

# Annual Report and Financial Statements

for the period ended 31 December 2013

# REL

Riverstone  
Energy  
Limited  
(LSE: RSE)



A focus on long-term  
capital growth

## Contents

02	Investment Policy	27	Independent Auditor's Report
04	Investment Restrictions	29	Statement of Financial Position
05	Financial and Operational Highlights	30	Statement of Comprehensive Income
05	Key Financials	31	Statement of Changes in Equity
06	Chairman's Statement	32	Statement of Cash Flows
08	Investment Manager's Report	33	Notes to the Financial Statements
12	Report of the Directors	49	Glossary of Capitalised Defined Terms
18	Directors' Responsibilities Statement	51	Cautionary Statement
18	Responsibility Statement of the Directors in Respect of the Annual Report	52	General Information
19	Corporate Governance Report		
24	Report of the Audit Committee		





## WHO WE ARE...

### RIVERSTONE ENERGY LIMITED

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 was listed on the London Stock Exchange on 29 October 2013.

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 approximately \$26 billion of equity capital raised across seven private investment funds and related co-investment entities. Riverstone conducts buyout and growth capital investments in the exploration and production, midstream, oilfield services, power and renewable sectors of the energy industry. With offices in New York, London and Houston, the firm has committed over \$25 billion to more than 100 investments in North America, Latin America, Europe, Africa and Asia.

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

## OUR APPROACH...

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), but will not do so during the investment period (including any extension thereof) of Fund V. REL is well positioned to take advantage of, and benefit from, the large number of investment opportunities being driven by 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.

### INVESTMENT POLICY

#### // 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 Fund.

The Company and the current Private Riverstone Fund, Fund V, invest in each Qualifying Investment in which Fund V participates in a ratio of one-third to REL to two-thirds to Fund V. 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 Fund V 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 which is of a similar size as Fund V (i.e. \$7.7 billion) and has a similar investment policy to the Company, Riverstone seeks 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

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).

## INVESTMENT POLICY (CONTINUED)

### // 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 the 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.”

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

↪	Total Capital Raised	\$1.23 billion (£760.3 million) <sup>(1)</sup>
↪	Committed to Date	\$200 million/16.2 per cent.
↪	Commitments (as at 31 December 2013)	Committed (i) \$100 million to Liberty Resources II LLC and (ii) \$50 million to Eagle Energy Exploration LLC with the right to commit an additional \$50 million
↪	Subsequent Events	On 30 January 2014, Liberty Resources II LLC entered into an agreement to acquire 53,000 net acres in Williston Basin in North Dakota, which will require an investment of approximately \$55-65 million in total from REL
↪	Historical Achievement	Largest energy sector IPO on the LSE since April 2010

## KEY FINANCIALS

↪	NAV as at 31 December 2013	\$1,139 million
↪	NAV per share as at 31 December 2013	\$16.04
↪	Share price at 31 December 2013	\$15.57 (£9.40) <sup>(2)</sup>
↪	Market capitalisation at 31 December 2013	\$1,106 million (£668 million) <sup>(2)</sup>

<sup>(1)</sup> Includes KFI's second tranche of £50 million (see Note 12).

<sup>(2)</sup> Assumed exchange rate of 1.656 \$/£.

## CHAIRMAN'S STATEMENT



## A FOCUS ON LONG-TERM CAPITAL GROWTH...

On 29 October, REL's ordinary shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities under the ticker "RSE". Over 76 million shares<sup>(1)</sup> were issued at an issue price of £10 per ordinary share, raising £760.3 million<sup>(1)</sup> (\$1.23 billion) by way of a successful global placing, offer for subscription for investors in the UK and private placing to selected cornerstone investors. REL was the largest energy sector IPO on the LSE since April 2010. These facts were a product of the strong demand we saw from institutional investors. REL is now a member of the FTSE 250 index.

### // Background

REL was launched by Riverstone, an energy and power-focused private investment firm with approximately \$26 billion of equity capital raised across seven investment funds and related co-investment entities. With offices in New York, London and Houston, the firm has committed over \$25 billion to more than 100 investments in North America, Latin America, Europe, Africa and Asia. Riverstone has an outstanding track record of building businesses with exceptional management teams and of delivering consistently strong returns and significant outperformance against both crude oil and natural gas benchmarks.

The Board is comprised of nine Directors, five of whom are independent of Riverstone. I am delighted to chair the Board, and am joined by a group of experienced individuals from the energy world. The Board members are Peter Barker<sup>(2)</sup>, Lord John Browne, Patrick Firth<sup>(2)</sup>, James Hackett, Richard Hayden<sup>(2)(3)</sup>, Pierre F. Lapeyre, David M. Leuschen and Dr Tidu Maini<sup>(2)</sup>.

<sup>(1)</sup> Includes KFI's second tranche of 5 million shares at £50 million (see Note 12).

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

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



Over 76 million shares<sup>(1)</sup> were issued  
at an issue price of £10 per ordinary share,  
raising £760.3 million<sup>(1)</sup>

### // Investment Approach

REL provides an opportunity for investors to gain exposure to the global energy sector, but with potentially better risk-adjusted returns than are currently available through alternative investment opportunities. Our intention is to invest globally across the energy sector, with a particular focus on the exploration and production and midstream segments. Initially, REL will invest alongside Fund V, but we are a stand-alone company and have the ability to make investments on our own, although there is no intention to make an independent investment in the short-term.

Our focus is on long-term capital growth and, as such, it is not expected that we will pay any dividends in the short to medium-term. Cash generated by investments will be reinvested to grow the Company's Net Asset Value.

### // Performance

REL had a NAV per share at the end of December of \$16.04.

In the two months since listing, REL, through the Partnership, has made its first two commitments of \$100 million in Liberty Resources II LLC and \$50 million in Eagle Energy Exploration LLC (with the right to commit up to an additional \$50 million for a total commitment of \$100 million). Consistent with our stated investment strategy, both investments are targeting opportunities in the North American exploration and production areas. The investments are with proven management teams with whom Riverstone has partnered successfully before, and we look forward to working with them again as they develop their new asset portfolios.

On behalf of the Board, I would like to thank all our shareholders for their commitment to REL. The successful listing of the Company on the London Stock Exchange and, subsequently, its first investments alongside Fund V, marks the commencement of an exciting journey. We firmly believe that Riverstone's long-standing investment record provides a unique proposition for London-based investors in the global energy sector.



*Robert Wilson*

**Sir Robert Wilson**  
*Chairman*  
13 February 2014

<sup>(1)</sup> Includes KFI's second tranche of 5 million shares at £50 million (see Note 12).

## INVESTMENT MANAGER'S REPORT

# ↳ A TRACK RECORD BUILT OVER OUR 14-YEAR HISTORY...

Riverstone has developed a track record of sponsoring and advising private investment vehicles that have provided strong investment returns and multiples of equity by investing in the exploration and production and midstream sectors, generated over periods of varying economic conditions and different commodity price cycles.

The global energy industry continues to go through very substantial change, driven in large part by the North American energy revolution and the exponential growth of the industry's capital needs. The continued refinement of horizontal drilling techniques plus the growing deep water exploration success rates are among the macro tail winds that are driving our global investment opportunity.

### About the Investment Manager

Appointed in September 2013, the Investment Manager, an affiliate of Riverstone, provides advice to the Company on the origination and completion of new investments, on the management of the portfolio and on realisations, as well as on funding requirements.

