup> Mr Lapeyre, Mr Leuschen and Mr Ryan, as well as other Riverstone senior management, have a beneficial interest in REL Coinvestment, LP, which as at the year end held 5,000,000 Ordinary Shares, and Riverstone Energy Limited Capital Partners LP, which as at the year end held 675,814 Ordinary Shares

<sup>(5)</sup> Ordinary Shares held indirectly with spouse

In addition, the Company also provides the same information as at 16 February 2018, being the most current information available.

Director	Ordinary	Per cent.
	Shares held	Holding at
	16 February	16 February
	2018	2018
Richard Hayden <sup>(1)</sup>	10,000	0.012
Peter Barker <sup>(1)(2)</sup>	5,000	0.006
Patrick Firth <sup>(2)(3)</sup>	8,000	0.009
Pierre Lapeyre <sup>(4)</sup>	50,000	0.059
David Leuschen <sup>(4)</sup>	–	–
Ken Ryan <sup>(4)</sup>	–	–
Jeremy Thompson <sup>(1)</sup>	3,751	0.004
Claire Whittet <sup>(1)(5)</sup>	2,250	0.003

<sup>(1)</sup> Non-executive Independent Director

<sup>(2)</sup> Ordinary Shares held jointly with spouse

<sup>(3)</sup> Senior Independent Director

<sup>(4)</sup> Mr Lapeyre, Mr Leuschen and Mr Ryan, as well as other Riverstone senior management, have a beneficial interest in REL Coinvestment, LP, which as 16 February 2018 held 5,000,000 Ordinary Shares and Riverstone Energy Limited Capital Partners LP, which as at 16 February 2018 held 675,814 Ordinary Shares

<sup>(5)</sup> Ordinary Shares held indirectly with spouse

## Directors' Authority to Buy Back Shares

At the AGM on 23 May 2017 in St Peter Port, Guernsey, the Company renewed the authority to make market purchases of up to a maximum of 14.99 per cent. of the issued share capital of the Company. Any buy back of the Company's Ordinary Shares will be made subject to Companies Law and within any guidelines established from time to time by the Board. The making and timing of any buy backs will be at the absolute discretion of the Board and not at the option of the Shareholders. Purchases of the Company's Ordinary Shares will only be made through the market for cash at prices below the prevailing Net Asset Value of the Company's Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance Shareholder value. Such purchases will also only be made in accordance with the Listing Rules which provide that the price to be paid must not be more than 5 per cent. above the average of the middle market quotations for the Company's Ordinary Shares for the five business days before the shares are purchased unless previously advised to Shareholders.

In accordance with the Company's Articles of Incorporation and Companies Law, up to 10 per cent. of the Company's Ordinary Shares may be held as treasury shares. The Company did not purchase any shares for treasury or cancellation up to the date of this report.

## Directors' and Officers' Liability Insurance

The Company maintains insurance in respect of directors' and officers' liability in relation to their acts on behalf of the Company.

## Substantial Shareholdings

As at 31 December 2017, the Company had been notified, in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules, of the following substantial voting rights as Shareholders of the Company.

Shareholder	Shareholding	Per cent. Holding	Nature of Holding
AKRC Investments LLC <sup>(1)</sup>	23,264,259	27.54	Indirect
Kendall Family Investments LLC <sup>(1)</sup>	10,000,000	11.84	Direct
Old Mutual Global Investors	6,139,239	7.27	Indirect
REL Coinvestment, LP	5,000,000	5.92	Direct

<sup>(1)</sup> Held by a Cornerstone Investor

# Report of the Directors (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

In addition, the Company also provides the same information as at 16 February 2018, being the most current information available.

Shareholder	Shareholding	Per cent. Holding	Nature of Holding
AKRC Investments LLC <sup>(1)</sup>	23,264,259	27.54	Indirect
Kendall Family Investments LLC <sup>(1)</sup>	10,000,000	11.84	Direct
Old Mutual Global Investors	6,168,531	7.30	Indirect
REL Coinvestment, LP	5,000,000	5.92	Direct

<sup>(1)</sup> Held by a Cornerstone Investor

The Directors confirm that there are no securities in issue that carry special rights with regards to the control of the Company.

The Company's issued share capital consists of 84,480,064 Ordinary Shares. Under the Company's Articles of Incorporation, on a show of hands, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every share held.

## Independent External Auditor

Ernst & Young LLP has been the Company's external auditor since incorporation. The Audit Committee reviews the appointment of the external auditor, its effectiveness and its relationship with the Company, which includes monitoring the use of the external auditor for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of the external auditor, a resolution will be proposed at the 2018 Annual General Meeting to reappoint Ernst & Young LLP. Each Director believes that there is no relevant information of which the external auditor is unaware. Each has taken all steps necessary, as a Director, to be aware of any relevant audit information and to establish that Ernst & Young LLP is made aware of any pertinent information. This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies Law. Further information on the work of the external auditor is set out in the Report of the Audit Committee on pages 40 to 42.

## Articles of Incorporation

The Company's Articles of Incorporation may only be amended by special resolution of the Shareholders.

## Non-mainstream Pooled Investments

The Board has concluded that the Company's Ordinary Shares are not non-mainstream pooled investments for the purposes of the FCA rules regarding the restrictions on the promotion to retail investors of unregulated collective investment schemes and close substitutes, meaning that the restrictions on promotion imposed by the FCA rules do not apply. It is the Board's intention that the Company conducts its affairs so that these restrictions will continue to remain inapplicable.

## AIFMD

REL is regarded as an externally managed non-EEA AIF under the AIFM Directive. RIL is the Investment Manager of the Company as its non-EEA AIFM. The AIFMD outlines the required information which has to be made available to investors in an AIF and directs that material changes to this information be disclosed in the Annual Report of the AIF. All information required to be disclosed under the AIFMD is either disclosed in this Annual Report or is detailed in the Appendix entitled AIFMD Disclosures on page 178 in REL's latest Prospectus which can be obtained through the Company's website [www.RiverstoneREL.com](http://www.RiverstoneREL.com). The AIFM has no remuneration within the current or prior year that falls within the scope of Article 22 of the Directive.

RIL provides AIFMD compliant management services to REL. The AIFM acting on behalf of the AIF, has appointed Eterra Depositary Company (UK) Limited to provide depositary services to the AIF. The appointment of the Depositary is intended to adhere to, and meet the conditions placed on the Depositary and the AIFM under Article 21 and other related articles of the AIFMD. The Depositary shall only provide depositary services to the AIF should it admit one or more German and/or Danish investors following marketing activity towards them. At that time, the Depositary shall observe and comply with the Danish and German regulations applying to the provision of depositary services to a non-EEA AIF marketed in Denmark or Germany, as the case may be, by a non-EEA AIFM.

## UCITS Eligibility

The Investment Manager is a relying adviser of Riverstone Investment Group LLC. Riverstone Investment Group LLC is registered as an investment adviser with the SEC under the U.S. Investment Advisers Act. As such, the Investment Manager is subject to Riverstone Investment Group LLC's supervision and control, the advisory activities of the Investment Manager are subject to the U.S. Investment Advisers Act and the rules thereunder and the Investment Manager is subject to examination by the SEC.

Accordingly the Company has been advised that its Ordinary Shares should be “transferable securities” and, therefore, should be eligible for investment by authorised funds in accordance with the UCITS Directive or NURS on the basis that:

- the Company is a closed end investment company;
- the Ordinary Shares are admitted to trading on the Main Market of the London Stock Exchange; and
- the Ordinary Shares have equal voting rights.

However, the manager of the relevant UCITS or NURS should satisfy itself that the Ordinary Shares are eligible for investment by the relevant UCITS or NURS.

## AEOI Rules

Under AEOI Rules the Company continues to comply with both FATCA and CRS requirements to the extent relevant to the Company.

## General Partner’s Performance Allocation and Management Fees

The General Partner’s Performance Allocation is equal to 20 per cent. of all realised pre-tax profits without regard to realised losses as disclosed in the Company’s Prospectuses. In particular, taxes on realised gains from ECI investments, as shown in the Investment Manager’s Report, can be substantial at rates up to 27.5 per cent. The Company is not an umbrella collective investment undertaking and therefore has no gross liability. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL’s public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income.

The General Partner’s Performance Allocation is calculated under the terms of the Partnership Agreement and as described in the Prospectuses.

The Performance Allocation is calculated on a quarterly basis, which is taken into account when calculating the fair value of the Company’s investment in the Partnership, as described in Note 10. The fair value of the Company’s investment in the Partnership is after the calculation of Management Fees, as described in Note 10.

The financial effect of the General Partner’s Performance Allocation, Management Fees and any taxes on ECI investments is shown in Note 6. The Investment Management Agreement continues into perpetuity post the seventh year anniversary.

## Change of Control

There are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon change of control of the Company following a takeover bid.

## Going Concern

The Company’s Financial Statements are prepared in accordance with the AIC Code and presented on a going concern basis. As further disclosed in the Corporate Governance Report on pages 33 to 39, the Company is a member of the AIC and complies with the AIC Code. The Directors have assessed the financial prospects of the Company for the next twelve months from the date of approval of the Financial Statements and made an assessment of the Company’s ability to continue as a going concern. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next twelve months, as explained below.

The Company retained \$11.5 million of cash in the IPO and Placing and Open Offer, and received distributions of \$5.5 million and \$1.1 million from the Partnership in Q1 2016 and Q1 2017, respectively, of which \$0.8 million remains at 31 December 2017 (31 December 2016: \$3.2 million). This cash balance is sufficient to cover the Company’s existing liabilities at 31 December 2017 of \$0.6 million, but the Company will require a distribution of \$3.3 million to cover its forecasted annual expenses for 2018 of approximately \$3.5 million. In accordance with section 4.1(a) of the Partnership Agreement, in the event of the Company requiring additional funds for working capital, it is entitled to receive another distribution from the Partnership.

As at 31 December 2017, the Partnership, including its wholly-owned subsidiaries, REL US Corp and REL US Centennial Holdings, LLC, had \$147 million of uninvested funds held as cash and money market fixed deposits (31 December 2016: \$268 million), and has no material going concern risk. Although the Company’s commitments, through the Partnership, exceed its available liquid resources, it is not expected that all commitments will be drawn due to a variety of factors, such as a portfolio company being sold earlier than anticipated or a targeted investment opportunity changing or disappearing. In addition, the board of each underlying portfolio company, more often than not controlled by Riverstone, has discretion over whether or not that capital is ultimately invested. Moreover, REL’s arrangements with Riverstone allow excess commitments to be amended by the Investment Manager with consideration from the Board.

In light of the above facts, the Directors are satisfied that it is appropriate to apply the going concern basis in preparing the Financial Statements. In reaching this conclusion, the Board has considered budgeted and projected results of the business, projected cash flow and risks that could impact the Company’s liquidity over the next twelve months.

## Viability Statement

As required by the AIC Code, the Directors have assessed the prospects of the Company over a longer period than required by the going concern provision. The Board chose to conduct a review for a period of three years to 31 December 2020 as it was determined to be an appropriate timeframe based on the historical investment cycle of the Company’s investments through the Partnership and its financial planning processes.

On a rolling basis, the Directors evaluate the outcome of the investments and the Company's financial position as a whole. While an unprecedented and long-term decline in global oil and gas consumption would threaten the Company's performance, it would not necessarily threaten its viability.

In support of this statement, the Directors have taken into account all of the principal risks and their mitigation as identified in the Principal Risk and Uncertainties section of the Corporate Governance Report, the nature of the Company's business; including the cash reserves and money market deposits at the Partnership, the potential of its portfolio of investments to generate future income and capital proceeds, and the ability of the Directors to minimise the level of cash outflows, if necessary. The most relevant potential impacts of the identified Principal Risks and Uncertainties on viability were determined to be:

- An investment's capital requirements may exceed the Company's ability to provide capital; and
- The Company may not have sufficient capital available to participate in all investment opportunities presented.

Each quarter, Directors review threats to the Company's viability utilising the risk matrix and update as required due to recent developments and/or changes in the global market. The Board relies on periodic reports provided by the Investment Manager and Administrator regarding risks faced by the Company. When required, experts are utilised to gather relevant and necessary information, regarding tax, legal, and other factors.

The Investment Manager made financial commitments to each portfolio company. However, the Company evaluates the ongoing suitability of each investment prior to funding and may or may not agree to fund an investment. In the event the Company is unable, or elects, not to fund an existing investment, Riverstone may seek other funding alternatives.

The Investment Manager considers the future cash requirements of the Company before funding portfolio companies. Furthermore, the Board receives regular updates from the Investment Manager on the Company's cash position, which allows the Board to maintain their fiduciary responsibility to the Shareholders and, if required, limit funding for existing commitments. However, Management fees may not be deferred per the terms of the Investment Management Agreement.

The Board considered the Company's viability over the three year period, based on a working capital model prepared by the Investment Manager. The working capital model forecasts key cash flow drivers such as capital deployment rate, investment returns, Management Fees and operating expenses. In connection with the preparation of the working capital model, dividend payments and/or share repurchases were assumed to not occur during the three year period, unless already predetermined. In addition, the Board reviews credit market availability, but no such financing has been assumed.

If factors apart from capital deployment rate remain constant, accelerating the capital deployment rate by 20 per cent., from 36 months to 30 months, would result in the Company being directed by the Board, and the Investment Manager recommending, to preserve working capital and postpone future investments after 24 months, rather than 27 months; unless a financing or capital raise was completed. In both scenarios, the Company is forecasted to maintain sufficient working capital for the three year period.

Based on the aforementioned procedures and the existing internal controls of the Company and Investment Manager, the Board has concluded there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of the assessment.

## Financial Risk Management Policies and Objectives

Financial Risk Management Policies and Objectives are disclosed in Note 11 on pages 63 to 67.

## Principal Risk and Uncertainties

Principal Risk and Uncertainties are discussed in the Corporate Governance Report on pages 33 to 39.

## Subsequent Events

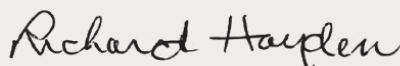
Subsequent Events are disclosed in Note 15 on page 69.

## Annual General Meetings

The AGM of the Company will be held at 10.30 am BST on 22 May 2018 at The Old Government House Hotel, St Ann's Place, St Peter Port, Guernsey, Channel Islands. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the notices of meetings to be distributed to Shareholders listed on the register as at 31 December 2017 together with this Annual Report. As a matter of good practice, all resolutions will be conducted on a poll and the results will be announced to the market as soon as possible after the meeting.

Members of the Board, including the Chairman and the Chairperson of each Committee, will be in attendance at the AGM and will be available to answer Shareholder questions.