### Investment Strategy

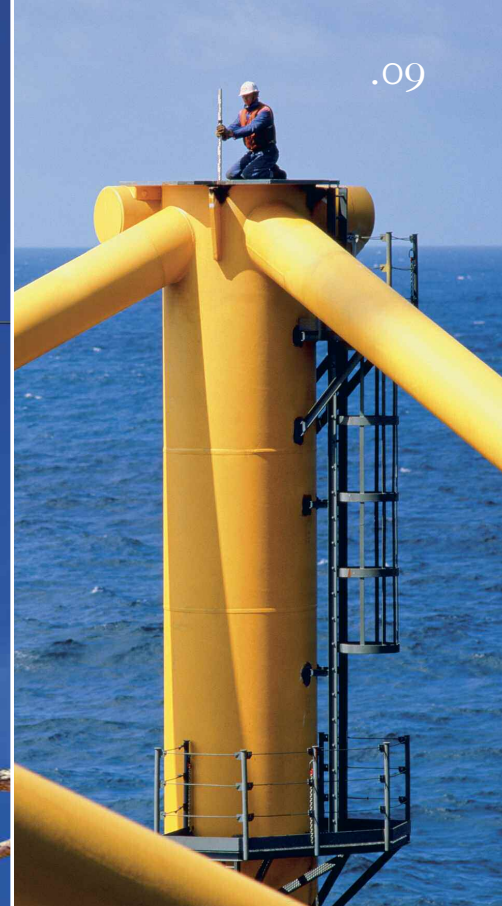
The Investment Manager's objective is to achieve superior risk adjusted returns through investing primarily in the exploration and production and midstream energy sectors. The energy sector is global and a significant component of virtually all major economies. Prevalent market drivers of economic expansion, population growth, development of markets, deregulation and privatisation will continue to create opportunities globally for investors in energy.

### Key Drivers:

- The industry is being transformed as the North American shale revolution creates numerous exciting investment opportunities.
- Larger companies are under constant pressure to rationalise assets.
- Growing success rates of deepwater exploration.
- Historical under-investment in energy infrastructure.

Macro-drivers make energy investment a very attractive proposition, particularly in shale gas, tight oil, energy infrastructure, orphaned assets and certain offshore basins such as the Gulf of Mexico.

The Investment Manager, through its affiliates, has an outstanding track record of building businesses with exceptional management teams and of delivering consistently strong 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 investment opportunities.



The Investment Manager utilises its extensive industry expertise and relationships to thoroughly evaluate and investigate investment prospects 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-focused professional advisory firms to assist with due diligence in other areas such as legal, accounting, tax, employee benefits, environmental, engineering or insurance.

#### **Investment Portfolio Summary**

The Investment Manager has reviewed several potential exploration and production, and midstream investments since REL's admission. Thus far, two exploration and production investments have been completed as further discussed below. The Investment Manager continues to maintain a strong pipeline of investment opportunities and expects to make a number of further commitments in 2014.

#### *Liberty Resources II LLC*

REL, through the Partnership, has partnered with Fund V to form Liberty Resources II LLC ("Liberty II") along with Liberty II's management team. Separate Riverstone affiliated funds previously completed a similar transaction with Liberty II's management team resulting in a successful sale of the assets at 1.7x Gross MOIC and a Gross IRR of 28 per cent.

The Company, through the Partnership, has committed \$100 million to Liberty II. Liberty II will principally operate in the Bakken Shale and will apply the management team's expertise in well completion design and execution to a proved and underdeveloped resource play. Among other potential areas of focus, Liberty II will likely target the DJ Basin, where we believe certain play types are conducive to Liberty II's proprietary technical completion approach.

As of 31 December 2013, the Company through the Partnership, had not invested any of the \$100 million commitment in Liberty II.

## INVESTMENT MANAGER'S REPORT (CONTINUED)

On 30 January 2014, Liberty II signed an agreement to acquire approximately 53,000 net acres and approximately 4,000 Boepd net in the Williston Basin in North Dakota. The acquisition is expected to require approximately \$55-65 million net from REL (of the initial \$100 million commitment) pending financing arrangement and is expected to close in March 2014. REL made a \$13.3 million deposit on 30 January 2014. Liberty II will continue to target acquisitions in the Bakken and Three Forks formations as it furthers the development of the acquired properties.

### *Eagle Energy Exploration LLC*

REL, through the Partnership, has partnered with Fund V to form Eagle Energy Exploration LLC ("Eagle II") along with Eagle II's management team. Separate Riverstone affiliated funds previously completed a similar investment with Eagle II's management team resulting in a successful sale of the assets at approximately 4.1x Gross MOIC and a Gross IRR of 57 per cent.

The Company, through the Partnership, has committed \$50 million to Eagle II with the right to commit an additional \$50 million for a total commitment of \$100 million. Eagle II's primary strategy is to accumulate acreage for delineation and development in the Mid-Continent region of the United States. Eagle II's management has deep connections with local operators and access to proprietary deal flow in the region. With this advantageous sourcing position, the generally decreasing cost of entry in the region, and the management team's operating experience in the play, Eagle II is poised to capture attractive returns.

Currently, \$1 million of the \$100 million commitment has been invested in Eagle II. Eagle II is currently evaluating several exploration and development projects.

### **Valuation**

The Investment Manager is charged with the responsibility of valuing the assets held by REL and the Partnership. The Partnership has directed that securities and instruments be valued at their fair value. REL's valuation policy follows the IFRS accounting standards and IPEV Valuation Guidelines. Riverstone 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 and the Fund V proportion will follow the Riverstone valuation policy. Valuations determined by Riverstone are disclosed quarterly to investors.

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 of subsequent financing rounds, if any, or if subsequent financing rounds are below original cost, the investment is valued at the "down round". 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 Riverstone investment committee as part of the valuation process. Ernst & Young LLP attends the valuation review meetings that are relevant to the Company as part of their statutory audit process.

### **Formation and Initial Expenses**

The formation and initial expenses of the Company have been paid in full by the Investment Manager. In some circumstances, this may be repayable in full by the Company (see Note 13).

### **Investment Management Fee**

The Investment Manager has agreed to deduct from its annual Investment Management Fee all fees, travel costs and related expenses of the Directors exceeding certain specified annual limits (see Note 14).

The annual limits are subject to adjustment by agreement between the Investment Manager and the Company acting by its independent Directors. Based on the NAV as of 31 December 2013, the maximum amount of annual fees, travel and related expenses of the Directors is \$899,541. The maximum amount pro-rated for the period 29 October 2013 to 31 December 2013 was \$155,263.



### Uninvested Cash

Of the \$1,140 million<sup>(1)</sup> of cash raised in the IPO, \$1,130 million<sup>(2)</sup> has been invested into the Partnership for investment purposes. The Partnership maintains deposit accounts with several leading international banks. In addition, the Partnership invests a portion of its cash deposits in short-term U.S. treasury bills. REL's treasury policy seeks to protect the principal value of cash deposits utilising low risk products with top tier counterparts.

In connection with the listing of REL on the London Stock Exchange, all proceeds of the offering were converted to U.S. dollars. 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 first two commitments, Liberty II and Eagle II are both denominated in U.S. dollars. REL expects foreign exchange to have nominal impact on its business and overall financial results.

### Subsequent Events and Outlook

On 30 January 2014, Liberty II signed an agreement to acquire approximately 53,000 net acres and approximately 4,000 Boepd net in the

Williston Basin in North Dakota. The acquisition is expected to require approximately \$55-65 million net from REL (of the initial \$100 million commitment) pending financing arrangement and is expected to close in March 2014. REL made a \$13.3 million deposit on 30 January 2014. Liberty II will continue to target acquisitions in the Bakken and Three Forks formations as it furthers the development of the acquired properties.

The investment pipeline for REL remains robust with several actionable exploration and production and midstream investments in various stages of review and negotiation. Several current industry themes continue to drive the investment opportunity set for REL. These include the North American shale revolution, historical under-investment in energy infrastructure, continued pressure for larger companies to rationalise assets, and the growing success rates and democratisation of deepwater exploration. The Investment Manager continues to believe that this is a market where patience and a disciplined approach to investment are likely to be well rewarded.

**Riverstone International Limited**  
13 February 2014

<sup>(1)</sup> Does not include KFI's second tranche of £50 million (see Note 12).

<sup>(2)</sup> The Company retained \$10 million of cash raised in the IPO to meet liabilities over the Company's going concern horizon.

## REPORT OF THE DIRECTORS

The Directors hereby submit the **Annual Report and Audited Financial Statements for the Company for the period ended 31 December 2013.**

### // 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 on pages 6 to 7 and in the Investment Manager's Report on pages 8 to 11.

### // 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 period are shown in the audited Statement of Comprehensive Income on page 30.