By order of the Board



**Richard Hayden**

Chairman

27 February 2018



# Directors' Responsibilities Statement

Riverstone Energy Limited Annual Report and Financial Statements 2017

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

The Companies Law requires the Directors to prepare Financial Statements for each financial year. Under the Companies Law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the Financial Statements comply with Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)). The work carried out by the external auditor does not involve considerations of these matters and, accordingly, the external auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

# Responsibility Statement of the Directors in Respect of the Annual Report under the Disclosure Guidance and Transparency Rules

Riverstone Energy Limited Annual Report and Financial Statements 2017

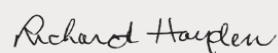
Each of the Directors whose names are on pages 24 and 25 confirms to the best of their knowledge and belief that:

- the Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties faced; and
- the Annual Report and Financial Statements include information required by the UK Listing Authority so that the Company complies with the provisions of the Listing Rules, Disclosure Guidance and Transparency Rules of the UK Listing Authority. With regard to corporate governance, the Company is required to disclose how it has applied the principles, and complied with the provisions of the corporate governance code applicable to the Company.

## Directors' statement under the Corporate Governance Code

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Having taken advice from the Investment Manager, the Directors consider the Annual Report and Financial Statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

By order of the Board



**Richard Hayden**  
Chairman  
27 February 2018



**Patrick Firth**  
Director  
27 February 2018

As a UK premium listed Company, Riverstone Energy Limited's governance policies and procedures are based on the principles of the Corporate Governance Code as required under the Listing Rules. The Corporate Governance Code is available on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

The Company became a member of the AIC effective 15 January 2014 and has therefore put in place arrangements to comply with the AIC Code and, in accordance with the AIC Code, complies with the Corporate Governance Code. The Directors recognise the importance of sound corporate governance, particularly the requirements of the AIC Code. The AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk).

The Company is subject to the GFSC Code, which applies to all companies registered as collective investment schemes in Guernsey. The GFSC has also confirmed that companies that report against the Corporate Governance Code or AIC Code are deemed to meet the GFSC Code.

The Board monitors developments in corporate governance to ensure the Board remains aligned with best practice especially with respect to the increased focus on diversity. The Board acknowledges the importance of diversity, including gender, for the effective functioning of the Board and commits to supporting diversity in the boardroom. It is the Board's ongoing aspiration to have a well diversified representation. The Board also values diversity of business skills and experience because Directors with diverse skills sets, capabilities and experience gained from different geographical backgrounds enhance the Board by bringing a wide range of perspectives to the Company.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies such as the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, by reference to the AIC Guide, provides better information to Shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the Corporate Governance Code, except as set out below.

The Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the Corporate Governance Code, the Board considers that the above provisions are not currently relevant to the position of the Company, being an externally managed investment company, which delegates most day-to-day functions to third parties.

The Company does not have a chief executive or any executive directors. The Company has not established a separate remuneration committee as the Company has no executive officers and the Board is satisfied that any relevant issues that arise can be properly considered by the Board.

The Company has no employees or internal operations and has therefore not reported further in respect of these provisions. The need for an internal audit function is discussed in the Audit Committee report.

## The Board

The Company is led and controlled by a Board of Directors, which is collectively responsible for the long-term success of the Company. It does so by creating and preserving value, and has as its foremost principle acting in the interests of Shareholders.

The Company believes that the composition of the Board is a fundamental driver of its success as the Board must provide strong and effective leadership of the Company. The current Board was selected, as their biographies illustrate, to bring a breadth of knowledge, skills and business experience to the Company. The non-executive Directors provide independent challenge and review, bringing wide experience, specific expertise and a fresh objective perspective.

The Board consists of eight Non-executive Directors (31 December 2016: eight), five of whom, including the Chairman, are independent of the Company's Investment Manager; Mr Hayden, Mr Firth, Mr Barker, Mrs Whittet and Mr Thompson (31 December 2016: five). Mr Lapeyre, Mr Leuschen, and Mr Ryan are not considered independent because of their nomination for appointment to the Board by the Investment Manager, pursuant to a right set out in the Investment Management Agreement. All Directors served throughout the year.

The Chairman of the Board is independent and is appointed in accordance with the Company's Articles of Incorporation. Mr Hayden is considered to be independent because he:

- has no current or historical employment with the Investment Manager;
- has no current directorships or partnerships in any other investment funds managed by the Investment Manager; and
- is not an executive of a self-managed company or an ex-employee who has left the executive team of a self-managed company within the last five years.

New Directors receive an induction from the Investment Manager and all Directors receive other relevant training as necessary.

At each subsequent Annual General Meeting of the Company, each of the Directors at the date of the notice convening the Annual General Meeting shall retire from office and may offer themselves for election or re-election by the Shareholders.

The Board meets at least four times a year for regular, scheduled meetings and should the nature of the activity of the Company require it, additional meetings may be held, some at short notice. At each meeting the Board follows a formal agenda that covers the business to be discussed. The primary focus at Board meetings is a review of investment performance and associated matters such as asset allocation, share price discount/premium management, investor relations, peer group information, gearing, industry issues and principal risks and uncertainties in particular those identified at the end of this report.

Between meetings the Board visits, at least annually, the Investment Manager, and there is regular contact with the Administrator, and the Board requires to be supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisers in a form and of a quality to enable it to discharge its duties.

The Company has adopted a share dealing code for the Board and will seek to ensure compliance by the Board and relevant personnel of the Investment Manager and other third party service providers with the terms of the share dealing code.

## Board Tenure and Re-election

No member of the Board has served for longer than eight years to date. As such no issue has arisen to be considered by the Board with respect to long tenure. In accordance with the AIC Code, when and if any director shall have been in office (or on re-election would at the end of that term of office) for more than nine years the Company will consider further whether there is a risk that such a director might reasonably be deemed to have lost independence through such long service.

A Director who retires at an Annual General Meeting may, if willing to continue to act, be elected or re-elected at that meeting. If, at a general meeting at which a Director retires, the Company neither re-elects that Director nor appoints another person to the Board in the place of that Director, the retiring Director shall, if willing to act, be deemed to have been re-elected unless at the general meeting it is resolved not to fill the vacancy or unless a resolution for the re-election of the Director is put to the meeting and not passed.

Directors are appointed under letters of appointment, copies of which are available at the registered office of the Company. The Board considers its composition and succession planning on an ongoing basis.

Following discussion, it is the opinion of the Management Engagement Committee that the Investment Manager for the year ended 31 December 2017 continues to demonstrate strong performance and as such for the Investment Manager to continue in their appointment on the terms agreed, which would be in the interests of the Shareholders as a whole. The Board is pleased with the performance of the Investment Manager, based on selection of high quality E&P and midstream investments and comparative resilience in weak markets.

## Directors' Remuneration

The level of remuneration of the Non-executive Directors reflects the time commitment and responsibilities of their roles. The remuneration of the Non-executive Directors does not include any share options or other performance related elements and there are no plans to seek any Shareholder waivers to deviate from this.

In 2017, an externally-facilitated review of the remuneration of the Board was undertaken. The Board remuneration evaluation was externally facilitated by Optimus Group Limited, the only piece of work undertaken by Optimus Group Limited from the Company. This evaluation and review considered Riverstone Energy Limited peers, account domicile, asset class and size, board structure and activity, and the resultant fees are further outlined below.

The Chairman is entitled to annual remuneration of £132,000 (31 December 2016: £120,000). The Chairman of the Audit Committee is entitled to annual remuneration of £82,500 (31 December 2016: £75,000) and the Chairman of the Management Engagement Committee is entitled to annual remuneration of £71,500 (31 December 2016: £65,000). The other independent Directors are entitled to annual remuneration of £66,000 (31 December 2016: £60,000). This is the first time the Company has increased Board remuneration since the inception of the Company in 2013. The three non-independent Directors have chosen not to be remunerated by the Company for their services.

During the year ended 31 December 2017 and 31 December 2016, the Directors' remuneration was as follows:

Director	2017 (\$'000)	2016 (\$'000)
Peter Barker <sup>(1)</sup>	79	79
Patrick Firth <sup>(1)(2)</sup>	99	91
Richard Hayden <sup>(1)(3)</sup>	158	126
Pierre Lapeyre	-	-
David Leuschen	-	-
Ken Ryan	-	-
Jeremy Thompson <sup>(1)</sup>	79	47
Claire Whittet <sup>(1)(4)</sup>	86	83

<sup>(1)</sup> Non-executive Independent Director

<sup>(2)</sup> Senior Independent Director and Chairman of the Audit Committee

<sup>(3)</sup> Chairman of the Company

<sup>(4)</sup> Chairman of the Management Engagement Committee

The above fees due to the Directors are for the year ended 31 December 2017 and 31 December 2016, and none were outstanding at 31 December 2017 (31 December 2016: \$Nil).

## Duties and Responsibilities

The Board is responsible to Shareholders for the overall management of the Company. The duties and powers reserved for the Board include decisions relating to the determination of investment policy and approval of investments in certain instances, strategy, capital raising, statutory obligations and public disclosure, financial reporting and entering into any material contracts by the Company.

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of Shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Directors have access to the advice and services of the Administrator, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with Companies Law and applicable rules and regulations of the GFSC and the LSE. Where necessary, in carrying out their duties, the Directors may seek independent professional advice and services at the expense of the Company.

Attendance is further set out below:

Director	Scheduled Board Meetings (max 4)	Audit Committee Meetings (max 5)	Nomination Committee Meetings (max 1)	Management Engagement Committee Meetings (max 1)	Board Committee Meetings (max 7)
Peter Barker <sup>(1)</sup>	4	4	1	1	n/a
Patrick Firth <sup>(1)(2)</sup>	4	5	1	1	7
Richard Hayden <sup>(1)</sup>	4	4	1	1	n/a
Pierre Lapeyre	4	n/a	n/a	n/a	n/a
David Leuschen	3	n/a	n/a	n/a	n/a
Claire Whittet <sup>(1)</sup>	4	5	1	1	6
Ken Ryan	4	n/a	n/a	n/a	n/a
Jeremy Thompson <sup>(1)</sup>	4	5	1	1	7

<sup>(1)</sup> Non-executive Independent Director

<sup>(2)</sup> Non-executive Senior Independent Director

A quorum is comprised of any two or more members of the Board from time to time, to perform administrative and other routine functions on behalf of the Board, subject to such limitations as the Board may expressly impose on this committee from time to time.

The Company maintains directors' and officers' liability insurance in respect of legal action against its Directors on an ongoing basis.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement. The Board is also responsible for issuing appropriate half-yearly financial reports, quarterly portfolio valuations and other price-sensitive public reports.

### Directors' attendance at Board and Committee Meetings:

One of the key criteria the Company uses when selecting Non-executive Directors is their confirmation prior to their appointment that they will be able to allocate sufficient time to the Company to discharge their responsibilities in a timely and effective manner.

The Board formally met four times during the year and the other Board committee meetings were called in relation to specific events or to issue approvals, often at short notice and did not necessarily require full attendance. The Chairman meets privately with the independent Non-executive Directors before each scheduled Board meeting. Directors are encouraged when they are unable to attend a meeting to give the Chairman their views and comments on matters to be discussed, in advance. In addition to their meeting commitments, the Non-executive Directors also make themselves available to management whenever required and there is regular contact outside the Board meeting schedule.

## Committees of the Board

The Board believes that it and its committees have an appropriate composition and blend of skills, experience, independence and diversity of backgrounds to discharge their duties and responsibilities effectively. The Board is of the view that no one individual or small group dominates decision-making. The Board keeps its membership, and that of its committees, under review to ensure that an acceptable balance is maintained, and that the collective skills and experience of its members continue to be refreshed. It is satisfied that all Directors have sufficient time to devote to their roles and that undue reliance is not placed on any individual.

Each committee of the Board has written terms of reference, approved by the Board, summarising its objectives, remit and powers, which are available on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)) and reviewed on an annual basis. All committee members are provided with appropriate induction on joining their respective committees, as well as on-going access to training. Minutes of all meetings of the committees (save for the private sessions of committee members at the end of meetings) are made available to all Directors and feedback from each of the committees is provided to the Board by the respective committee Chairmen at the next Board meeting. The Chairman of each committee attends the AGM to answer any questions on their committee's activities.

The Board and its committees are supplied with regular, comprehensive and timely information in a form and of a quality that enables them to discharge their duties effectively. All Directors are able to make further enquiries of management whenever necessary, and have access to the services of the Company Secretary.

### Audit Committee

The Audit Committee is chaired by Mr Firth and comprises Mr Barker, Mr Hayden, Mr Thompson and Mrs Whittet. The Chairman of the Audit Committee, the Investment Manager and the external auditor, Ernst & Young LLP, have held discussions regarding the audit approach and identified risks. The external auditors attend Audit Committee meetings and a private meeting is routinely held with the external auditors to afford them the opportunity of discussions without the presence of management. The Audit Committee activities are contained in the Report of the Audit Committee on pages 40 to 42.

### Nomination Committee

The Nomination Committee is chaired by Mr Hayden and comprises Mr Barker, Mr Firth, Mr Thompson and Mrs Whittet.

The Nomination Committee meets at least once a year pursuant to its terms of reference and met on 27 February 2018. The Nomination Committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. The Nomination Committee recognises the continuing importance of planning for the future and ensuring that succession plans are in place.

In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and evaluates the balance of skills, experience, independence, and knowledge of each candidate. Appointments are therefore made on personal merit and against objective criteria with the aim of bringing new skills and different perspectives to the Board whilst taking into account the existing balance of knowledge, experience and diversity.

In the case of candidates for Non-executive Directorships, care is taken to ascertain that they have sufficient time to fulfil their Board and, where relevant, committee responsibilities. The Board believes that the terms of reference of the Nomination Committee ensure that it operates in a rigorous and transparent manner. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments.

The Board is satisfied with the current composition and functioning of its members. When appointing Board members, its priority is based on merit, but will be influenced by the strong desire to maintain board diversity, including gender.

All Directors are subject to annual re-election by Shareholders at the AGM.

## Management Engagement Committee

The Management Engagement Committee is chaired by Mrs Whittet and comprises Mr Barker, Mr Hayden, Mr Firth and Mr Thompson. The Management Engagement Committee meets at least once a year pursuant to its terms of reference.

The Management Engagement Committee provides a formal mechanism for the review of the performance of the Investment Manager and the Company's other advisors and service providers. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisors' appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Shareholders.

## Board Performance and Evaluation

In accordance with Principle 7 of the AIC Code which requires a formal and rigorous annual evaluation of its performance, the Board formally reviews its performance annually through an internal process. Internal evaluation of the Board, the Audit Committee, the Nomination Committee, the Management Engagement Committee and individual Directors has taken the form of self-appraisal questionnaires and discussions to determine effectiveness and performance in various areas as well as the Directors' continued independence. During 2017 the Board carried out an internal evaluation of the performance of the Board and the Board Committees.