The Net Asset Value of the Company as at 31 December 2013 was \$1,139 million.

The Directors do not recommend the payment of a dividend in respect of the period ended 31 December 2013.

### // 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. A further 5 million Ordinary Shares will be issued on a deferred basis, raising a further £50 million, as set out below. Details of the issue were set out in the Prospectus dated 24 September 2013, which is available from the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)).

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.

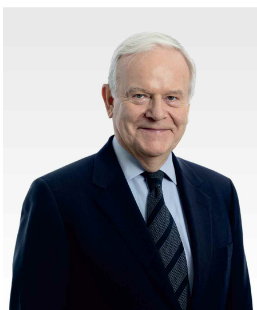
KFI, one of the Cornerstone Investors in the Company, pays for and acquires its Ordinary Shares in two equal tranches of £50 million. The first tranche was paid on Admission at which time 5 million Ordinary Shares were issued to KFI. The second tranche will become payable upon the earlier of (i) such time as the Company has invested or committed 50 per cent. of the aggregate net proceeds of the issue, calculated using KFI's total subscription monies; and (ii) the second anniversary of Admission, at such time, a further 5 million Ordinary Shares will be issued to KFI.

The Company and KFI are party to an Off-Market Acquisition Agreement dated 23 September 2013, pursuant to which, upon the failure by KFI to pay the second tranche of subscription monies when requested to do so by the Company in accordance with its Cornerstone Subscription Agreement, the Company may elect to force a sale of, or a compulsorily repurchase of, such Ordinary Shares as equates in value to the second tranche of subscription monies which is unpaid (valued by reference to the then market price of the Ordinary Shares) for nil consideration.

KFI has the right to pay the second tranche of subscription monies to the Company at any time after Admission, and prior to the due date for payment.

The terms of the Off-Market Acquisition Agreement, which is governed by Guernsey law, were approved by special resolution of the Company dated 23 September 2013.

## // Board of Directors



**Sir Robert Wilson** (70), *Chairman and Non-executive Independent Director*

**Appointment:** Appointed to the Board and became Chairman in May 2013

**Experience:** Sir Robert Wilson is the Chairman of the Company, a Senior Adviser at Morgan Stanley and a Non-executive Independent Director of GlaxoSmithKline plc. Sir Robert served as Chairman of BG Group plc from January 2004 until May 2012. He was previously Executive Chairman of Rio Tinto plc where he became Chief Executive in 1991 and was Executive Chairman from 1997 until his retirement in 2003. From 2003 to 2009, Sir Robert was also Non-executive Chairman of The Economist Group. Sir Robert is a UK resident.

**Committee Membership:** Nomination Committee Chairman, Management Engagement Committee Chairman



**Peter Barker** (64), *Non-executive Independent Director*

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

**Experience:** Mr Barker was former 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 a former 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 was also formerly a Director of GSC Investment Corp. 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



**Lord Browne of Madingley** (65), *Non-executive Director*

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

**Experience:** Lord Browne is a Partner and Managing Director of Riverstone and is based in London. Lord Browne joined Riverstone in 2007 and is co-head of Riverstone's Renewable Energy Funds. Prior to joining Riverstone, he spent 41 years at BP. He joined BP in 1966, became Group Treasurer in 1984, became Managing Director and Chief Executive Officer of BP Exploration in 1989 and in September 1991 joined the Board of The British Petroleum Company plc. as a Managing Director. He was appointed Group Chief Executive in June 1995 and following the merger of BP and Amoco, became Group Chief Executive of the combined group in December 1998 (remaining in this position until May 2007).

Lord Browne was appointed the UK Government's Lead Non-Executive Board member in June 2010 and in addition to serving on the boards of a number of portfolio companies in which Other Riverstone Funds have investment interests, is also the Chairman of a variety of corporate, advisory and charitable boards and is a member of the L1 Energy Advisory Board. Lord Browne is a director of Pattern Energy Group Inc. and is a UK resident.

**Committee Membership:** None

## REPORT OF THE DIRECTORS (CONTINUED)

## // Board of Directors (continued)



**Patrick Firth** (52), *Non-executive Independent Director*

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

**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 BH Credit Catalysts Limited, ICG Longbow Senior Secured UK Property Debt Investments Limited and JZ Capital Partners Limited. Mr Firth is a resident of Guernsey.

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



**James Hackett** (59), *Non-executive Director*

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

**Experience:** Mr Hackett is a Partner and Managing Director of Riverstone and was, before becoming a director of the Company, Executive Chairman of the Board of Anadarko Petroleum Corporation, a global oil and natural gas exploration and production company. Mr Hackett was named Executive Chairman of Anadarko in May 2012, after serving as Chief Executive Officer since 2003 and Chairman of the Board since January 2006. He also served as Anadarko's President from December 2003 to February 2010. Before joining Anadarko, Mr Hackett served as President and Chief Operating Officer of Devon Energy Corporation. Mr Hackett is a Director of Cameron International Corporation, Fluor Corporation, Bunge Limited, is a member of the L1 Energy Advisory Board and is the former Chairman of the Board of the Federal Reserve Bank of Dallas. Mr Hackett is a U.S. resident.

**Committee Membership:** None



**Richard Hayden** (68), *Non-executive Senior Independent Director*

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

**Experience:** Mr Hayden serves as Non-executive Chairman of Haymarket Financial LLP. Prior to joining Haymarket Financial LLP 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, became a Partner in 1980, and was Vice Chairman prior to joining GSC Group Inc in 2000. 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. He was also a member of the firm's Commitments Committee, Partnership Committee and the Goldman Sachs International Executive Committee. Mr Hayden has served on a number of corporate and advisory boards and is currently a Non-executive Director of Deutsche Boerse and Chairman of the TowerBrook Capital Partners Advisory Board. Mr Hayden is a UK resident.

**Committee Membership:** Audit Committee Chairman





**Pierre F. Lapeyre (51), *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 focused 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 M&A, 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 (62), *Non-executive Director***

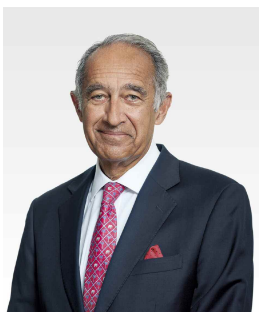
**Appointment:** Appointed to the Board in May 2013

**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 M&A, 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 M&A 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



**Dr Tidu Maini (70), *Non-executive Independent Director***

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

**Experience:** Dr Maini currently serves on a number of corporate and advisory boards including as a member of the Executive Committee of and Advisor to Qatar Foundation Endowment and as Special Envoy for the Office of Her Highness Shiekha Moza Bint Nasser of Qatar. From January 2002 to June 2007, Dr Maini was Pro Rector for Development and Corporate Affairs at Imperial College London. Dr Maini has 30 years experience in the management of technology companies in the defence, electronics, energy and information and communication technology sectors. Dr Maini's extensive executive experience includes the management of businesses in Europe, U.S., Asia and the Middle East including as a former Deputy Chairman of GEC Marconi and as a senior executive at both Schlumberger and Sema Group. Dr Maini is a resident of Qatar.

**Committee Membership:** None

## REPORT OF THE DIRECTORS (CONTINUED)

### // Shareholdings of the Directors

The Directors and their beneficial interests in the shares of the Company as at 31 December 2013 are detailed below:

Director	Ordinary Shares of £10.00 each held 31 December 2013	Per cent. holding at 31 December 2013
Sir Robert Wilson <sup>(2)</sup>	20,000	0.028
Peter Barker <sup>(2)(3)</sup>	5,000	0.007
Lord John Browne	–	–
Patrick Firth <sup>(2)(3)</sup>	4,000	0.006
James Hackett	–	–
Richard Hayden <sup>(2)(4)</sup>	10,000	0.014
Pierre Lapeyre <sup>(1)</sup>	–	–
David Leuschen <sup>(1)</sup>	–	–
Dr Tidu Maini <sup>(2)</sup>	5,000	0.007

<sup>(1)</sup> Mr Lapeyre and Mr Leuschen have a beneficial interest in REL Coinvestment, LP which as at the period end held 5,000,000 shares.

<sup>(2)</sup> Non-executive Independent Directors.

<sup>(3)</sup> Ordinary Shares held jointly with his spouse.

<sup>(4)</sup> Senior Independent Director.

There have been no changes to the Directors' shareholdings since 31 December 2013.

### // Directors' Authority to Buy

#### Back Shares

At the AGM to take place on 14 May 2014, the Company will seek 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.

<sup>(1)</sup> Does not include KFI's second tranche of 5 million shares at £50 million (see Note 12).

### // 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. Insurance is in place, effective as of 24 October 2013.

### // Substantial Shareholdings

As at 31 December 2013, the Company had been notified, in accordance with Chapter 5 of the Disclosure 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>	20,908,815	29.4	Indirect
Hunt <sup>1,2</sup>	6,167,885	8.7	Direct
Kendall Family			
Investments, LLC <sup>1,3</sup>	5,000,000	7.0	Direct
REL Coinvestment, LP	5,000,000	7.0	Direct
Casita, L.P. <sup>1</sup>	5,000,000	7.0	Direct

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

<sup>2</sup> Held in aggregate by Hunt

<sup>3</sup> Excludes second tranche of 5 million shares (see Note 12)

In addition, the Company also provides the same information as at 31 January 2014, being the most current information available.

Shareholder	Shareholding	Per cent. Holding	Nature of Holding
AKRC			
Investments LLC <sup>1</sup>	20,908,815	29.4	Indirect
Hunt <sup>1,2</sup>	6,167,885	8.7	Direct
Kendall Family			
Investments, LLC <sup>1,3</sup>	5,000,000	7.0	Direct
REL Coinvestment, LP	5,000,000	7.0	Direct
Casita, L.P. <sup>1</sup>	5,000,000	7.0	Direct

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

<sup>2</sup> Held in aggregate by Hunt

<sup>3</sup> Excludes second tranche of 5 million shares (see Note 12)

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 71,032,058<sup>(1)</sup> 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 Auditor

Ernst & Young LLP has been the Company's external auditor since the Company's incorporation. This is the first period of audit. A resolution will be proposed at the forthcoming AGM to re-appoint them as auditor and authorise the Directors to determine the auditor's remuneration for the ensuing year.

The Audit Committee will periodically review the appointment of Ernst & Young LLP and the Board recommends their appointment. Further information on the work of the auditor is set out in the Report of the Audit Committee on pages 24 to 26.

## // Articles of Incorporation

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

## // Non-mainstream Pooled Investments

The Board notes the changes to the FCA rules regarding the restrictions on the promotion to retail investors of unregulated collective investment schemes and close substitutes (referred to as "non-mainstream pooled investments"), which came into effect on 1 January 2014. On the basis of advice received, the Board has concluded that the Company's Ordinary Shares are not non-mainstream pooled investments for the purposes of these rules, meaning that the restrictions on promotion imposed by the 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.

## // General Partner's Performance Allocation

The General Partner's Performance Allocation is calculated under the terms of the RELIP Limited Partnership Agreement and as described in the Prospectus dated 24 September 2013.

As of 31 December 2013, no amounts have been paid or accrued in respect of the Performance Allocation. The Performance Allocation will be calculated on a quarterly basis, which will be taken into account when calculating the fair value of the Company's investment in the Partnership.

## // 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 has invested \$1,130 million of the issue proceeds into the Partnership, retaining \$11.8<sup>(1)</sup> million. This amount is adequate to meet the Company's liabilities as they fall due over the going concern horizon. The Partnership has \$930.5 million of uncommitted cash and U.S. treasury bills and has no material going concern risk. In light of the above, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

## // Financial Risk Management Policies and Objectives

Financial Risk Management Policies and Objectives are disclosed in Note 15.

## // Principal Risk and Uncertainties

Principal Risk and Uncertainties are discussed in the Corporate Governance Report on page 23.

## // Subsequent Events

On 30 January 2014, Liberty II signed an agreement to acquire approximately 53,000 net acres and approximately 4,000 Boepd net in the Williston Basin in North Dakota. The acquisition is expected to require approximately \$55-65 million net from REL (of the initial \$100 million commitment) pending financing arrangement and is expected to close in March 2014. REL made a \$13.3 million deposit on 30 January 2014. Liberty II will continue to target acquisitions in the Bakken and Three Forks formations as it furthers the development of the acquired properties.

## // Annual General Meetings

The AGM of the Company will be held at 10.00 am GMT on 14 May 2014 at Lefebvre Place, Lefebvre Street, 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 2013 together with this Annual Report.

Members of the Board, including the Chairman and the Audit Committee chairman, will be in attendance at the AGM and will be available to answer shareholder questions.

By order of the Board



**Sir Robert Wilson**  
Chairman  
13 February 2014

<sup>(1)</sup> Includes £1.5 million KFI financing charge (see Note 12).

## DIRECTORS' RESPONSIBILITIES STATEMENT

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 Listing Rules, the Directors are required to prepare the Financial Statements in accordance with IFRS as adopted by the European Union. 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, International Accounting Standard 1 requires that Directors:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 maintenance and integrity of the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)) is the responsibility of the Directors. The work carried out by the Auditors does not involve considerations of these matters and, accordingly, the auditors accept no responsibility for any change 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.

All companies with a premium listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the Corporate Governance Code in their Annual Report and Financial Statements.

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

Each of the Directors, whose names are set out on pages 13 to 15 in the Report of the Directors section of the Annual Report, confirms to the best of their knowledge that:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, 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;
- the Directors confirm that 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
- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps


that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies Law.

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Having taken advice from the Audit Committee, 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



**Sir Robert Wilson**  
Chairman  
13 February 2014



**Richard Hayden**  
Director  
13 February 2014

## CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of sound corporate governance, particularly the requirements of the AIC Code.

The Company became a member of the AIC effective 15 January 2014 and in preparation has put in place arrangements to comply with the AIC Code and, in accordance with the AIC Code, voluntarily complies with the Corporate Governance Code. The Company is subject to the GFSC Code, which applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes in Guernsey.

The Board monitors the 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 AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk). The Corporate Governance Code is available on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

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 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.

Except for Principle 6 of the AIC Code, the Company has complied throughout the period with the provisions of the AIC Code. Principle 6 of the AIC Code states Directors should consider the diversity of the Board, including gender. Currently, the Company's Board is comprised of male members. The Board intends to address this when a vacancy arises.

### // The Board

The Directors details are listed on pages 13 to 15 which set out their range of investment, financial and business skills and experience represented.

Sir Robert Wilson, Mr Lapeyre and Mr Leuschen were appointed on 23 May 2013 and the remaining Directors were appointed on 28 May 2013, with the exception of Mr Barker who was appointed on 20 September 2013, and all will submit themselves for election at the first Annual General Meeting of the Company. 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.

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. The Board has considered the need for a policy regarding tenure of office, however, the Board believes that any decisions regarding tenure should consider the need for continuity and maintenance of knowledge and experience and to balance this against the need to periodically refresh Board composition and have a balance of skills, experience, age and length of service.

The Board intends to meet at least four times a year and, in addition to maintaining regular contact between the Board, the Investment Manager and the Administrator, the Board requires to be supplied in a timely manner with information by the Investment Manager, the Administrator and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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 with the terms of the share dealing code. The share dealing code is compliant with the Model Code for Directors' Dealings contained in the Listing Rules.

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 on page 23.

### // Directors Remuneration

The Chairman is entitled to annual remuneration of \$199,000 (£120,000). The other independent Directors are entitled to annual remuneration of \$99,000 (£60,000). The four non-independent Directors have chosen not to be remunerated by the Company for their services.

During the period to 31 December 2013, the Directors' remuneration was as follows:

	2013 (\$'000)
Sir Robert Wilson <sup>(1)</sup>	121
Peter Barker <sup>(1)</sup>	28
Lord John Browne	–
Patrick Firth <sup>(1)</sup>	59
James Hackett	–
Richard Hayden <sup>(1)(2)</sup>	59
Pierre Lapeyre	–
David Leuschen	–
Dr Tidu Maini <sup>(1)</sup>	59

The above fees due to the Directors are for the period from appointment to 31 December 2013, and all were outstanding at that date.