The responses were consolidated and anonymised and common themes identified in order for the Board to determine key actions and next steps for improving Board and Committee effectiveness and performance.

The Board believes that annual evaluations are helpful and provide a valuable opportunity for continuous improvement. All Directors participated in the evaluation, and the findings were collectively considered by the Board. No significant areas of weaknesses were highlighted during the evaluation and the Board concluded that it had operated effectively throughout 2017 which supported the overall conclusion of the 2016 external evaluation that the Board is collegiate, transparent and effective. The Board is confident in its ability to continue effectively to lead the Company and oversee its affairs. The Board believes that the current mix of skills, experience, knowledge and age of the Directors is appropriate to the requirements of the Company.

New Directors receive an induction on joining the Board and regularly meet with the senior management employed by the Investment Manager both formally and informally to ensure that the Board remains regularly updated on all issues. All members of the Board are members of professional bodies and serve on other Boards, which ensures they are kept abreast of the latest technical developments in their areas of expertise.

The Board arranges for presentations from the Investment Manager, the Company's brokers and other advisors on matters relevant to the Company's business. The Board assesses the training needs of Directors on an annual basis.

## Internal Control and Financial Reporting

The Directors acknowledge that they are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss. However, the Board's objective is to ensure that Riverstone Energy Limited has appropriate systems in place for the identification and management of risks. The Directors carry out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The key procedures which have been established to provide internal control are that:

- the Board has delegated the day-to-day operations of the Company to the Administrator and Investment Manager; however, it retains accountability for all functions it delegates;
- the Board clearly defines the duties and responsibilities of the Company's agents and advisors and appointments are made by the Board after due and careful consideration.

The Board monitors the ongoing performance of such agents and advisors and will continue to do so through the Management Engagement Committee;

- the Board monitors the actions of the Investment Manager at regular Board meetings and is given frequent updates on developments arising from the operations and strategic direction of the underlying investee companies;
- the Administrator provides administration and company secretarial services to the Company. The Administrator maintains a system of internal control on which they report to the Board; and
- the Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and Investment Manager, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control, which safeguards Shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external reporting purposes. The Administrator and Investment Manager both operate risk controlled frameworks on a continual ongoing basis within a regulated environment. The Administrator has undertaken an ISAE 3402: Assurance Reports on Controls at a Service Organisation audit and formally reports to the Board quarterly through a compliance report. The Investment Manager formally reports to the Board quarterly including updates within Riverstone and also engages with the Board on an ad-hoc basis as required. No weaknesses or failings within the Administrator or Investment Manager have been identified.

The systems of control referred to above are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows therefore that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss. This process has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements. It is reviewed by the Board and is in accordance with the FRC's internal control publication: *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*.

## Investment Management Agreement

The Investment Manager has been appointed as the sole investment manager of the Company and the Partnership. Pursuant to the Investment Management Agreement, the Investment Manager has responsibility for and discretion over investing and managing the Company's and the Partnership's direct and indirect assets, subject to and in accordance with the Company's investment policy. The Investment Manager is entitled to delegate all or part of its functions under the Investment Management Agreement to one or more of its affiliates.

The Company has delegated the provision of all services to external service providers whose work is overseen by the Management Engagement Committee at its regular scheduled meetings. Each year a detailed review of performance pursuant to their terms of engagement is undertaken by the Management Engagement Committee.

In accordance with Listing Rule 15.6.2(2)R and having formally appraised the performance and resources of the Investment Manager, in the opinion of the Directors the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Shareholders as a whole.

## Relations with Shareholders

The Board welcomes Shareholders' views and places great importance on communication with its Shareholders. The Company's AGM provides a forum for Shareholders to meet and discuss issues with the Directors of the Company. The Chairman is available to meet with Shareholders at the AGM to hear their views and discuss any issues or concerns, including in relation to board composition, governance and strategy, or at other times, if required. In addition, Mr. Firth, as the Senior Independent Director, is also available to Shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact would be inappropriate. The Chairman, Senior Independent Director and other Directors are also available to meet with Shareholders at other times, if required.

The Company reports formally to Shareholders in a number of ways; regulatory news releases through the London Stock Exchange's regulatory News Service, announcements are issued in response to events or routine reporting obligations, an Interim Report is published in August each year, outlining performance to 30 June, which is made available on the Company's website; the Annual Report is published in February each year, for the year ended 31 December, which is made available on the Company's website. In addition, the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)) contains comprehensive information, including company notifications, share information, financial reports, investment objectives and policy, investor contacts and information on the Board and corporate governance. Shareholders and other interested parties can subscribe to email news updates by registering online on the website.

The Investment Manager has regular contact with Shareholders, including the Cornerstone Investors, and any views that they may have are communicated to the Board and vice versa. No sensitive information is provided to the Cornerstone Investors that is not provided to the Shareholders as a whole and at the same time. The Board is also kept fully informed of all relevant market commentary on the Company by the Investment Manager and the Corporate Brokers. Over the year, the Investment Manager's investor relations team and senior management held several roadshows and over 100 meetings with investors and equity research analysts.

## Whistleblowing

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Manager or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

## Principal Risks and Uncertainties

The Company's assets consist of investments, through the Partnership, within the global energy sector, with a particular focus on opportunities in the global exploration and production and midstream energy sub-sectors. Its principal risks are therefore related to market conditions in the energy sector in general, but also the particular circumstances of the businesses in which it is invested through the Partnership. The Investment Manager to the Partnership seeks to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential targets before entering into any investments.

Each Director is fully aware of the risks inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to carry out a robust assessment of the risks facing the Company, manage these risks within acceptable limits and to meet all of its legal and regulatory obligations. The Board is committed to upholding and maintaining our zero tolerance towards the criminal facilitation of tax evasion.

The Board thoroughly considers the process for identifying, evaluating and managing any significant risks faced by the Company on an ongoing basis and these risks are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld.



For each material risk, the likelihood and consequence are identified, management controls and frequency of monitoring are confirmed and results reported and discussed at the quarterly Board meetings.

The Company's principal risk factors are fully discussed in the Prospectuses, available on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)) and should be reviewed by Shareholders.

The key areas of risk faced by the Company are summarised below:

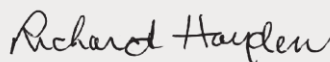
1. The Company intends to only invest in the global energy sector, with a particular focus on oil and gas exploration and production, and midstream investments, which will expose it to concentration risk.
  2. The Ordinary Shares may trade at a Discount to NAV per Share for reasons including but not limited to: market conditions, liquidity concerns and actual or expected Company performance. As such, there can be no guarantee that attempts to mitigate such discount will be successful or that the use of discount control mechanisms will be possible, advisable or adopted by the Company.
  3. Investments in the exploration and production and midstream sectors of the global energy sector involve a degree of inherent risk.
    - The countries in which the Company invests may be exposed to geopolitical risks.
    - The change in the price of oil could adversely affect the investment valuations through the public market trading and transaction comparables, the discounted cash flow rates, and potentially limit exit opportunities.
    - A change in interest rates could adversely affect efficient access to debt as a source of capital for both portfolio investments and potential buyers of portfolio investments.
    - The regulatory and tax environment of the Company's target investments is potentially subject to change, which may adversely affect the value or liquidity of investments held by the Company or its ability to obtain leverage.
    - The Company will be exposed to increased risk by investing in build-up and early-stage investments that have little or no operating history and are comparably more vulnerable to financial failure than more established companies. The investor should be aware there can be no assurance that losses generated by these types of entities will be offset by gains (if any) realised on the Company's other investments.
- An investment's requirements for additional capital may require the Company to invest more capital than it had originally planned or result in the dilution of the Company's investment or a decrease in the value of that investment.
  - The Company may not have sufficient "dry powder" to participate in all investment opportunities presented.
  - Current regulations require SIFIs, specifically large banks, to hold sufficient capital as a buffer against trading losses, or CAR / CRAR. Since commodities are more volatile / risky in the current market, it could strip large banks of commodity trading operations to alleviate the capital required to maintain their CAR / CRAR. This could in turn impact the commodity prices and therefore the value of REL's portfolio companies.
  - REL's portfolio companies operate in a hazardous industry, which is highly regulated by safety and health laws. Failure to provide a safe working environment may result in harm to employees and local communities. Governments may force closure of facilities or refuse future drilling right applications.

These inherent risks associated with investments in the global energy sector could result in a material adverse effect on the Company's performance and the value of Ordinary Shares.

The above key risks are mitigated and managed by the Board through continual review, policy setting and updating of the Company's risk matrix at each Audit Committee Meeting to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks. The Board relies on periodic reports provided by the Investment Manager and Administrator regarding risks that the Company faces. When required, experts will be employed to gather information, including tax advisors, legal advisors, and environmental advisors.

The Company's financial instrument risks are discussed in Note 11 to the Financial Statements.

By order of the Board



**Richard Hayden**

Chairman  
27 February 2018

# Report of the Audit Committee

Riverstone Energy Limited Annual Report and Financial Statements 2017

The Audit Committee, chaired by Mr Firth, operates within clearly defined terms of reference, which are available from the Company's website [www.RiverstoneREL.com](http://www.RiverstoneREL.com), and include all matters indicated by Disclosure Guidance and Transparency Rule 7.1, the AIC Code and the Corporate Governance Code. Its other members are Mr Barker, Mr Hayden, Mr Thompson and Mrs Whittet. Members of the Audit Committee must be independent of the Company's external auditor and Investment Manager. The Audit Committee will meet no less than three times in a year, and at such other times as the Audit Committee Chairman shall require, and will meet the external auditor at least once a year.

The Committee members have considerable financial and business experience and the Board has determined that the membership as a whole has sufficient recent and relevant sector and financial experience to discharge its responsibilities and that at least one member has competence in accounting or auditing having a background as a chartered accountant.

## Responsibilities

The main duties of the Audit Committee are:

- to monitor the integrity of the Company's Financial Statements and regulatory announcements relating to its financial performance and review significant financial reporting judgements;
- to report to the Board on the appropriateness of the Company's accounting policies and practices;
- to review the valuations of the Company's investments prepared by the Investment Manager, and provide a recommendation to the Board on the valuation of the Company's investments;
- to oversee the relationship with the external auditors, including agreeing their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness, ensuring that policy surrounding their engagement to provide non-audit services is appropriately applied, and making recommendations to the Board on their appointment, reappointment or removal, for it to put to the Shareholders in general meeting;
- to monitor and consider annually whether there is a need for the Company to have its own internal audit function;
- to keep under review the effectiveness of the Company's internal controls, including financial controls and risk management systems;
- to review and consider the Corporate Governance Code, the AIC Code, the GFSC Code, the AIC Guidance on Audit Committees and the Stewardship Code; and
- to report to the Board on how it has discharged its responsibilities.

The Audit Committee is aware that several sections of the Annual Report are not subject to formal statutory audit, including the Chairman's Statement and the Investment Manager's Report. Financial information in these sections is reviewed by the Audit Committee.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

The external auditor is invited to attend the Audit Committee meetings at which the Annual Report and Interim Financial Report are considered and at which they have the opportunity to meet with the Committee without representatives of the Investment Manager or Administrator being present at least once per year.

## Financial Reporting

The primary role of the Audit Committee in relation to financial reporting is to review with the Administrator, Investment Manager and the external auditor and report to the Board on the appropriateness of the Annual Report and Financial Statements and Interim Financial Report, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor including going concern and viability statement;
- whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to our financial reporting.

To aid its review, the Audit Committee considers reports from the Administrator and Investment Manager and also reports from the external auditor on the outcomes of their half-year review and annual audit. The Audit Committee supports Ernst and Young LLP in displaying the necessary professional scepticism their role requires.

## Meetings

During the year ended 31 December 2017, the Audit Committee met formally five times and maintained ongoing liaison and discussion between the external auditor and the Chairman of the Audit Committee with regards to the audit approach and the identified risks. The Audit Committee has met on one occasion since the year end through to the date of this report on 27 February 2018. The matters discussed at those meetings include:

- review of the terms of reference of the audit committee for approval by the Board;
- review of the accounting policies and format of the Financial Statements;
- review and approval of the audit plan of the external auditor;
- discussion and approval of the fee for the external audit;
- detailed review of the valuations of the Company's investment portfolio and recommendation for approval by the Board;
- detailed review of the Annual Report and Financial Statements, Interim Financial Report and quarterly portfolio valuations, and recommendation for approval by the Board;
- assessment of the independence of the external auditor;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Company's key risks and internal controls.

## Significant Areas of Judgement Considered by the Audit Committee

The Audit Committee has determined that a key risk of misstatement of the Company's Financial Statements relates to the valuation of the investment in the Partnership at fair value through profit or loss, in the context of the judgements necessary to evaluate market values of the Investment Undertakings of the Partnership.

The Directors have considered whether any discount or premium should be applied to the net asset value of the Partnership, which is based on the fair value of its Investment Undertakings. In view of the Company's investment in the Partnership and the nature of the Partnership's assets, no adjustment to the net asset value of the Partnership has been made, as this is deemed equivalent to fair value.

The Audit Committee reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Financial Statements, valuations prepared by the Investment Manager in respect of the investments of the Partnership.

As outlined in Note 6 to the Financial Statements, the total carrying value of the investment in the Partnership at fair value through profit or loss at 31 December 2017 was \$1,742 million (31 December 2016: \$1,695 million). Market quotations are not available for this financial asset such that the value of the Company's investment is based on the value of the Company's limited partner capital account with the Partnership, which itself is based on the value of the Partnership's investments as determined by the Investment Manager, along with the cash and fixed deposits held. The valuation for each individual investment held by the Partnership is determined by reference to common industry valuation techniques, including comparable public market valuation, comparable merger and acquisition transaction valuation, and discounted cash flow valuation, as detailed in the Investment Manager's Report and Note 5 to the Financial Statements.

The valuation process and methodology was discussed with the Investment Manager and with the external auditor at the Audit Committee meetings held on 31 October 2017 and 27 February 2018. The Investment Manager has carried out a valuation quarterly and provided a detailed valuation report to the Company at each quarter.

The Audit Committee reviewed the Investment Manager's Report. The Investment Manager confirmed to the Audit Committee that the external auditor's work had not identified any errors or inconsistencies that were material in the context of the Annual Report and Financial Statements as a whole.

The external auditor explained the results of their audit work on valuations. There were no adjustments proposed that were material in the context of the Annual Report and Financial Statements as a whole.

The Audit Committee has reviewed going concern and has considered management's forecasts. Following this review and a discussion of the sensitivities, we confirmed that it continues to be appropriate to follow the going concern basis of accounting in the Financial Statements. Further detail on the basis of the going concern assessment by the Directors is set out on page 29.

For the Viability Statement, the Audit Committee endorsed the selection of a three year time horizon as a basis for the statement and the approach to its development. Further detail on the assessment of viability and the viability statement are set out on pages 29 and 30.

## Risk Management

The Board is accountable for carrying out a robust assessment of the principal risks facing the Company, including those threatening its business model, future performance, solvency and liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the Company's risk management processes. The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Audit Committee.

# Report of the Audit Committee (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

The work of the Audit Committee was driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Corporate Governance Report. The Audit Committee receives reports from the Investment Manager and Administrator on the Company's risk evaluation process and reviews changes to significant risks identified.

## Internal Audit

The Audit Committee shall consider at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Company and all outsourced functions are with parties who have their own internal controls and procedures.

## External Audit

Ernst & Young LLP has been the Company's external auditor since the Company's incorporation. This is the fifth year of audit.

The external auditor is required to rotate the audit partner every five years. The current Ernst & Young lead audit partner, Mr Michael Bane, started his tenure in 2013 and his current rotation will end with the audit of the 2017 Annual Report and Financial Statements. There are no contractual obligations restricting the choice of external auditor and the Company will put the audit services contract out to tender at least every ten years. Under Companies Law, the reappointment of the external auditor is subject to Shareholder approval at the Annual General Meeting. The Audit Committee will continue to monitor the performance of the external auditor on an annual basis and will consider their independence and objectivity, taking account of appropriate guidelines. In addition, the Committee Chairman will continue to maintain regular contact with the lead audit partner outside the formal Committee meeting schedule, not only to discuss formal agenda items for upcoming meetings, but also to review any other significant matters.

The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditor, with particular regard to the level of non-audit fees. Notwithstanding such services the Audit Committee considers Ernst & Young LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

To further safeguard the objectivity and independence of the external auditor from becoming compromised, the Audit Committee has a formal policy governing the engagement of the external auditor to provide non-audit services.

This precludes Ernst & Young LLP from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that Ernst & Young LLP should only be engaged for non-audit services where Ernst & Young LLP are best placed to provide the non-audit service for example, the interim review and reporting accountant services. Note 14 details services provided by Ernst & Young LLP.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considers:

- discussions with or reports from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the committee reviews:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit; and
- feedback from other service providers evaluating the performance of the audit team.

The Audit Committee is satisfied with Ernst & Young LLP's effectiveness and independence as external auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above, and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that Ernst & Young LLP be reappointed as external auditor for the year ending 31 December 2018.

The Audit Committee has provided the Board with its recommendation to the Shareholders on the re-appointment of Ernst & Young LLP as external auditor for the year ending 31 December 2018. Accordingly, a resolution proposing the reappointment of Ernst & Young LLP as our external auditor will be put to Shareholders at the Annual General Meeting.

On behalf of the Audit Committee



**Patrick Firth**

Chairman of the Audit Committee

27 February 2018

# Independent Auditor's Report to the Members of Riverstone Energy Limited

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Opinion

We have audited the Financial Statements of Riverstone Energy Limited (the 'Company') for the year ended 31 December 2017 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union ('IFRS').

In our opinion, the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 38 and 39 that describe the principal risks and explain how they are being managed or mitigated;

- the Directors' confirmation set out on pages 38 and 39 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 31 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 29 and 30 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

### Risk of material misstatement:

We have determined that misstatement or manipulation of the valuation of the Company's investment in the Partnership is the only risk of material misstatement for the current year.

### Audit scope:

We have audited the Financial Statements of Riverstone Energy Limited for the year ended 31 December 2017.

The audit was led from Guernsey. The audit team mainly included individuals from the Guernsey office of Ernst & Young LLP and from the New York office of Ernst & Young LLP in the U.S. and utilised oil and gas industry valuation experts from the Houston office of Ernst & Young LLP in the U.S. We operated as an integrated audit team and we performed audit procedures and responded to the risks identified as described below. The audit partner and senior members of the engagement team from the Guernsey office, together with members of the team from New York and valuation experts from Houston, visited the Investment Manager's offices in New York and held discussions with, and assessed the work performed by, management at the Investment Manager who were responsible for valuing the investments held through the Partnership.

### Materiality:

Overall materiality of \$35 million (2016: \$34 million), which is approximately 2 per cent. of equity.

# Independent Auditor's Report to the Members of Riverstone Energy Limited (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Misstatement or manipulation of the valuation of the Company's investment in the Partnership (\$1,742 million; 2016 \$1,695 million)</b></p> <p>The fair value of the Company's investment in the Partnership is based on the Net Asset Value of the Partnership which, in turn, is based on the fair values of its net assets including the underlying investments held by the Partnership through the investing structure. Most of the underlying investments, which are primarily in early stage exploration and production companies in the oil and gas industry, are level three investments as defined in the IFRS hierarchy. Valuing such investments requires significant judgement and estimation as explained in note 3 to the Financial Statements and in the Audit Committee Report on page 41. It also requires significant industry expertise.</p> <p>The fair values of underlying investments may be misstated or manipulated by applying inappropriate valuation methodologies or metrics or by using inappropriate inputs to the valuation calculations. The fair values may also be misstated or manipulated by selecting inappropriate values from the range of reasonable values indicated by different valuation techniques.</p> <p>There is also a risk that proper adjustments are not made in the fair value calculations for the effects that tax and General Partner performance allocation will have on realised and unrealised gains of underlying investments.</p>	<ul style="list-style-type: none"> <li>• We confirmed our understanding of the key controls, processes, policies and methodologies used by the Investment Manager for valuing level three investments held by the Partnership, and the processes used by the Board to review these valuations. We assessed whether such valuations had been done in accordance with IFRS and the Company's accounting policies.</li> <li>• We selected all level three underlying investments for testing. This sample is more extensive than the sample required by our methodology but we extended the sample size at the request of the Audit Committee.</li> <li>• We engaged our own internal oil and gas industry valuation experts to:             <ol style="list-style-type: none"> <li>a) use their knowledge of the market to assess and corroborate management's market-related judgements and valuation metrics (including discount rates, current and future oil and gas prices, valuation multiples and recent relevant transaction data) by reference to our expert's knowledge of comparable transactions, to independently compiled databases/indices and to information reported by comparable public companies;</li> <li>b) assist us to determine whether the methodologies used to value investments were in accordance with methods, particularly those specific to the oil and gas industry, usually used by market participants; and</li> <li>c) assist us to determine whether appropriate judgements had been applied in selecting point estimates from the range of reasonable estimates indicated by different valuation techniques.</li> </ol> </li> <li>• We agreed significant valuation inputs used by management (including production and acreage data, EBITDA and other financial performance measures) to information from underlying investees and we tested the arithmetical accuracy of the valuation calculations.</li> <li>• We engaged our own tax professionals to assess whether the mechanisms in place for capturing the tax effects of realised and unrealised gains reflected the likely tax outcomes and their effect on fair value.</li> <li>• We checked that the General Partner performance allocation calculation had been performed in accordance with the terms of the agreement and that the calculation correctly reflected both realised and unrealised gains.</li> <li>• We assessed the Company's analysis of whether the fair value of its investment in the Partnership was equivalent to the Net Asset Value of the Partnership by testing whether the data used in the analysis was appropriate and relevant and had been appropriately extracted from independent sources.</li> </ul>	<p>We reported to the Audit Committee that we did not identify any material instances of uses of inappropriate methodologies and that the valuation of the Company's investment in the Partnership was not materially misstated.</p> <p>We also reported to the Audit Committee that there were no material matters arising from our audit work on the valuation of the Company's investment in the Partnership that we wished to bring to the attention of the Audit Committee.</p>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*“Materiality” is the magnitude of omissions or misstatements that, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined planning materiality for the Company to be \$35 million (2016: \$34 million), which is approximately 2 per cent. (2016: 2 per cent.) of equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We used equity as a basis for determining planning materiality because the Company’s primary performance measures for internal and external reporting are based on equity.

### Performance materiality

*“Performance materiality” is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company’s overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75 per cent. of materiality, namely \$26.25 million (2016: 75 per cent. of materiality, namely \$25.5 million). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the Financial Statements did not exceed our materiality level.

### Reporting threshold

*“Reporting threshold” is an amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all audit differences in excess of \$1.8 million (2016: \$1.7 million) which is set at 5 per cent. of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 42, other than the Financial Statements and our auditor’s report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 32** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company’s performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

# Independent Auditor's Report to the Members of Riverstone Energy Limited (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

- **Audit committee reporting set out on pages 40 to 42** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 32** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the Financial Statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



**Michael Bane**

For and on behalf of Ernst & Young LLP  
Guernsey  
27 February 2018

### Notes:

- <sup>(1)</sup> The maintenance and integrity of the Company's website is the sole responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
- <sup>(2)</sup> Legislation in the Guernsey governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

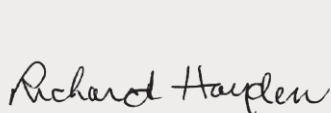


# Statement of Financial Position As at 31 December 2017

Riverstone Energy Limited Annual Report and Financial Statements 2017

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Investment at fair value through profit or loss	6 1,742,457	1,695,406
<b>Total non-current assets</b>	<b>1,742,457</b>	<b>1,695,406</b>
<b>Current assets</b>		
Trade and other receivables	545	545
Cash and cash equivalents	7 789	3,230
<b>Total current assets</b>	<b>1,334</b>	<b>3,775</b>
<b>Total assets</b>	<b>1,743,791</b>	<b>1,699,181</b>
<b>Current liabilities</b>		
Trade and other payables	612	623
<b>Total current liabilities</b>	<b>612</b>	<b>623</b>
<b>Total liabilities</b>	<b>612</b>	<b>623</b>
<b>Net assets</b>	<b>1,743,179</b>	<b>1,698,558</b>
<b>Equity</b>		
Share capital	8 1,317,496	1,317,496
Retained earnings	425,683	381,062
<b>Total equity</b>	<b>1,743,179</b>	<b>1,698,558</b>
<b>Number of Shares in issue at year end</b>	8 <b>84,480,064</b>	84,480,064
<b>Net Asset Value per Share (\$)</b>	13 <b>20.63</b>	20.11

The Financial Statements of the Company were approved and authorised for issue by the Board of Directors on 27 February 2018 and signed on their behalf by:



**Richard Hayden**  
Chairman



**Patrick Firth**  
Director

The accompanying notes on pages 51 to 69 form an integral part of the Company's Financial Statements.

# Statement of Comprehensive Income For the year ended 31 December 2017

Riverstone Energy Limited Annual Report and Financial Statements 2017

	1 January 2017 to 31 December 2017 \$'000	1 January 2016 to 31 December 2016 \$'000
<b>Investment gain</b>		
Change in fair value of investment at fair value through profit or loss	6 <b>48,151</b>	355,756
<b>Expenses</b>		
Directors' fees and expenses	10 (945)	(922)
Legal and professional fees	(271)	(496)
Other operating expenses	14 (2,347)	(2,514)
<b>Total expenses</b>	<b>(3,563)</b>	<b>(3,932)</b>
<b>Operating profit for the financial year</b>	<b>44,588</b>	351,824
<b>Finance income and expenses</b>		
Foreign exchange gain/(loss)	23	(414)
Interest income	10	-
<b>Total finance income and expenses</b>	<b>33</b>	<b>(414)</b>
<b>Profit for the year</b>	<b>44,621</b>	351,410
<b>Total comprehensive income for the year</b>	<b>44,621</b>	351,410
<b>Basic Earnings per Share (cents)</b>	13 <b>52.82</b>	415.97
<b>Diluted Earnings per Share (cents)</b>	13 <b>52.82</b>	415.97

All activities derive from continuing operations.

The accompanying notes on pages 51 to 69 form an integral part of the Company's Financial Statements.

# Statement of Changes in Equity For the year ended 31 December 2017

Riverstone Energy Limited Annual Report and Financial Statements 2017

	Share capital \$'000	Retained earnings \$'000	Total Equity \$'000
<i>Notes</i>			
<b>As at 1 January 2017</b>	<b>1,317,496</b>	<b>381,062</b>	<b>1,698,558</b>
Profit for the financial year	-	44,621	44,621
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>44,621</b>	<b>44,621</b>
<b>As at 31 December 2017</b>	<b>1,317,496</b>	<b>425,683</b>	<b>1,743,179</b>
	Share capital \$'000	Retained earnings \$'000	Total Equity \$'000
As at 1 January 2016	1,317,537	29,652	1,347,189
Profit for the financial year	-	351,410	351,410
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	351,410	351,410
Transactions with owners			
Share issue costs	8 (41)	-	(41)
Total transactions with owners	(41)	-	(41)
As at 31 December 2016	1,317,496	381,062	1,698,558

The accompanying notes on pages 51 to 69 form an integral part of the Company's Financial Statements.

# Statement of Cash Flows For the year ended 31 December 2017

Riverstone Energy Limited Annual Report and Financial Statements 2017

	1 January 2017 to 31 December 2017 \$'000	1 January 2016 to 31 December 2016 \$'000
<b>Cash flow used in operating activities</b>		
Operating profit for the financial year	44,588	351,824
Adjustments for:		
Net finance income	10	–
Change in fair value of investment at fair value through profit or loss	6 (48,151)	(355,756)
Movement in trade receivables	–	138
Movement in trade payables	(11)	(560)
<b>Net cash used in operating activities</b>	<b>(3,564)</b>	<b>(4,354)</b>
<b>Cash flow generated from investing activities</b>		
Distribution from the Partnership	6 1,100	5,500
<b>Net cash generated from investing activities</b>	<b>1,100</b>	<b>5,500</b>
<b>Cash flow used in financing activities</b>		
Share issue costs	8 –	(41)
<b>Net cash used in financing activities</b>	<b>–</b>	<b>(41)</b>
Net movement in cash and cash equivalents during the year	(2,464)	1,105
Cash and cash equivalents at the beginning of the year	3,230	2,539
Effect of foreign exchange rate changes	23	(414)
<b>Cash and cash equivalents at the end of the year</b>	<b>789</b>	<b>3,230</b>

The accompanying notes on pages 51 to 69 form an integral part of the Company's Financial Statements.

## 1. General information

Riverstone Energy Limited is a company limited by shares, which was incorporated on 23 May 2013 in Guernsey with an unlimited life and registered with the GFSC as a Registered Closed-ended Collective Investment Scheme pursuant to the POI Law. The Company's ordinary shares were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange as part of its IPO which completed on 29 October 2013. The registered office of the Company is Heritage Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY, Channel Islands.

The Company makes its investments through the Partnership, a Cayman Islands registered exempted limited partnership, in which the Company is the sole limited partner. The principal place of business of the Partnership is the Cayman Islands. Both the Company and the Partnership are subject to the Investment Management Agreement with the Investment Manager, a company registered in the Cayman Islands.