Sir Robert Wilson was selected as the Company's Chairman in January 2013 and paid \$0.4 million by the Investment Manager for services between his selection and his appointment to the Board. Consistent with the recommendation of Principle 11 of the AIC Code the Chairman was selected at the earliest practicable point in the process of launching the new company.

All of the Directors are non-executive. Sir Robert Wilson, Mr Barker, Mr Firth, Mr Hayden<sup>(2)</sup> and Dr Maini are each considered independent for the purposes of Chapter 15 of the Listing Rules and the AIC Code. Lord Browne, Mr Hackett, Mr Lapeyre and Mr Leuschen 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.

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

<sup>(2)</sup> Senior Independent Director.

The Chairman of the Board must, on appointment, be independent and is appointed in accordance with the Company's Articles of Incorporation. Sir Robert Wilson 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.

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.

### // 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 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. The Company maintains Directors' and Officers' liability insurance in respect of legal action against its Directors on an on-going basis.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement on page 18. The Board is also responsible for issuing appropriate half-yearly financial reports, interim management statements and other price-sensitive public reports.

The attendance record of the Directors for the period is set out below:

Director	Scheduled Board Meetings (max 2)	Board Committee Meetings (max 1)	Audit Committee Meetings (max n/a) <sup>(3)</sup>	Management Nomination Committee Meetings (max n/a) <sup>(3)</sup>	Engagement Committee Meetings (max n/a) <sup>(3)</sup>
Sir Robert Wilson <sup>(1)</sup>	2	1	–	–	–
Peter Barker <sup>(1)(2)</sup>	1	n/a	–	–	–
Lord John Browne	2	n/a	–	–	–
Patrick Firth <sup>(1)</sup>	2	1	–	–	–
James Hackett	2	n/a	–	–	–
Richard Hayden <sup>(1)(4)</sup>	2	n/a	–	–	–
Pierre Lapeyre	2	n/a	–	–	–
David Leuschen	2	n/a	–	–	–
Dr Tidu Maini <sup>(1)</sup>	2	n/a	–	–	–

## // Committees of the Board

### Audit Committee

On 28 May 2013, the Board established an Audit Committee which held its first meeting on 12 February 2014. There has been ongoing discussion between the chair of the Audit Committee, the Investment Manager and Ernst & Young LLP with regards to the audit approach and identified risks. The Audit Committee is chaired by Mr Hayden<sup>(4)</sup> and comprised of Mr Barker and Mr Firth. The report of the activities is contained in the Report of the Audit Committee on pages 24 to 26. The Committee has terms of reference which are available on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)).

### Nomination Committee

On 28 May 2013, the Board established a Nomination Committee which held its first meeting on 12 February 2014. The Nomination Committee is chaired by Sir Robert Wilson and comprised of Mr Barker and Mr Firth. The Nomination Committee meets at least once a year pursuant to its terms of reference which are available on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)).

The Nomination Committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board. 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.

### Performance and Evaluation

In accordance with Principle 7 of the AIC Code, the Board is required to undertake a formal and rigorous evaluation of its performance on an annual basis. Such an evaluation of the performance of the Board as a whole, the Audit Committee, the Nomination Committee, the Management Engagement Committee, individual Directors and the Chairman will be carried out under the mandate of the Nomination Committee. The Company believes that the current mix of skills, experience and ages of the Directors is appropriate to the requirements of the Company. With any new director appointment to the Board, induction training will be provided by an independent service provider at the expense of the Company.

Due to the recent commencement of operations of the Company, no formal Board evaluation has been carried out as at the date of this report. A formal Board evaluation will be completed during 2014 with the format to be determined by the Board in due course.

### Management Engagement Committee

On 28 May 2013, the Board established a Management Engagement Committee which held its first meeting on 12 February 2014. The Management Engagement Committee is chaired by Sir Robert Wilson and comprised of Mr Barker and Mr Firth. The Management Engagement Committee meets at least once a year pursuant to its terms of reference which are available on the Company's website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)).

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

<sup>(2)</sup> Mr Barker was appointed at the second Board meeting on 20 September 2013.

<sup>(3)</sup> The initial meetings for these committees were held on 12 February 2014.

<sup>(4)</sup> Senior Independent Director.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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 Company's shareholders.

### // 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. The Directors review all controls including operations, compliance and risk management. 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 a sound system 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.

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.

### // 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 will have 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 their continuing appointment of the Investment Manager on the terms agreed is in the interests of the shareholders as a whole.

### // Dealings 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 and other directors are also available to meet with shareholders at other times, if required. In addition, the Company maintains a website ([www.RiverstoneREL.com](http://www.RiverstoneREL.com)) which contains comprehensive information, including company notifications, share information, financial reports, investment objectives and policy, investor contacts and information on the Board and corporate governance.

The Investment Manager has regular contact with Shareholders, in particular 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.



## // 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 circumstance 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 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 manage these risks within acceptable limits and to meet all of its legal and regulatory obligations.

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an on-going 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.

The Company's financial instrument risks are discussed in Note 15 to the financial statements.

The Company's principal risk factors are fully discussed in the Company's prospectus, 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 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 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.

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 risks are mitigated and managed by the Board through continual review, policy setting and annual review of the Company's risk matrix to ensure that procedures will be in place with the intention of minimising the impact of the above mentioned risks. Given the recent commencement of the Company's operations and low number of investments made as at the date of the statement of financial position the Board carried out its first review of the risk matrix at the Board meeting held on 13 February 2014. 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.

By order of the Board



**Sir Robert Wilson**  
Chairman  
13 February 2014

## REPORT OF THE AUDIT COMMITTEE

On 28 May 2013, the Board established an audit committee which held its first meeting on 12 February 2014. The Audit Committee, chaired by Mr Hayden, operates within clearly defined terms of reference (which are available from the Company's website) and include all matters indicated by Disclosure and Transparency Rule 7.1, the AIC Code and the Corporate Governance Code. Its other members are Mr Barker and Mr Firth. Only independent Directors can serve on the Audit Committee, not including the Chairman of the Company, who may, however, be invited to attend. Members of the Audit Committee must have no links with the Company's external auditor and must be independent of the Investment Manager. Appointments to the Committee shall be for a period of up to three years, extendable for two further three-year periods. 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 Board has taken note of the requirement that at least one member of the Audit Committee should have recent and relevant financial experience and is satisfied that the Audit Committee is properly constituted in that respect, with all members being highly experienced and in particular, one member having a background as a chartered accountant.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual Report and Financial Statements and Interim Financial Report, the valuation of the Company's investment portfolio, the system of internal controls, and the terms of appointment of the auditor together with its remuneration. It is also the formal forum through which the auditor reports to the Board. The objectivity of the auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor is appointed to perform non-audit services and the fees paid to them or their affiliated firms overseas.

The Audit Committee will review, consider and, if thought appropriate, recommend for the purposes of the Company's financial statements, valuations prepared by the Investment Manager in respect of the investments of the Partnership.

### // Responsibilities

The main duties of the Audit Committee are:

- monitoring the integrity of the Financial Statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- reporting to the Board on the appropriateness of the Company's accounting policies and practices;

- reviewing the valuation of the Company's investments prepared by the Investment Manager, and making a recommendation to the Board on the valuation of the Company's investments;
- meeting the external auditor to review their proposed audit programme of work and the subsequent audit report and assess the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work;
- making recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditors and approving their remuneration and the terms of their engagement;
- monitoring and reviewing annually the external auditor's independence, objectivity, effectiveness, resources and qualification;
- considering annually whether there is a need for the Company to have its own internal audit function;
- monitoring the internal financial control and risk management systems on which the Company is reliant; and
- reviewing and considering the Corporate Governance Code, the AIC Code, the AIC Guidance on Audit Committees and the Stewardship Code.

In addition, the Audit Committee advises the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 and Interim Financial Statements are considered and at which they have the opportunity to meet with the Committee without representatives of the Investment Manager being present at least once per year.

### // Financial Reporting

The primary role of the Audit Committee in relation to the financial reporting is to review with the Administrator, Investment Manager and the auditor of 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 auditor;
- 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 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

Due to the Company effectively being in operation for less than three months up to 31 December 2013, the Audit Committee did not meet formally during the period, however, there has been ongoing liaison and discussion between the auditors and the chair of the Audit Committee with regards to the audit approach and the identified risks. The Audit Committee has met on one occasion since the period end through to the date of this report. The matters discussed at those meetings were:

- review and approval of the audit plan of the external auditors;
- discussion and approval of the fee for the external audit;
- detailed review of the Annual Report and Financial Statements and recommendation for approval by the Board;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Company's key risks and internal controls.

## // Primary Area of Judgement

The Audit Committee has determined that the key risk of misstatement of the Company's Financial Statements is the failure to identify and adequately disclose all related party transactions.

The factors that increase the risk of misstatement are as follows:

- operating through a complex range of relationships and structures, increasing the complexity of related party transactions;

- the commitments made to date, through the Partnership, have been in concert with Other Riverstone Funds;
- the Directors may be unaware of the existence of all related-party relationships and transactions;
- the Administrator's information systems may not identify transactions or outstanding balances with related parties, especially for transactions conducted at nil value, or outside the normal course of business; and
- related-party transactions may not be conducted under normal terms and conditions.

The risk is mitigated through the production and regular review of a register, detailing the names, relationships and transactions of all entities and individuals thought to be related parties of the Company.

The Audit Committee determined that the key risk of misstatement of the Company's Financial Statements in future periods will relate 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.

At 31 December 2013, however, the value of the Partnership's investments represented only a small amount of the net asset value of the Partnership, which is primarily made up of cash and U.S. treasury bills. This significantly reduces the relative level of risk associated with the valuation of the Company's investment in the Partnership in these Financial Statements.

The Directors have considered whether any discount or premium should be applied to the net asset value of the Partnership. In view of the Company's recent 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 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 2013 was \$1,130 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 U.S. treasury bills held.

The valuation process and methodology was discussed with the Investment Manager and with the auditor at an Audit Committee meeting held on 12 February 2014. The Investment Manager will carry out a valuation quarterly and provide a detailed valuation report to the Company.

The Audit Committee reviewed the Investment Manager's report. The Investment Manager confirmed to the Audit Committee that the 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.

## REPORT OF THE AUDIT COMMITTEE (CONTINUED)

The auditor explained the results of their review of the valuations, including their challenge of management's valuation of the Investment Undertakings at cost. On the basis of their audit work, there were no adjustments proposed that were material in the context of the Annual Report and Financial Statements as a whole.

### // Risk Management

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. The work of the Audit Committee was driven primarily by the Company's assessment of its principal risks and uncertainties as set out on page 23 of 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 first period of audit.

The auditors are required to rotate the audit partner every five years. The current partner is in his first year of tenure. 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. In line with the FRC's suggestions on audit tendering, this will be considered further when the audit partner rotates every five years. Under Companies Law the reappointment of the external auditors is subject to shareholder approval at the Annual General Meeting.

The objectivity of the auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services. The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to any non-audit work that the auditor may undertake. In order to safeguard auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by

the external auditor does not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the auditor outside of these areas will require the consent of the Audit Committee before being initiated.

The external auditor may not undertake any work for the Company in respect of the following matters – preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the 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 fulfil its responsibility regarding the independence of the external auditor, the Audit Committee will consider:

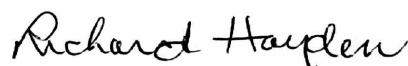
- discussions with or reports from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the committee will review:

- 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 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 auditor for the year ending 31 December 2014.

On behalf of the Audit Committee



**Richard Hayden**  
Chairman of the Audit Committee  
13 February 2014

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVERSTONE ENERGY LIMITED

We have audited the Company's Financial Statements for the period ended 31 December 2013 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and related Notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies Law. 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.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### // Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### // Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Law.

### // Our Assessment of Risks of Material Misstatement

We identified the following risk that has had the greatest effect on the overall audit strategy and scope:

- the Company may not identify, record and disclose related party transactions in the Financial Statements.

### // Our Application of Materiality

When establishing our overall audit strategy, we determined materiality for the Company to be \$22.8 million, which is approximately 2 per cent. of total 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.

On the basis of our risk assessment, 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 group should be 50 per cent. of materiality, namely \$11.4 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.

We have reported to the Audit Committee all audit differences in excess of \$1.1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVERSTONE ENERGY LIMITED (CONTINUED)

### // An Overview of the Scope of our Audit

We have audited the balances of the Financial Statements using our materiality. The way in which we scoped our response to the risk identified above was as follows:

- We obtained the related party register, and reviewed all identified related party transactions that took place during the period. We then cross checked these to the structure chart and the definitions within IFRS and the Listing Rules. We reviewed the management fee calculation in the underlying limited partnership in conjunction with the tri-party investment management agreement.

### // Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Director's report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Responsibilities Statement that they consider the Annual Report and Financial Statements is fair, balanced and understandable and whether the Annual Report and Financial Statements appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Law we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors' Responsibilities Statement, set out on page 18, in relation to going concern; and
- the part of the Corporate Governance Report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.



**Michael Bane**  
For and on behalf of Ernst & Young LLP  
13 February 2014

<sup>(1)</sup> The maintenance and integrity of the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept 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 Guernsey governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

## STATEMENT OF FINANCIAL POSITION


As at 31 December 2013

	Notes	2013 \$'000
<b>ASSETS:</b>		
<b>Non-current assets</b>		
Investment at fair value through profit or loss	7	1,130,051
<b>Total non-current assets</b>		<b>1,130,051</b>
<b>Current assets</b>		
Debtors and prepayments	8	553
Cash and cash equivalents	9	11,805
<b>Total current assets</b>		<b>12,358</b>
<b>TOTAL ASSETS</b>		<b>1,142,409</b>
<b>Non-current liabilities</b>		
Due to affiliates	11	1,028
<b>Current liabilities</b>		
Trade and other payables	10	1,132
Due to affiliates	11	1,243
<b>Total current liabilities</b>		<b>2,375</b>
<b>TOTAL LIABILITIES</b>		<b>3,403</b>
<b>NET ASSETS</b>		<b>1,139,006</b>
<b>EQUITY</b>		
Share capital	12	1,138,431
Retained earnings		575
<b>TOTAL EQUITY</b>		<b>1,139,006</b>
Number of shares in issue at period end	12	71,032,058
Net Asset Value per share (\$)	16	16.04

The Financial Statements of the Company on pages 29 to 48 were approved and authorised for issue by the Board of Directors on 13 February 2014 and signed on their behalf by:



Sir Robert Wilson  
Chairman



Richard Hayden  
Director

The accompanying notes form an integral part of the Company's Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the period from incorporation on 23 May 2013 to 31 December 2013

	<i>Notes</i>	23 May 2013 to 31 December 2013 \$'000
<b>Investment loss</b>		
Change in fair value of investment at fair value through profit or loss	7	<u>(387)</u>
<b>Expenses</b>		
Directors' fees and expenses		(326)
Legal and professional fees		(479)
Audit fees		(141)
Other operating expenses		<u>(322)</u>
<b>Total expenses</b>		<u>(1,268)</u>
<b>Operating loss for the financial period</b>		(1,655)
<b>Finance income and expenses</b>		
Foreign exchange gain		2,011
Other finance income		214
Interest income		5
		<u>2,230</u>
<b>Profit for the period</b>		575
Other comprehensive income		<u>-</u>
<b>Total comprehensive income for the period</b>		<u>575</u>
<b>Basic earnings per share (cents)</b>	16	<u>0.81</u>
<b>Diluted earnings per share (cents)</b>	16	<u>0.47</u>

All activities derive from continuing operations.

The accompanying notes form an integral part of the Company's Financial Statements.