The Partnership invests alongside Private Riverstone Funds in all Qualifying Investments in which the Private Riverstone Funds participate. These funds are managed and advised by affiliates of the Investment Manager. Further detail of these investments is provided in the Investment Manager's Report.

## 2. Accounting policies

### Basis of preparation

The Financial Statements for the year ended 31 December 2017 have been prepared in accordance with IFRS and with the Companies Law.

In the preparation of these Financial Statements, the Company followed the same accounting policies and methods of computation as compared with those applied in the previous year.

The new standards or amendments to existing standards and interpretations, effective from 1 January 2017, did not have a material impact of the Company's Financial Statements.

### New and amended standards and interpretations not applied by the Company

The following are new and amended standards and interpretations in issue effective from 1 January 2018:

#### New standards

IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

#### Amended standards and interpretations

IAS 28	Investment in Associates and Joint Ventures (Amendments resulting from the Annual Improvements: 2014-2016 cycle)	1 January 2018
IAS 28	Investment in Associates and Joint Ventures (Amendments regarding long-term interests in associates and joint ventures)	1 January 2019
IFRIC 22	Foreign Currency Translations and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The Company has not early adopted IFRS 9 and IFRS 15 which are effective from 1 January 2018. The impact of these standards is not expected to be significant as disclosed below:

### IFRS 9 Financial Instruments: replaces IAS 39 - Financial Instruments: Recognition and Measurement

#### *Nature and scope of new or amended pronouncement*

IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

## 2. Accounting policies (continued)

The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets. IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the Financial Statements. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

### *Effect on the Financial Statements*

The standard is effective on or after 1 January 2018 and will be adopted for the year ending 31 December 2018.

The Company's financial instruments, including the investment in the Partnership, will continue to be classified as fair value through profit or loss. Due to the cash flow characteristics of such financial instruments, on application of IFRS 9, they will continue to be classified as fair value through profit or loss.

Although early adoption is permitted the Company has established that the impact will be immaterial to the Financial Statements.

It is anticipated that this application of IFRS 9 will not change the measurement and presentation of the current financial instruments.

### **IFRS 15: Revenue from Contracts with Customers**

The Company considers that it does not have any material revenue that falls within the scope of IFRS 15 and hence that the implementation of IFRS 15 will not have a material impact on its Financial Statements.

### **Foreign currencies**

The functional currency of the Company is U.S. Dollars reflecting the primary economic environment in which the Company operates, that being the exploration and production and midstream energy sectors, where most transactions are expected to take place in U.S. Dollars.

The Company has chosen U.S. Dollars as its presentation currency for financial reporting purposes.

Transactions during the year, including purchases and sales of investments, income and expenses are translated into U.S. Dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than U.S. Dollars are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a currency other than U.S. Dollars are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a currency other than U.S. Dollars are translated using the exchange rates at the date when the fair value was determined. Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the Statement of Comprehensive Income as part of the "Change in fair value of investments through profit or loss". Exchange differences on other financial instruments are included in profit or loss in the Statement of Comprehensive Income as "Foreign exchange loss".

### **Financial instruments**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are only offset and the net amount reported in the Statement of Financial Position and Statement of Comprehensive Income when there is a currently enforceable legal right to offset the recognised amounts and the Company intends to settle on a net basis or realise the asset and liability simultaneously.

## 2. Accounting policies (continued)

### Financial assets

When financial assets are recognised initially, they are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### a) *Investment at fair value through profit or loss*

##### i. *Classification*

The Company has elected to classify its investment in the Partnership as at fair value through profit or loss.

##### ii. *Measurement*

Investments made by the Company in the Partnership are measured at fair value.

##### iii. *Fair value estimation*

A summary of the more relevant aspects of IPEV valuations is set out below:

Marketable (Listed) Securities – where an active market exists for the security, the value is stated at the bid price on the last trading day in the period. Marketability discounts are not generally applied unless there is some contractual, governmental or other legally enforceable restriction preventing realisation at the reporting date.

Unlisted Investments – are carried at such fair value as the Investment Manager considers appropriate, and as approved or adjusted by the Board, taking into account the performance of each investee company and the exercise of ratchets, options or other incentive schemes. Methodologies used in arriving at the fair value include prices of recent investment, earnings multiples, net assets, discounted cash flows analysis and industry valuation benchmarks. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (examples include discount rates, forward oil prices, production multiples and multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted for differences between the investment and the referenced comparable. Privately held investments may also be valued at cost for a period of time (not exceeding one year) after an acquisition as the best indicator of fair value.

The Company has determined that the fair value of its investment in the Partnership is \$1,742 million (31 December 2016: \$1,695 million) and is calculated in accordance with applicable IFRS accounting standards and IPEV Valuation Guidelines.

#### b) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

A financial asset is derecognised (in whole or in part) either:

- when the Company has transferred substantially all the risks and rewards of ownership; or
- when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or
- when the contractual right to receive cash flow has expired.

## 2. Accounting policies (continued)

### Equity

The Company's Ordinary Shares are classified as equity and upon issuance, the fair value of the consideration received is included in equity, net of share issue costs (excluding share issue costs of the IPO). All formation and initial expenses of the Company, including the share issue costs of its IPO, which are otherwise chargeable to equity, have been borne by the Investment Manager. In the event that the Investment Management Agreement terminates, the Company would become liable for those costs. For further details please see Note 9.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

### Finance income

Interest income is recognised on a time apportioned basis using the effective interest method.

### Expenses

Expenses include legal, accounting, auditing and other operating expenses. They are recognised on an accruals basis in the Statement of Comprehensive Income in the period in which they are incurred.

## 3. Significant accounting judgements, estimates and assumptions

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the Financial Statements:

#### *Assessment as an Investment Entity*

The Company meets the definition of an investment entity on the basis of the following criteria:

1. the Company obtains funds from multiple investors for the purpose of providing those investors with investment management services;
2. the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
3. the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

To determine that the Company meets the definition of an investment entity, further consideration is given to the characteristics of an investment entity that are demonstrated by the Company.

#### *Assessment of control over the Partnership*

The Company makes its investments through the Partnership in which it is the sole limited partner. The Board has assessed whether the Company has all the elements of control as prescribed by IFRS 10 in relation to the Company's investment in the Partnership and has concluded that although the Company is the sole limited partner, it does not control the Partnership but instead has significant influence and therefore accounts for the Partnership as an investment in associate at fair value in accordance with IAS 28.

#### *Assessment of the Partnership as a structured entity*

The Company considers the Partnership to be a structured entity under IFRS 12. Transfer of funds by the Partnership to the Company is determined by the General Partner (see Note 10). The risks associated with the Company's investment in the Partnership are disclosed in Note 11. The summarised financial information for the Company's investment in the Partnership is disclosed in Note 6.



### 3. Significant accounting judgements, estimates and assumptions (continued)

#### *Going concern*

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In reaching this conclusion, the Board has considered budgeted and projected results of the business, including projected cash flows, and the risks that could impact the Company's liquidity over the next 12 months from the date of approval of the Financial Statements.

#### **Estimates and assumptions**

The area involving a high degree of judgement or complexity and where assumptions and estimates are significant to the Financial Statements has been identified as the risk of misstatement of the valuation of the investment in the Partnership (see Note 5). Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The Board's determination that no discount or premium should be applied to the net asset value of the Partnership involves a degree of judgement due to the nature of the Partnership's investments and other assets and liabilities (see Note 2: Financial assets a) iii.) and the valuation techniques and procedures adopted by the Partnership.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

### 4. Taxation

The Company has made an election to, and currently expects to conduct its activities so as to be treated as a partnership for U.S. federal income tax purposes. Therefore, the Company expects that it generally will not be liable for U.S. federal income taxes. In the normal course of business, REL may form wholly owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its income. Each of the Company's Shareholders who are liable for U.S. taxes will take into account its respective share of the Company's items of income, gain, loss and deduction in computing its U.S. federal income tax liability as if such Shareholder had earned such income directly, even if no cash distributions are made to the Shareholder.

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 2008 and is charged an annual exemption fee of £1,200.

The Cayman Islands at present impose no taxes on profit, income, capital gains or appreciations in value of the Partnership. There are also currently no taxes imposed in the Cayman Islands by withholding or otherwise on the Company as a limited partner of the Partnership on profit, income, capital gains or appreciations in respect of its partnership interest nor any taxes on the Company as a limited partner of the Partnership in the nature of estate duty, inheritance or capital transfer tax.

Local taxes may apply at the jurisdictional level on profits arising in operating entity investments. Further taxes may apply on distributions from such operating entity investments. The company is structured, and has structured its investments, to eliminate the incurrence of ECI by REL's investors. Based upon the current commitments and investments in Liberty II, Eagle II, Rock Oil, Fieldwood, Castex 2014, Castex 2005, Three Rivers III, Carrier II, ILX III, and Centennial, the future U.S. tax liability on profits is expected to be in the range of 21 to 27.5 per cent. (31 December 2016: 35 to 41.5 per cent.). The decrease in the Partnership's provision for taxation year over year (see Note 6) is due primarily to the reduction in the U.S. federal corporate tax rate from 35 to 21 per cent., as well as a decrease in the fair value of the Partnership's U.S.-based investments.

## 5. Fair value

IFRS 13 'Fair Value Measurement' requires disclosure of fair value measurement by level. The level in the fair value hierarchy within which the financial assets or financial liabilities are categorised is determined on the basis of the lowest level input that is significant to the fair value measurement, adjusted if necessary.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company's only financial instrument carried at fair value is its investment in the Partnership which has been classified within Level 3 as it is derived using unobservable inputs. Amounts classified under Level 3 for the year ended 31 December 2017 were \$1,742 million (31 December 2016: \$1,695 million).

The fair value of all other financial instruments approximates to their carrying value.

### Transfers during the period

There have been no transfers between levels during the year ended 31 December 2017. Any transfers between the levels will be accounted for on the last day of each financial period. Due to the nature of the investment in the Partnership, it is always expected to be classified under Level 3.

### Valuation methodology and process

The Directors base the fair value of the investment in the Partnership on the value of its limited partnership capital account received from the General Partner, which is determined on the basis of the fair value of its assets and liabilities, adjusted if necessary, to reflect liquidity, future commitments, and other specific factors of the Partnership and Investment Manager. This is based on the components within the Partnership, principally the value of the Partnership's investments in addition to cash and short-term money market fixed deposits. Any fluctuation in the value of the Partnership's investments in addition to cash and short-term money market fixed deposits held will directly impact on the value of the Company's investment in the Partnership.

The Partnership's investments are valued using the techniques described in the Company's valuation policy. The Investment Manager's assessment of fair value of investments held by the Partnership, through Investment Undertakings, is determined in accordance with IPEV Valuation Guidelines. When valuing the Partnership's investments, the Investment Manager reviews information provided by the underlying investee companies and other business partners and applies IPEV methodologies, to estimate a fair value as at the date of the Statement of Financial Position, subject to Board approval. It is the opinion of the Directors, that the IPEV valuation methodology used in deriving a fair value is generally not different from the fair value requirements of IFRS 13. In the event that there is a difference, the requirements of IFRS 13 override the IPEV requirements.

Initially, acquisitions are valued at the price of recent investment. Subsequently, and as appropriate, the Investment Manager values the investments on a quarterly basis using common industry valuation techniques, including comparable public market valuation, comparable merger and acquisition transaction valuation and discounted cash flow valuation. For early stage private investments, Riverstone's investment due diligence process includes assumptions about short-term financial results in determining the appropriate purchase price for the investment. The techniques used in determining the fair value of the Company's investments through the Partnership are selected on an investment by investment basis so as to maximise the use of market based observable inputs.

REL's valuation policy is compliant with both IFRS and IPEV Valuation Guidelines and is applied consistently from period to period. As the Company's investments are generally not publicly quoted, valuations require meaningful judgment to establish a range of values, and the ultimate value at which an investment is realised may differ from its most recent valuation and the difference may be significant.

For the year ended 31 December 2017, the valuations of the Company's investments, through the Partnership, are detailed in the Investment Manager's Report.

## 5. Fair value (continued)

### Quantitative information about Level 3 fair value measurements as at 31 December 2017

#### Industry: Energy

Fair value of Level 3 investments (in thousands)	Valuation technique(s)	Unobservable input(s)	Range		Weighted Average <sup>(1)</sup>	Sensitivity of the input to fair value of Level 3 investments	Fair value of Level 3 investments <sup>(2)</sup> (in thousands)
			Low <sup>(1)</sup>	High <sup>(1)</sup>			
\$1,260,861	Public comparables	1P Reserve multiple (\$/Boe)	\$12	\$17	\$16	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$234,453
		2P Reserve multiple (\$/Boe) <sup>(3)</sup>	\$7	\$13	\$10	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$760,781
		EV / 2018E EBITDA multiple <sup>(3)</sup>	3.9x	10.1x	6.9x	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$921,913
		EV / 2018E Production multiple (\$/Boepd) <sup>(3)</sup>	\$37,300	\$66,400	\$48,500	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$854,062
	Transaction comparables	Acreage Multiple (\$/Boepd per Acre)	\$2,600	\$12,100	\$5,900	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$854,062
	Discounted cash flow	Oil Price Curve (\$/bbl)	\$48	\$57	\$55	10% weighted average change in the input would result in 5% change in the total fair value of Level 3 investments	\$801,465
		Gas Price Curve (\$/mcf)	\$2	\$3	\$3	10% weighted average change in the input would result in 3% change in the total fair value of Level 3 investments	\$801,465
Discount Rate <sup>(3)</sup>		16%	25%	19%	10% weighted average change in the input would result in 0.4% change in the total fair value of Level 3 investments	\$217,937	
\$233,308	Other						
<b>\$1,494,169</b>	<b>Total</b>						

## 5. Fair value (continued)

### Quantitative information about Level 3 fair value measurements as at 31 December 2016

Industry: Energy

Fair value of Level 3 investments (in thousands)	Valuation technique(s)	Unobservable input(s)	Range		Weighted Average <sup>(1)</sup>	Sensitivity of the input to fair value of Level 3 investments	Fair value of Level 3 investments <sup>(2)</sup> (in thousands)
			Low <sup>(1)</sup>	High <sup>(1)</sup>			
\$1,241,851	Public comparables	1P Reserve multiple (\$/Boe)	\$3	\$13	\$12	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$310,557
		EV / 2017E EBITDA multiple	6.6x	11.2x	7.7x	10% weighted average change in the input would result in 1% change in the total fair value of Level 3 investments	\$656,742
	Transaction comparables	Acreage Multiple (\$/Boepd per Acre)	\$2,200	\$16,800	\$6,300	10% weighted average change in the input would result in 2% change in the total fair value of Level 3 investments	\$813,751
	Discounted cash flow <sup>(4)</sup>	Oil Price Curve (\$/bbl)	\$43	\$54	\$51	20% weighted average change in the input would result in 10% change in the total fair value of Level 3 investments	\$883,424
		Gas Price Curve (\$/mcf)	\$3	\$3	\$3	20% weighted average change in the input would result in 4% change in the total fair value of Level 3 investments	\$620,161
\$1,389	Last round of financing						
\$65,494	Other						
<b>\$1,308,734</b>	<b>Total</b>						

<sup>(1)</sup> Calculated based on fair values of the Partnership's Level 3 investments

<sup>(2)</sup> Each of the Partnership's Level 3 investments are valued using one or more of the techniques which utilise one or more of the unobservable inputs, so the amounts in the "Fair value of Level 3 investments" column will not aggregate to the total fair value of the Partnership's Level 3 investments

<sup>(3)</sup> As at 31 December 2017, the sensitivity of these unobservable inputs to the total fair value of Level 3 investments was determined to be significant by applying the same methodology that determined it not to be significant as at 31 December 2016

<sup>(4)</sup> Discounted cash flow technique which involves the use of a discount factor of 10 per cent.

The Board reviews and considers the fair value of each of the Partnership's investments arrived at by the Investment Manager before incorporating such values into the fair value of the Partnership. The variety of valuation bases adopted, quality of management information provided by the underlying investee companies and the lack of liquid markets for the investments mean that there are inherent difficulties in determining the fair value of these investments and such difficulties cannot be eliminated. Therefore the amounts realised on the sale of investments may differ from the fair values reflected in these Financial Statements and the differences may be significant.

The Board approves the valuations performed by the Investment Manager and monitors the range of reasonably possible changes in significant observable inputs on a regular basis.

The Directors have considered whether a discount or premium should be applied to the net asset value of the Partnership. In view of the investment in the Partnership and the nature of the Partnership's assets, no adjustment to the net asset value of the Partnership has been deemed to be necessary (see Note 3).

## 6. Investment at fair value through profit or loss

The movement in fair value is derived from the fair value movements in the underlying investments held by the Partnership, net of income and expenses of the Partnership and its related Investment Undertakings, including any Performance Allocation and applicable taxes.

REL US Centennial Holdings, LLC, a wholly-owned subsidiary of the Partnership, has borrowed \$100 million under the terms of the Margin Loan Agreement to finance the Company's additional investment in Centennial, through the Partnership. The Margin Loan Agreement, dated 27 December 2016, is for a term of 18 months to 27 June 2018 and has an annual interest rate cost of 3 month LIBOR plus 3.25 per cent.. A security interest has been granted by REL US Centennial Holdings, LLC over the shares in Centennial, as collateral for any amounts which may become due under the Margin Loan Agreement. As at 31 December 2017, there is no going concern issue regarding the Partnership's ability to repay the Margin Loan by utilising cash on hand and / or proceeds from a partial sale of the shares in Centennial.

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Cost</b>		
Brought forward	1,303,435	1,308,935
Distribution from the Partnership	(1,100)	(5,500)
Carried forward	<u>1,302,335</u>	<u>1,303,435</u>
<b>Fair value adjustment through profit or loss</b>		
Brought forward	391,971	36,215
Fair value movement during the year – see Summary Income Statement below	48,151	355,756
Carried forward	<u>440,122</u>	<u>391,971</u>
<b>Fair value at year end</b>	<u>1,742,457</u>	<u>1,695,406</u>

### Summary financial information for the Partnership

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Summary Balance Sheet</b>		
Investments at fair value (net)	1,683,127	1,461,145
Cash and cash equivalents	28,166	147,882
Money market deposits	37,501	91,786
Management fee payable – see Note 10	(6,537)	(6,370)
Other net assets	200	963
<b>Fair value of REL's investment in the Partnership</b>	<u>1,742,457</u>	<u>1,695,406</u>

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Reconciliation of Partnership's investments at fair value</b>		
Investments at fair value – Level 1 (gross)	392,504	476,591
Investments at fair value – Level 3 (gross) – see Note 5	1,494,169	1,308,734
Investments at fair value (gross)	1,886,673	1,785,325
Margin Loan Agreement – see above	(100,000)	(100,047)
Accrued General Partner performance allocation – see Note 10	(138,151)	(132,164)
Provision for taxation – see Note 4	(46,433)	(120,785)
Cash and cash equivalents	81,038	28,816
<b>Partnership's investments at fair value (net)</b>	<u>1,683,127</u>	<u>1,461,145</u>

# Notes to the Financial Statements For the year ended 31 December 2017

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## 6. Investment at fair value through profit or loss (continued)

	1 January 2017 to 31 December 2017 \$'000	1 January 2016 to 31 December 2016 \$'000
<b>Summary Income Statement</b>		
Unrealised and realised gain on Partnership's investments (net)	79,280	377,481
Interest and other income	1,339	1,833
Management fee expense – see Note 10	(25,729)	(22,370)
Other operating expenses	(6,739)	(1,188)
<b>Portion of the operating profit for the year attributable to REL's investment in the Partnership</b>	<b>48,151</b>	<b>355,756</b>
<b>Reconciliation of unrealised and realised gain on Partnership's investments</b>		
Unrealised (loss)/gain on Partnership's investments (gross)	(16,690)	530,833
Realised gain on Partnership's investments (gross)	32,317	87,220
Income from Partnership's investments (gross)	5,864	6,520
General Partner's performance allocation – see Note 10	(16,288)	(126,307)
Provision for taxation – see Note 4	74,077	(120,785)
<b>Unrealised and realised gain on Partnership's investments (net)</b>	<b>79,280</b>	<b>377,481</b>

## 7. Cash and cash equivalents

These comprise cash and short-term bank deposits available on demand. The carrying amounts of these assets approximate to their fair value.

## 8. Share capital

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Authorised:</b>		
Ordinary Shares of no par value	<b>Unlimited</b>	<b>Unlimited</b>
	<b>Total No.</b>	<b>Total No.</b>
<b>Issued and fully paid:</b>		
<b>Unlimited Shares of no par value</b>		
Shares as at inception	–	–
Issued on 23 May 2013	1	1
Issued on 29 October 2013	71,032,057	71,032,057
Issued on 10 October 2014	5,000,000	5,000,000
Issued on 11 December 2015	8,448,006	8,448,006
<b>Shares as at year end</b>	<b>84,480,064</b>	<b>84,480,064</b>
<b>Share capital</b>		
	<b>\$'000</b>	<b>\$'000</b>
Share capital brought forward	1,317,496	1,317,537
Movements for the period:		
Share issue costs	–	(41)
<b>Share capital as at year end</b>	<b>1,317,496</b>	<b>1,317,496</b>

## 8. Share capital (continued)

The Company has one class of Ordinary Shares. The issued nominal value of the Ordinary Shares represents 100 per cent. of the total issued nominal value of all share capital. Under the Company's Articles of Incorporation, on a show of hands, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every Share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, providing the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. The Ordinary Shares have no right to fixed income.

KFI, one of the Cornerstone Investors in the Company, paid for and acquired its Ordinary Shares in two equal tranches of £50 million. The first tranche was paid on Admission at which time 5 million Ordinary Shares were issued to KFI. The second tranche was paid on 26 September 2014 and issued on 10 October 2014 upon the Company being 50 per cent. committed of the aggregate net proceeds of the Issue, calculated using KFI's total subscription monies.

On 11 December 2015, the Company raised £67.6 million (\$102.3 million) (based on an exchange rate of 1.5144 \$/£ and gross of share issuance costs of \$3.6 million) through the issuance of 8,448,006 new Ordinary Shares at £8.00 per Ordinary Share.

Following admission of the new Ordinary Shares, the share capital of the Company is 84,480,064 Ordinary Shares in aggregate.

## 9. Contingent liabilities

Contingent liabilities are potential future cash outflows where the likelihood of payment is considered more than remote but is not considered probable or cannot be measured reliably.

### Formation and initial expenses

The formation and initial expenses of the Company totalling \$22.5 million have been paid in full by the Investment Manager. However, if the Investment Management Agreement is terminated by the Company on or before the seventh anniversary of Admission (other than for a material breach by the Investment Manager attributable to its fraud) the Company will be required to reimburse the Investment Manager in respect of the formation and initial expenses of the Company and the costs and the expenses of the Issue to the full extent that such costs and expenses were borne by the Investment Manager. At this time, the Directors consider the likelihood of the Investment Management Agreement being terminated by the Company to be remote.

## 10. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

### Directors

The Company has eight Non-executive Directors (31 December 2016: eight). The Chairman is entitled to annual remuneration of £132,000 (31 December 2016: £120,000). The Chairman of the Audit Committee is entitled to annual remuneration of £82,500 (31 December 2016: £75,000) and the Chairman of the Management Engagement Committee is entitled to annual remuneration of £71,500 (31 December 2016: £65,000). The other independent Directors are entitled to annual remuneration of £66,000 (31 December 2016: £60,000). The three non-independent Directors (31 December 2016: three) have chosen not to be remunerated by the Company for their services.

Directors' fees and expenses for the year ended 31 December 2017 amounted to \$944,878 (31 December 2016: \$922,379), \$409 of Directors' expenses were outstanding at year end (31 December 2016: none).

Messrs Lapeyre and Leuschen are senior executives of Riverstone and have direct or indirect economic interests in affiliates and/or related parties of the Investment Manager, which holds the founder Ordinary Share of the Company, the General Partner, the general partner of Fund V, Riverstone Equity Partners, Riverstone Investment Group LLC, REL Coinvestment, LP and Other Riverstone Funds. REL Coinvestment, LP was subject to lock-up restrictions for two years from admission.

Messrs Barker and Hayden have direct or indirect economic interests in Other Riverstone Funds as investors.

## 10. Related party transactions (continued)

### Investment Manager

The Investment Manager, an affiliate of Riverstone, provides advice to the Company and the Partnership on the origination and completion of new investments, on the management of the portfolio and on realisations, as well as on funding requirements, subject to Board approval. For the provision of services under the Investment Management Agreement, the Investment Manager is paid in cash out of the assets of the Partnership an annual Management Fee equal to 1.5 per cent. per annum of the Company's Net Asset Value. The fee is payable quarterly in arrears and each payment is calculated using the quarterly Net Asset Value as at the relevant quarter end. Notwithstanding the foregoing, no Management Fee is paid on the cash proceeds of the Issue to the extent that they have not yet been invested or committed to an investment. Amounts not forming part of a commitment to an investment that are invested in cash deposits, interest-bearing accounts or sovereign securities directly or indirectly, are not considered to have been invested or committed for these purposes.

The Investment Manager has agreed to deduct from its annual Management Fee all fees, travel costs and related expenses of the Directors exceeding the following annual limits:

Portion of NAV	Limit (as a percentage of the then last published NAV)
Up to and including £500 million	0.084 per cent.
From £500 million to and including £600 million	0.084 per cent. at £500 million and thereafter adjusted downwards proportionately to NAV to 0.07 per cent. at £600 million
From £600 million to and including £700 million	0.07 per cent. at £600 million and thereafter adjusted downwards proportionately to NAV to 0.06 per cent. at £700 million
Above £700 million	0.06 per cent.

The above limits are subject to adjustment by agreement between the Investment Manager and the Company acting by its independent Directors. Based on the last published NAV as of 31 December 2017, the maximum amount of annual fees, travel and related expenses of the Directors is \$1,212,307 (31 December 2016: \$1,093,763). During the year ended 31 December 2017, fees and expenses of the Directors amounted to \$944,878 (31 December 2016: \$922,379), therefore no reduction in the 31 December 2017 quarter-end management fee (31 December 2016: no reduction of the quarter-end management fee).

During the year ended 31 December 2017, the Partnership incurred Management Fees of \$25,728,585 (31 December 2016: \$22,370,296) of which \$6,536,923 remained outstanding as at the year end (31 December 2016: \$6,369,594).

The Investment Manager's appointment cannot be terminated by the Company with less than 12 months' notice. The Company may terminate the Investment Management Agreement with immediate effect if the Investment Manager has committed an act of fraud or wilful misconduct in relation to the Company which has resulted in material harm to the Company's business. The Investment Manager may terminate their appointment immediately if either the Company or the Partnership is in material breach of any of its material obligations under the Investment Management Agreement. The Investment Management Agreement continues into perpetuity post the seventh year anniversary.

### General Partner

The General Partner makes all management decisions, other than investment management decisions, in relation to the Partnership and controls all other actions by the Partnership and is entitled to receive a Performance Allocation, calculated and payable at the underlying investment holding subsidiary level, equal to 20 per cent. of the gross realised profits (if any) in respect of a disposal, in whole or in part, of any underlying asset of the Company.

The General Partner is entitled to receive its Performance Allocation in cash, all of which, after tax, Riverstone, through its affiliate RELCP, reinvests in Ordinary Shares of the Company on the terms summarised in Part I and Part VIII of the IPO Prospectus.



## 10. Related party transactions (continued)

### Cornerstone Investors

Each of the Cornerstone Investors has acquired an indirect economic interest in each of the General Partner and the Investment Manager depending on the size of their commitment and the total issue size, up to an aggregate maximum indirect economic interest of 20 per cent. in each, for nominal consideration. These interests entitle the Cornerstone Investors to participate in the economic returns generated by the General Partner, including from the Performance Allocation, and the Investment Manager, which receives the Management Fee.

## 11. Financial risk management

### Financial risk management objectives

The Company's investing activities, through its investment in the Partnership, intentionally expose it to various types of risks that are associated with the underlying investee companies of the Partnership. The Company makes the investment in order to generate returns in accordance with its investment policy and objectives.

The most important types of financial risks to which the Company is exposed are market risk (including price, interest rate and foreign currency risk), liquidity risk and credit risk. The Board of Directors has overall responsibility for the determination of the Company's risk management and sets policy to manage that risk at an acceptable level to achieve those objectives. The policy and process for measuring and mitigating each of the main risks are described below.

The Investment Manager and the Administrator provide advice to the Company which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Investment Manager and the Administrator report to the Board on a quarterly basis.

### Categories of financial instruments

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Financial assets</b>		
<i>Investment at fair value through profit or loss:</i>		
Investment in the Partnership	1,742,457	1,695,406
<i>Loans and receivables:</i>		
Cash and cash equivalents	789	3,230
Trade and other receivables	545	545
<b>Financial liabilities</b>		
<i>Financial liabilities:</i>		
Trade and other payables	(612)	(623)

### Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the capital return to Shareholders. The capital structure of the Company consists of issued share capital and retained earnings, as stated in the Statement of Financial Position.