## STATEMENT OF CHANGES IN EQUITY

For the period from incorporation on 23 May 2013 to 31 December 2013

	<i>Notes</i>	Share capital \$'000	Retained earnings \$'000	Total Equity \$'000
<b>As at 23 May 2013</b>		–	–	–
Profit for the financial period		–	575	575
Other comprehensive income		–	–	–
<b>Total comprehensive income for the period</b>		–	575	575
<b>Transactions with owners</b>				
Issue of shares	12	1,138,431	–	1,138,431
<b>Total transactions with owners</b>		1,138,431	–	1,138,431
<b>As at 31 December 2013</b>		<b>1,138,431</b>	<b>575</b>	<b>1,139,006</b>

The accompanying notes form an integral part of the Company's Financial Statements.

## STATEMENT OF CASH FLOWS

For the period from incorporation on 23 May 2013 to 31 December 2013

	23 May 2013 to 31 December 2013 \$'000
<b>Cash flows from operating activities</b>	
Operating loss for the financial period	(1,655)
Adjustments for:	
Net finance income for the period	219
Change in fair value of investment at fair value through profit or loss	7 387
Increase in due to affiliates	2,271
Movement in trade receivables	8 (553)
Movement in trade payables	10 1,132
Foreign exchange loss	(23)
<b>Net cash generated from operating activities</b>	<b>1,778</b>
<b>Cash flows from investing activities</b>	
Purchase of investment	7 (1,130,438)
<b>Net cash used in investing activities</b>	<b>(1,130,438)</b>
<b>Cash flow from financing activities</b>	
Proceeds from issue of shares	1,138,431
Foreign exchange gain	1,847
<b>Net cash generated from financing activities</b>	<b>1,140,278</b>
Net movement in cash and cash equivalents during the period	11,618
Cash and cash equivalents at the beginning of the period	–
Effect of foreign exchange rate changes	187
<b>Cash and cash equivalents at the end of the period</b>	<b>11,805</b>

The accompanying notes form an integral part of the Company's Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the period from incorporation on 23 May 2013 to 31 December 2013

## 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 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.

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, and therefore all of these parallel investments are considered to be related party transactions. Further detail of these investments is provided in Note 14.

## 2. Accounting policies

### Basis of preparation

The Financial Statements for the period ended 31 December 2013 have been prepared in accordance with EU Adopted IFRSs and with the Companies (Guernsey) Law, 2008.

The Company has early adopted the Investment Entity amendments to IFRS 10, IFRS 12 and IAS 27 which define investment entities and provide consolidation exemptions for them together with changed disclosure requirements as described below.

### Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The Investment Entities standard is a recently issued standard, and was endorsed by the EU on 20 November 2013, with an effective date of 1 January 2014. The Company has early adopted this standard for the period from incorporation to 31 December 2013. The standard introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent entity that is an investment entity to measure its subsidiaries at fair value through profit or loss, in accordance with IAS 39 Financial Instruments: Recognition and Measurement, instead of consolidating those subsidiaries.

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

- (a) the Company obtains funds from multiple investors for the purpose of providing those investors with investment management services;
- (b) 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
- (c) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 2. Accounting policies (continued)

The principal accounting policies adopted are set out below.

#### **New and revised standards**

At the date of authorisation of these Financial Statements, the following standards and interpretations which have not been applied in these Financial Statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IAS 32 Offsetting of Financial Instruments – Intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice (effective 1 January 2014).
- IFRS 9 Financial Instruments – reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The Company is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these Financial Statements. The effective implementation date is not yet determined but is not expected to be earlier than 1 January 2017.

The Company has not early adopted any other standards, amendments and interpretations that are not effective.

#### **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 period, 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 “Net gain or loss on investments at fair value through profit or loss”. Exchange differences on other financial instruments are included in profit or loss in the Statement of Comprehensive Income as “Net foreign exchange gains (losses)”.

#### **Going concern**

The Company has invested \$1,130 million of the issue proceeds into the Partnership, retaining \$11.8 million. This amount is adequate to meet the Company’s liabilities as they fall due over the going concern horizon. The Partnership has \$930.5 million of uncommitted cash and U.S. treasury bills and has no material going concern risk. In light of the above the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Statements.

#### **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.

## 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.

The Company does not have any available for sale or held to maturity financial assets.

Purchases or sales of financial assets made by the Partnership that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, i.e., the date that the Partnership commits to purchase or sell the asset.

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

#### i. *Classification*

The Company's investment in the Partnership has been classified as an investment in associate as the Company has significant influence over the Partnership. In accordance with the exemption within IAS 28 Investments in Associates, the Company does not account for its investment in the Partnership using the equity method. Instead, the Company has elected to measure its investment in the Partnership at fair value through profit or loss.

#### ii. *Recognition*

Investments made by the Company in the Partnership are recognised on the day they are called.

#### iii. *Measurement*

Subsequent to initial recognition the investment in the Partnership is measured at fair value.

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. 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. 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.

The Directors have considered whether a discount or premium should be applied to the net asset value of the Partnership. In view of the recent investment in the Partnership and the nature of the Partnership's assets, being principally cash and U.S. treasury bills, no adjustment to the net asset value of the Partnership has been made (see Note 4).

In measuring this fair value, the net asset value of the Partnership is adjusted, as necessary, to reflect liquidity, future commitments, and other specific factors of the Partnership and Investment Manager.

#### iv. *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 given the performance of each investee company and after taking account of the effect of dilution, 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 (for example, 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 after an acquisition as the best indicator of fair value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 2. Accounting policies (continued)

#### *b) Derecognition of financial assets*

A financial asset (in whole or in part) is derecognised 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.

#### *c) 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.

#### **Financial liabilities**

The Company's financial liabilities consist of financial liabilities measured at amortised cost.

#### *a) Financial liabilities measured at amortised cost*

These include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

#### *b) Derecognition of financial liabilities*

A financial liability (in whole or in part) is derecognised when the Company has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the Statement of Comprehensive Income.

#### **Equity**

The Company's Ordinary Shares are classified as equity and upon issuance the fair value of the consideration received is included in equity. All transaction costs, including share issue costs which are otherwise chargeable to equity, have been borne by the Investment Manager. In the event that the Investment Management Agreement terminates, it would become liable for those costs. For further details please see Note 13.

#### **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 fees. They are recognised in the Statement of Comprehensive Income in the period in which they are incurred (on an accruals basis).

### 3. 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, as calculated under IFRS, 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.

## 4. Critical accounting judgement and estimation uncertainty

### Use of estimates and judgements

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.

The area involving a high degree of judgement or complexity or area where assumptions and estimates are significant to the Financial Statements has been identified as the risk of misstatement of the investment in the Partnership in future periods (see Note 7). Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 resulting in its classification as an investment in associate. The Board's determination that the Company's investment in the Partnership is an associate investment involves a degree of judgement due to the complexity within the wider structure of the Company, the Partnership and the Investment Undertakings (see Note 2: Financial assets a) i.).

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.).

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

## 5. Taxation

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 £600.

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. Instead, each of the Company's shareholders who are liable to 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 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 withholding taxes may apply on distributions from such operating entity investments. Based upon the current commitments and investments in Liberty II and Eagle II, the future U.S. tax liability on profits is expected to be in the range of 35 to 41.5 per cent.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 6. Fair value

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.

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

The fair value hierarchy has the following 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 has unobservable inputs and is not traded. Amounts classified under Level 3 for the period are \$1,130 million.

#### Transfers during the period

There have been no transfers between levels. Due to the nature of the investments, they are always expected to be classified under Level 3.

#### Valuation techniques

The value of the Company's investment in the Partnership is based on the value of the Company's limited partner capital account within the Partnership. This is based on the components within the Partnership, principally the value of the Partnership's investments in addition to cash and U.S. treasury bills held. Any fluctuation in the value of the Partnership's investments in addition to cash and U.S. treasury bills held will directly impact on the value of the Company's investment in the Partnership.

In measuring this fair value, the net asset value of the Partnership is adjusted, as necessary, to reflect liquidity, future commitments, and other specific factors of the fund and fund manager.

When valuing the underlying investee companies, 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.

Initially, acquisitions are valued at price of recent investment. Subsequently, and as appropriate, the Investment Manager values the investments 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.

The Board reviews and considers the fair value arrived at by the Investment Manager before incorporating 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 that 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.