In order to maintain or adjust the capital structure, the Company may buy back shares or issue new shares. There are no external capital requirements imposed on the Company.

During the year ended 31 December 2017 and 2016, the Company itself had no borrowings. However, as disclosed in Note 6, REL US Centennial Holdings, LLC has borrowed \$100 million under the terms of the Margin Loan Agreement.

The Company's investment policy is set out in the Investment Policy section of the Annual Report.

## 11. Financial risk management (continued)

### Market risk

Market risk includes price risk, foreign currency risk and interest rate risk.

#### (a) Price risk

The underlying investments held by the Partnership present a potential risk of loss of capital to the Partnership and hence to the Company. The Company invests through the Partnership. Price risk arises from uncertainty about future prices of underlying financial investments held by the Partnership, which at year end was \$1,886,673 (31 December 2016: \$1,785,325).

The Partnership is exposed to a variety of risks which may have an impact on the carrying value of the Company's investment in the Partnership. The Partnership's risk factors are set out in (a)(i) to (a)(iii) below.

#### (i) Not actively traded

The Partnership's investments are not generally traded in an active market but are indirectly exposed to market price risk arising from uncertainties about future values of the investments held. The underlying investments of the Partnership vary as to industry sub-sector, geographic distribution of operations and size, all of which may impact the susceptibility of their valuation to uncertainty.

Although the investments are in the same industry, this risk is managed through careful selection of investments within the specified limits of the investment policy. The investments are monitored on a regular basis by the Investment Manager.

#### (ii) Concentration

The Company, through the Partnership, invests in the global energy sector, with a particular focus on businesses that engage in oil and gas exploration and production and midstream investments in that sector. This means that the Company is exposed to the concentration risk of only making investments in the global energy sector, which concentration risk may further relate to sub-sector, geography, and the relative size of an investment or other factors. Whilst the Company is subject to the investment and diversification restrictions in its investment policy, within those limits, material concentrations of investments have arisen.

The Board and the Investment Manager monitor the concentration of the investment in the Partnership on a quarterly basis to ensure compliance with the investment policy.

#### (iii) Liquidity

The Company's underlying investments through the Partnership are dynamic in nature. The Partnership will maintain flexibility in funding by keeping sufficient liquidity in cash and cash equivalents which may be invested on a temporary basis in line with the cash management policy as agreed by the Board from time to time.

As at 31 December 2017, \$147 million or 8.4 per cent. (31 December 2016: \$268 million or 15.8 per cent. of the Partnership's financial assets, including those held by its wholly-owned subsidiaries, REL US Corp and REL US Centennial Holdings, LLC, were money market fixed deposits and cash balances held on deposit with several, A or higher rated, banks. All of these assets have maturities of less than one year.

## 11. Financial risk management (continued)

### (b) Foreign currency risk

The Company has exposure to foreign currency risk due to the payment of some expenses in Pounds Sterling. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than the U.S. Dollar.

The following tables sets out, in U.S. Dollars, the Company's total exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities:

	\$ \$'000	£ \$'000	€ \$'000	Total \$'000
<b>As at 31 December 2017</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Investment in the Partnership <sup>(1)</sup>	1,742,457	-	-	1,742,457
<b>Total non-current assets</b>	<b>1,742,457</b>	<b>-</b>	<b>-</b>	<b>1,742,457</b>
<b>Current assets</b>				
Trade and other receivables	545	-	-	545
Cash and cash equivalents	667	122	-	789
<b>Total current assets</b>	<b>1,212</b>	<b>122</b>	<b>-</b>	<b>1,334</b>
<b>Current liabilities</b>				
Trade and other payables	128	454	30	612
<b>Total current liabilities</b>	<b>128</b>	<b>454</b>	<b>30</b>	<b>612</b>
<b>Total net assets</b>	<b>1,743,541</b>	<b>(332)</b>	<b>(30)</b>	<b>1,743,179</b>
<b>As at 31 December 2016</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Investment in the Partnership <sup>(1)</sup>	1,695,406	-	-	1,695,406
<b>Total non-current assets</b>	<b>1,695,406</b>	<b>-</b>	<b>-</b>	<b>1,695,406</b>
<b>Current assets</b>				
Trade and other receivables	545	-	-	545
Cash and cash equivalents	1,801	1,429	-	3,230
<b>Total current assets</b>	<b>2,346</b>	<b>1,429</b>	<b>-</b>	<b>3,775</b>
<b>Current liabilities</b>				
Trade and other payables	215	408	-	623
<b>Total current liabilities</b>	<b>215</b>	<b>408</b>	<b>-</b>	<b>623</b>
<b>Total net assets</b>	<b>1,697,537</b>	<b>1,021</b>	<b>-</b>	<b>1,698,558</b>

The Directors do not consider that the foreign currency exchange risk at the balance sheet date is significant or material and therefore sensitivity analysis for the foreign currency risk has not been provided.

<sup>(1)</sup> Includes the fair value of two investments, Hammerhead and CNOR, denominated in CAD and therefore subject to foreign currency risk. These two investments had an aggregate fair value of \$621.5 million as at 31 December 2017 (31 December 2016: \$520.8 million).

## 11. Financial risk management (continued)

### (c) Interest Rate Risk

The Company's exposure to interest rate risk relates to the Company's cash and cash equivalents held through the Partnership and the Margin Loan held through REL US Centennial Holdings, LLC, a wholly-owned subsidiary of the Partnership (see Note 6). The Company is subject to risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. As at the date of the Statement of Financial Position, the majority of the Company's cash and cash equivalents were held on interest bearing fixed deposit accounts at the Partnership.

The Company has no other interest-bearing assets or liabilities as at the reporting date. As a consequence, the Company is only exposed to variable market interest rate risk. Management does not expect any significant change in interest rates that would have a material impact on the financial performance of the Company in the near future, therefore sensitivity analysis for the interest rate risk has not been provided.

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Non-interest bearing</b>		
Cash and cash equivalents	<b>789</b>	3,230

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors.

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

The Company adopts a prudent approach to liquidity management and through the preparation of budgets and cash flow forecasts maintains sufficient cash reserves to meet its obligations. The Company received distributions of \$5.5 million and \$1.1 million from the Partnership in Q1 2016 and Q1 2017, respectively, to meet its forecasted liabilities. In accordance with section 4.1(a) of the Partnership Agreement, in the event of the Company requiring additional funds for working capital, it is entitled to receive another distribution from the Partnership.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The carrying value of the investment in the Partnership as at 31 December 2017 was \$1,742 million (31 December 2016: \$1,695 million).

Financial assets mainly consist of cash and cash equivalents and investments at fair value through profit or loss. The Company's risk on liquid funds is reduced because it can only deposit monies with institutions with a minimum credit rating of "single A". The Company mitigates its credit risk exposure on its investment at fair value through profit or loss by the exercise of due diligence on the counterparties of the Partnership, its General Partner and the Investment Manager.

The table below shows the material cash balances and the credit rating for the counterparties used at the year end date:

Counterparty	Location	Rating	31 December 2017 \$'000	31 December 2016 \$'000
			ABN Amro (Guernsey) Limited	Guernsey

## 11. Financial risk management (continued)

The Company's maximum exposure to loss of capital at the year end is shown below:

	Carrying Value and Maximum exposure \$'000
<b>31 December 2017</b>	
Investment at fair value through profit or loss:	
Investment in the Partnership	1,742,457
Loans and receivables (including cash and cash equivalents but excluding prepayments)	789
	<hr/>
	Carrying Value and Maximum exposure \$'000
<b>31 December 2016</b>	
Investment at fair value through profit or loss:	
Investment in the Partnership	1,695,406
Loans and receivables (including cash and cash equivalents but excluding prepayments)	3,230
	<hr/>

### Gearing

As at the date of these Financial Statements the Company itself has no gearing; however, the Partnership had approximately \$11 million of letter of credit outstanding as part of a \$200 million line of credit agreement and REL US Centennial Holdings, LLC has borrowed \$100 million under the terms of the Margin Loan Agreement. The Company may have additional indirect gearing through the operations of the underlying investee companies.

## 12. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, as a whole. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the Total Return on the Company's Net Asset Value, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the Financial Statements.

For management purposes, the Company is organised into one main operating segment, which invests in one limited partnership.

All of the Company's income is derived from within Guernsey and the Cayman Islands.

All of the Company's non-current assets are located in the Cayman Islands.

Due to the Company's nature, it has no customers.

# Notes to the Financial Statements For the year ended 31 December 2017

Riverstone Energy Limited Annual Report and Financial Statements 2017

## 13. Earnings per Share and Net Asset Value per Share

### Earnings per Share

	31 December 2017		31 December 2016	
	Basic	Diluted	Basic	Diluted
Profit for the year (\$'000)	44,621	44,621	351,410	351,410
Weighted average numbers of Shares in issue	84,480,064	84,480,064	84,480,064	84,480,064
EPS (cents)	52.82	52.82	415.97	415.97

The Earnings per Share is based on the profit or loss of the Company for the year and on the weighted average number of Shares the Company had in issue for the year ended 31 December 2017.

There are no dilutive Shares in issue as at 31 December 2017.

### Net Asset Value per Share

	31 December 2017	31 December 2016
NAV (\$'000)	1,743,179	1,698,558
Number of Shares in issue	84,480,064	84,480,064
<b>Net Asset Value per Share (\$)</b>	<b>20.63</b>	20.11
<b>Net Asset Value per Share (£)</b>	<b>15.27</b>	16.29
<b>Discount to NAV (per cent.)</b>	<b>19.15</b>	17.48

The Net Asset Value per Share is arrived at by dividing the net assets as at the date of the Statement of Financial Position by the number of Ordinary Shares in issue at that date. The Discount to NAV is arrived at by calculating the percentage discount of the Company's Net Asset Value per Share to the Company's closing Share price as at the date of the Statement of Financial Position.

## 14. Auditors' Remuneration

Other operating expenses include all fees payable to the auditors, which can be analysed as follows:

	2017 \$'000	2016 \$'000
<b>Ernst &amp; Young LLP Audit fees</b>	<b>434</b>	335
Ernst & Young LLP (United Kingdom) Interim Review fees	136	108
Ernst & Young LLP Business Services S.a.r.l Non-Assurance services	30	-
Ernst & Young LLP (United States) Tax Compliance fees	-	25
<b>Ernst &amp; Young LLP Non-Audit fees</b>	<b>166</b>	133

## 15. Subsequent Events

In February 2018, REL announced the sale of Three Rivers III. Under the terms of the transaction, the Company's investment, through the Partnership, will realise gross cash proceeds of approximately \$205 million, representing a Gross MOIC<sup>(1)</sup> of 2.2x (Net MOIC of 1.9x) on the \$94 million investment and a Gross IRR<sup>(1)</sup> of 49 per cent. (Net IRR of 41 per cent.). This represents a gross profit of \$111 million, which will be subject to a performance fee upon closing of the sale, which is expected to occur in April 2018 and is subject to customary closing conditions. The realised gain from this transaction was fully offset by net operating losses from prior years, with the tax effect of the transaction fully reflected in the tax component of the valuation of the Company's investment in the Partnership, resulting in no tax due.

In February 2018, Fieldwood filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Chapter 11 plan of reorganisation encompasses a comprehensive restructuring of the company's balance sheet through reducing current debt by approximately \$1.6 billion and raising capital of approximately \$525 million through an equity rights offering. In addition, Fieldwood is expected to acquire the deepwater Gulf of Mexico oil and gas assets of Noble Energy, Inc., which complement and enhance the company's existing asset base and operations. The transaction is expected to close in the second quarter of 2018, subject to court approval. The effects of both transactions are fully reflected in the valuation of the Company's investment in the Partnership at the year end.

<sup>(1)</sup> Gross MOIC is Gross Multiple of Invested Capital before transaction costs, taxes (approximately 21 to 27.5 per cent. of U.S. sourced taxable income) and 20 per cent. carried interest on gross profits (without a hurdle rate). Since there is no netting of losses against gains, the effective carried interest rate on the portfolio as a whole will be greater than 20 per cent.. In addition, there is a management fee of 1.5 per cent. of net assets per annum and other expenses. Given these costs, fees and expenses are in aggregate expected to be considerable, Net MOIC and Net IRR will be materially less than the Gross MOIC and Gross IRR. Local taxes, primarily on U.S. assets, may apply at the jurisdictional level on profits arising in operating entity investments. Further withholding taxes may apply on distributions from such operating entity investments. In the normal course of business, REL may form wholly-owned subsidiaries, to be treated as C Corporations for U.S. tax purposes. The C Corporations serve to protect REL's public investors from incurring U.S. ECI. The C Corporations file U.S. corporate tax returns with the U.S. IRS and pay U.S. corporate taxes on its taxable income

# Glossary of Capitalised Defined Terms

Riverstone Energy Limited Annual Report and Financial Statements 2017

- "**1P reserve**" means proven reserves;
- "**2P reserve**" means proven and probable reserves;
- "**Administrator**" means Estera International Fund Managers (Guernsey) Limited (formerly Heritage International Fund Managers Limited);
- "**Admission**" means admission, on 29 October 2013, to the Official List and/or admission to trading on the London Stock Exchange, as the context may require, of the Ordinary Shares becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards as the context may require;
- "**AEOI Rules**" means Automatic Exchange of Information;
- "**AIC**" means the Association of Investment Companies;
- "**AIC Code**" means the AIC Code of Corporate Governance;
- "**AIC Guide**" means the AIC Corporate Governance Guide for Investment Companies;
- "**AIF**" means Alternative Investment Funds;
- "**AIFM**" means AIF Manager;
- "**AIFMD**" means EU Alternative Investment Fund Managers Directive (No. 2011/61EU);
- "**Annual General Meeting**" or "**AGM**" means the general meeting of the Company;
- "**Annual Report and Financial Statements**" means the annual publication of the Company provided to the Shareholders to describe their operations and financial conditions, together with their Financial Statements;
- "**Articles of Incorporation**" or "**Articles**" means the articles of incorporation of the Company;
- "**Audit Committee**" means a formal committee of the Board with defined terms of reference;
- "**bbl**" means barrel of crude oil;
- "**Board**" or "**Directors**" means the directors of the Company;
- "**boepd**" means barrels of equivalent oil per day;
- "**bopd**" means barrels of oil per day;
- "**CAD**" or "**C\$**" means Canadian dollar;
- "**CanEra III**" means CanEra Inc.;
- "**CAR**" means Capital Adequacy Ratio;
- "**Carrier II**" means Carrier Energy Partners II LLC;
- "**Castex 2005**" means Castex Energy 2005 LLC;
- "**Castex 2014**" means Castex Energy 2014 LLC;
- "**Centennial**" means Centennial Resource Development, Inc.;
- "**CNOR**" means the Canadian Non-Operated Resources LP;
- "**Companies Law**" means the Companies (Guernsey) Law, 2008, (as amended);
- "**Company**" or "**REL**" means Riverstone Energy Limited;
- "**Company Secretary**" means Estera International Fund Managers (Guernsey) Limited (formerly Heritage International Fund Managers Limited);
- "**Cornerstone Investors**" means those investors who have acquired Ordinary Shares and acquired a minority economic interest in the General Partner and in the Investment Manager, being AKRC Investments LLC, Casita, L.P., KFI, Hunt and McNair;
- "**Corporate Brokers**" means Goldman Sachs International and JP Morgan Cazenove;
- "**Corporate Governance Code**" means The UK Corporate Governance Code 2016 as published by the Financial Reporting Council;
- "**C Corporations**" means a C Corporation, under U.S. federal income tax law, being a corporation that is taxed separately from its owners;
- "**CRAR**" means Capital to Risk (Weighted) Assets Ratio;
- "**CRS**" means Common Reporting Standard;
- "**Depository**" means Estera Depository Company (UK) Limited (formerly Heritage Depository Company (UK) Limited);
- "**Discount to NAV**" means the situation where the Ordinary shares of the Company are trading at a price lower than the Company's Net Asset Value;
- "**E&P**" means exploration and production;
- "**Eagle II**" means Eagle Energy Exploration, LLC;
- "**Earnings per Share**" or "**EPS**" means the Earnings per Ordinary Share and is expressed in U.S. dollars;



- "**EBITDA**" means earnings before interest, taxes, depreciation and amortisation;
- "**EBITDAX**" means earnings before interest, taxes, depreciation, amortisation and exploration expenses;
- "**ECI**" means effectively connected income, which refers to all income from sources within the United States connected with the conduct of a trade or business;
- "**EEA**" means European Economic Area;
- "**EGM**" means an Extraordinary General Meeting of the Company;
- "**EU**" means the European Union;
- "**EV**" means enterprise value;
- "**FATCA**" means Foreign Account Tax Compliance Act;
- "**FCA**" means the UK Financial Conduct Authority (or its successor bodies);
- "**Fieldwood**" means Fieldwood Energy LLC;
- "**Financial Statements**" means the audited financial statements of the Company, including the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and associated notes;
- "**FRC**" means Financial Reporting Council;
- "**FTSE 350**" means Financial Times Stock Exchange 350 Index;
- "**Fund V**" means Riverstone Global Energy & Power Fund V, L.P.;
- "**Fund VI**" means Riverstone Global Energy & Power Fund VI, L.P.;
- "**General Partner**" means REL IP General Partner LP (acting through its general partner, REL IP General Partner Limited), the general partner of the Partnership and a member of the Riverstone group;
- "**GFSC**" or "**Commission**" means the Guernsey Financial Services Commission;
- "**GFSC Code**" means the GFSC Finance Sector Code of Corporate Governance;
- "**GoM**" means the Gulf of Mexico;
- "**Gross IRR**" means an aggregate, annual, compound, gross internal rate of return on investments. Gross IRR does not reflect expenses to be borne by the relevant investment vehicle or its investors including, without limitation, carried interest, management fees, taxes and organisational, partnership or transaction expenses;
- "**Gross MOIC**" means gross multiple of invested capital;
- "**Hammerhead**" means Hammerhead Resources Inc. (formerly Canadian International Oil Corp.);
- "**Hunt**" means Hunt REL Holdings LLC together with various members of Ray L. Hunt's family and their related entities;
- "**IAS**" means international accounting standards as issued by the Board of the International Accounting Standards Committee;
- "**IFRS**" means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name issued by the International Accounting Standards Board, as adopted by the EU;
- "**ILX III**" means ILX Holdings III LLC;
- "**Interim Financial Report**" means the Company's half yearly report and unaudited interim condensed financial statements for the period ended 30 June;
- "**Investment Manager**" or "**RIL**" means Riverstone International Limited which is majority-owned and controlled by Riverstone;
- "**Investment Management Agreement**" means the investment management agreement dated 24 September 2013 between RIL, the Company and the Partnership (acting through its General Partner) under which RIL is appointed as the Investment Manager of both the Company and the Partnership;
- "**Investment Undertaking**" means the Partnership, any intermediate holding or investing entities that the Company or the Partnership may establish from time to time for the purposes of efficient portfolio management and to assist with tax planning generally and any subsidiary undertaking of the Company or the Partnership from time to time;
- "**IPEV Valuation Guidelines**" means the International Private Equity and Venture Capital Valuation Guidelines;
- "**IPO**" means the initial public offering of shares by a private company to the public;
- "**IRS**" means the Internal Revenue Service, the revenue service of the U.S. federal government;
- "**ISAE 3402**" means International Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a Service Organisation";
- "**ISA**" means International Standards on Auditing (UK and Ireland);
- "**ISIN**" means an International Securities Identification Number;

# Glossary of Capitalised Defined Terms (continued)

Riverstone Energy Limited Annual Report and Financial Statements 2017

- “**KFI**” means Kendall Family Investments, LLC, a cornerstone investor in the Company;
- “**Liberty II**” means Liberty Resources II LLC;
- “**Listing Rules**” means the listing rules made by the UK Listing Authority under section 73A Financial Services and Markets Act 2000;
- “**London Stock Exchange**” or “**LSE**” means London Stock Exchange plc;
- “**LSE Admission Standards**” means the rules issued by the London Stock Exchange in relation to the admission to trading of, and continuing requirements for, securities admitted to the Official List;
- “**M&A**” means mergers and acquisitions;
- “**Management Engagement Committee**” means a formal committee of the Board with defined terms of reference;
- “**Management Fee**” means the management fee to which RIL is entitled;
- “**Margin Loan Agreement**” means the margin loan agreement dated 27 December 2016 entered into by REL US Centennial Holdings, LLC;
- “**McNair**” means RCM Financial Services, L.P. for the purposes of acquiring Ordinary Shares and Palmetto for the purposes of acquiring a minority economic interest in the General Partner and the Investment Manager;
- “**Meritage III**” means Meritage Midstream Services III, L.P.;
- “**mmboe**” means million barrels of oil equivalent;
- “**mcfe**” means thousand cubic feet equivalent (natural gas);
- “**mmcfepd**” means million cubic feet equivalent (natural gas) per day;
- “**NASDAQ**” means National Association of Securities Dealers Automated Quotations Stock Market;
- “**NAV per Share**” means the Net Asset Value per Ordinary Share;
- “**Net Asset Value**” or “**NAV**” means the value of the assets of the Company less its liabilities as calculated in accordance with the Company’s valuation policy and expressed in U.S. dollars;
- “**Net IRR**” means an aggregate, annual, compound, gross internal rate of return on investments, net of taxes and carried interest on gross profit;
- “**Net MOIC**” means gross multiple of invested capital net of taxes and carried interest on gross profit;
- “**Nomination Committee**” means a formal committee of the Board with defined terms of reference;
- “**NURS**” means non-UCITS retail schemes;
- “**NYSE**” means The New York Stock Exchange;
- “**Official List**” is the list maintained by the Financial Conduct Authority (acting in its capacity as the UK Listing Authority) in accordance with Section 74(1) of the Financial Services and Markets Act 2000;
- “**OPEC**” means Organisation of the Petroleum Exporting Countries;
- “**Ordinary Shares**” means redeemable ordinary shares of no par value in the capital of the Company issued and designated as “Ordinary Shares” and having the rights, restrictions and entitlements set out in the Articles;
- “**Origo**” means Origo Exploration Holding AS;
- “**OSE**” means Oslo Stock Exchange;
- “**Other Riverstone Funds**” means other Riverstone-sponsored, controlled or managed entities, including Fund V/VI, which are or may in the future be managed or advised by the Investment Manager or one or more of its affiliates, excluding the Partnership;
- “**Partnership**” or “**RELIP**” means Riverstone Energy Investment Partnership, LP, the Investment Undertaking in which the Company is the sole limited partner;
- “**Partnership Agreement**” means the partnership agreement in respect of the Partnership between inter alios the Company as the sole limited partner and the General Partner as the sole general partner dated 23 September 2013;
- “**Performance Allocation**” means the Performance Allocation to which the General Partner is entitled;
- “**Placing and Open Offer**” means the issuance of 8,448,006 new Ordinary Shares at £8.00 per Ordinary Share on 11 December 2015;
- “**POI Law**” means the Protection of Investors (Bailiwick of Guernsey) Law, 1987;
- “**Private Riverstone Funds**” means Fund V and all other private multi-investor, multi-investment funds that are launched after Admission and are managed or advised by the Investment Manager (or one or more of its affiliates) and excludes Riverstone employee co-investment vehicles and any Riverstone managed or advised private co-investment vehicles that invest alongside either Fund V or any multi-investor multi-investment funds that the Investment Manager (or one or more of its affiliates) launches after Admission;

“**prompt**” means the front end of the price curve;

“**Prospectuses**” means the prospectus published on 24 September 2013 by the Company in connection with the IPO of Ordinary Shares and further prospectus published on 23 November 2015;

“**Qualifying Investments**” means all investments in which Private Riverstone Funds participate which are consistent with the Company’s investment objective where the aggregate equity investment in each such investment (including equity committed for future investment) available to the relevant Private Riverstone Fund and the Company (and other co-investees, if any, procured by the Investment Manager or its affiliates) is \$100 million or greater, but excluding any investments made by Private Riverstone Funds where both (a) a majority of the Company’s independent directors and (b) the Investment Manager have agreed that the Company should not participate;

“**RCO**” means Riverstone Credit Opportunities, L.P.;

“**RELCP**” means Riverstone Energy Limited Capital Partners, LP (acting by its general partner Riverstone Holdings II (Cayman) Ltd.) a Cayman exempted limited partnership controlled by affiliates of Riverstone;

“**RIL**” or “**Investment Manager**” means Riverstone International Limited;

“**Riverstone**” means Riverstone Holdings LLC and its affiliated entities (other than the Investment Manager and the General Partner), as the context may require;

“**Rock Oil**” means Rock Oil Holdings, LLC;

“**S&P Index**” means the Standard & Poor’s 500 Index;

“**S&P Oil & Gas E&P Index**” means the Standard & Poor’s Oil & Gas Exploration & Production Select Industry Index;

“**SCOOP**” means South Central Oklahoma Oil Province;

“**SEC**” means the U.S. Securities and Exchange Commission;

“**Sierra**” means Sierra Oil and Gas Holdings, L.P.;

“**SIFI**” means Systemically Important Financial Institutions;

“**Shareholder**” means the holder of one or more Ordinary Shares;

“**Stewardship Code**” means the UK Stewardship Code;

“**Tax Cuts and Jobs Act**” means U.S. public law no. 115-97, An Act to provide reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018;

“**Three Rivers III**” means Three Rivers Natural Resources Holdings III LLC;

“**Total Return of the Company’s Net Asset Value**” means the capital appreciation of the Company’s Net Asset Value plus the income received from the Company in the form of dividends;

“**UCITS**” means undertakings for collective investment in transferable securities;

“**UK**” or “**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland;

“**UK Listing Authority**” or “**UKLA**” means the Financial Conduct Authority;

“**U.S.**” or “**United States**” means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“**WTI**” means West Texas Intermediate which is a grade of crude oil used as a benchmark in oil pricing;

“**£**” or “**Pounds Sterling**” or “**Sterling**” means British pound sterling and “**pence**” means British pence; and

“**\$**” means United States dollars and “**cents**” means United States cents.

# Directors and General Information

Riverstone Energy Limited Annual Report and Financial Statements 2017

## Directors

Richard Hayden (Chairman)  
Peter Barker  
Patrick Firth  
Pierre Lapeyre  
David Leuschen  
Ken Ryan  
Jeremy Thompson  
Claire Whittet

## Audit Committee

Patrick Firth (Chairman)  
Peter Barker  
Richard Hayden  
Jeremy Thompson  
Claire Whittet

## Management Engagement Committee

Claire Whittet (Chairman)  
Peter Barker  
Patrick Firth  
Richard Hayden  
Jeremy Thompson

## Nomination Committee

Richard Hayden (Chairman)  
Peter Barker  
Patrick Firth  
Jeremy Thompson  
Claire Whittet

## Investment Manager

Riverstone International Limited  
190 Elgin Avenue  
George Town  
Grand Cayman  
KY1-9005  
Cayman Islands

**Website:** [www.RiverstoneREL.com](http://www.RiverstoneREL.com)

**ISIN:** GG00BBHXCL35

**Ticker:** RSE

## Administrator and Company Secretary

Estera International Fund Managers  
(Guernsey) Limited (*formerly Heritage  
International Fund Managers Limited*)  
Heritage Hall  
PO Box 225  
Le Marchant Street  
St Peter Port  
Guernsey  
GY1 4HY  
Channel Islands

## Registered office

Heritage Hall  
PO Box 225  
Le Marchant Street  
St Peter Port  
Guernsey  
GY1 4HY  
Channel Islands

## Registrar

Link Asset Services (*formerly  
Capita Registrars (Guernsey) Limited*)  
65 Gresham Street  
London  
EC2V 7NQ  
United Kingdom

## Principal banker

ABN AMRO (Guernsey) Limited  
PO Box 253  
Martello Court  
Admiral Park  
St. Peter Port  
Guernsey  
GY1 3QJ  
Channel Islands

## English solicitors to the Company

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London  
EC4Y 1HS  
United Kingdom  
(*effective until 21 September 2017*)  
  
Hogan Lovells International LLP  
Atlantic House  
Holborn Viaduct  
London  
EC1A 2FG  
United Kingdom  
(*effective from 21 September 2017*)

## Guernsey advocates to the Company

Carey Olsen  
Carey House  
PO Box 98  
Les Banques  
St Peter Port  
Guernsey  
GY1 4BZ  
Channel Islands

## U.S. legal advisors to the Company

Vinson & Elkins LLP  
1001 Fannin Street  
Suite 2500  
Houston, Texas  
TX 77002  
United States of America

## Independent auditor

Ernst & Young LLP  
PO Box 9, Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey  
GY1 4AF  
Channel Islands

## Public relations advisers

Scott Harris UK Limited  
Victoria House  
1-3 College Hill  
London  
EC4R 2RA  
United Kingdom

## Corporate Brokers

Goldman Sachs International  
Peterborough Court  
133 Fleet Street  
London  
EC4A 2BB  
United Kingdom  
  
JP Morgan Cazenove  
25 Bank Street  
Canary Wharf  
London  
E15 5JP  
United Kingdom

## Cautionary Statement

The Chairman's Statement and Investment Manager's Report have been prepared solely to provide additional information for Shareholders to assess the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Chairman's Statement and Investment Manager's Report may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Manager, concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Manager expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

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Further information available online:  
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