Where price of recent investment is determined to be the most appropriate methodology the transactional price will be that of the investment by the Partnership. The Partnership's investment in Eagle II is carried at the price of recent investment due to the immaturity of the investment, therefore no sensitivity analysis has been prepared.

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



## 7. Investments at fair value through profit or loss

	2013 \$'000
<b>Cost</b>	
At inception	–
Investment in the Partnership	<u>1,130,438</u>
Carried forward	<u>1,130,438</u>
<b>Fair value adjustment through profit or loss</b>	
At inception	–
Fair value movement during period	<u>(387)</u>
Carried forward	<u>(387)</u>
<b>Fair value as at 31 December 2013</b>	<u><u>1,130,051</u></u>

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 or applicable taxes.

### Summary financial information for the Partnership

<b>Net asset value</b>	2013 \$'000
Investment – Eagle II	<u>989</u>
Cash and cash equivalents	529,518
U.S. treasury bills	599,974
Management fee payable – see Note 14	(387)
Other net liabilities	<u>(43)</u>
Total net asset value	<u><u>1,130,051</u></u>
<b>Summary P&amp;L</b>	
Total income	85
Management fee expense	(387)
Other operating expense	<u>(85)</u>
Loss for the period	<u><u>(387)</u></u>

## 8. Trade and other receivables

	2013 \$'000
Debtors and prepayments	<u>553</u>

There are no past due or impaired receivable balances outstanding at the period end. The Directors consider that the carrying value of financial assets within trade and other receivables approximate their fair value.

## 9. Cash and cash equivalents

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 10. Trade and other payables

	2013 \$'000
Accruals and other creditors	<u>1,132</u>

Trade and other payables principally comprise amounts accrued in respect of costs incurred in the normal course of business. The carrying amount of trade payables approximates to their fair value. The Company's management seeks to ensure that the payables are paid within the credit time frames. The Directors consider that the carrying value of financial liabilities within trade and other payables approximate their fair value.

### 11. Other finance income

Other finance income is entirely made up of a financing charge from a Cornerstone Investor, KFI, owing to an agreement to acquire shares in the Company in two tranches. This arrangement is described in more detail in Note 12.

An upfront 2-year financing charge equal to 1.5 per cent. of the unpaid subscription monies of £50 million, calculated on an annual basis, therefore equal to £1.5 million (\$2.5 million), was payable by KFI at the time the first tranche became due for payment shortly prior to Admission. If the second tranche becomes payable prior to the second anniversary of Admission, a portion of the financing charge will be repaid to KFI at the time the second tranche of subscription monies is paid (such portion to be calculated on a pro rata basis by reference to the date the second tranche is payable).

	2013 \$'000
Other finance income recognised in the period	<u>214</u>
Due to affiliates current portion	<u>1,243</u>
Due to affiliates non-current portion	<u>1,028</u>

### 12. Share capital

	2013
<b>Authorised:</b>	
Ordinary shares of no par value	<u>Unlimited</u>
	Total No.
<b>Issued and fully paid:</b>	
<b>Unlimited shares of no par value</b>	
Shares as at inception	–
Issued on 23 May 2013	1
Issued on 29 October 2013	<u>71,032,057</u>
<b>Shares as at 31 December 2013</b>	<u>71,032,058</u>
	\$'000
<b>Share capital</b>	
Share capital as at inception	–
Movements for the period:	
Issue of ordinary shares	<u>1,138,431</u>
<b>Share capital as at 31 December 2013</b>	<u>1,138,431</u>

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. Details of the issue were set out in the Prospectus dated 24 September 2013.

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, pays for and acquires 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 will become payable upon the earlier of (i) such time as the Company has invested or committed 50 per cent. of the aggregate net proceeds of the Issue, calculated using KFI's total subscription monies; and (ii) the second anniversary of Admission. At this time, a further 5 million Ordinary Shares will be issued to KFI.

An upfront two year financing charge equal to 1.5 per cent. of the unpaid subscription monies of £50 million, calculated on an annual basis, therefore equal to £1.5 million (\$2.5 million), was payable by KFI at the time the first tranche became due for payment shortly prior to Admission. If the second tranche becomes payable prior to the second anniversary of Admission, a portion of the financing charge will be repaid to KFI at the time the second tranche of subscription monies is paid (such portion to be calculated on a pro rata basis by reference to the date the second tranche is payable).

The Company and KFI are party to an Off-Market Acquisition Agreement, dated 23 September 2013, pursuant to which, upon the failure by KFI to pay the second tranche of subscription monies when requested to do so by the Company in accordance with its Cornerstone Subscription Agreement, the Company may elect to force a sale of, or compulsorily repurchase, such Ordinary Shares as equates in value to the second tranche of subscription monies which is unpaid (valued by reference to the then market price of the Ordinary Shares) for nil consideration.

KFI has the right to pay the second tranche of subscription monies to the Company at any time after Admission, and prior to the due date for payment. The share capital will be issued in Pounds Sterling and therefore the Company bears the foreign exchange risk of the transaction.

The terms of the Off-Market Acquisition Agreement, which is governed by Guernsey law, were approved by special resolution of the Company dated 23 September 2013.

### 13. 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 as at 31 December 2013 in the amount of \$22.9 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 14. 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 nine non-executive Directors. Annual remuneration terms for each Director are as follows: the Chairman receives \$199,000 (£120,000), the chairman of the Audit Committee receives \$99,000 (£60,000), the chairman of the Management Engagement Committee receives \$99,000 (£60,000), the chairman of the Nomination Committee receives \$99,000 (£60,000) and the other non-executive Directors receive \$99,000 (£60,000).

Directors' fees for the period to 31 December 2013 amounted to \$325,989, all of which was outstanding at the period end.

Sir Robert Wilson was selected as the Company's Chairman in January 2013 and paid \$0.4 million by the Investment Manager for services between his selection and his appointment to the Board.

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 is subject to lock-up restrictions for two years from admission.

Lord Browne is a senior executive of Riverstone and has direct or indirect economic interests in Other Riverstone Funds as an investor.

Mr Hackett is a senior executive of Riverstone and has direct or indirect economic interests in Other Riverstone Funds as an investor.

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

#### Investment Manager

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 arrear 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 NAV as of 31 December 2013, the maximum amount of annual fees, travel and related expenses of the Directors is \$899,541. The maximum amount pro-rated for the period 29 October 2013 to 31 December 2013 was \$155,263.

During the period, the Partnership incurred Management Fees of \$387,004 of which all remained outstanding as at the period end.

### 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 realised profits (if any) on the sale of any underlying asset of the Company.

The General Partner is entitled to receive its Performance Allocation in cash, a substantial portion of which Riverstone, through its affiliate RELCP, intends to reinvest in Ordinary Shares of the Company on the terms summarised in Part I and Part VIII of the Prospectus. No amounts are liable to be paid yet or accrued in respect of Performance Allocation but, will be taken into account when calculating the fair value of the Company's investment in the Partnership.

### Qualifying Investments

For so long as the Investment Manager (or any of its affiliates) remains the investment manager of the Company, the Company, through the Partnership, invests alongside Private Riverstone Funds in all Qualifying Investments in which the Private Riverstone Funds participate. Two such qualifying investments were committed to by the Company, through the Partnership, in the period.

These investments are related party transactions due to the fact that Messrs Lapeyre and Leuschen are both in a position to exercise significant influence over the General Partner, the Investment Manager and the general partner of Fund V, which make management and investment management decisions, for the Partnership and Fund V.

### Liberty II

On 7 November 2013, the Company committed \$100 million, alongside \$200 million from Fund V, into Liberty Resources II LLC, a newly formed, Denver-based oil and gas company. No investment has been made by the Partnership during the period.

On 30 January 2014, Liberty II signed an agreement to acquire approximately 53,000 net acres and approximately 4,000 Boepd net in the Williston Basin in North Dakota. The acquisition is expected to require approximately \$55-65 million net from REL (of the initial \$100 million commitment) pending financing arrangement and is expected to close in March 2014. REL made a \$13.3 million deposit on 30 January 2014. Liberty II will continue to target acquisitions in the Bakken and Three Forks formations as it furthers the development of the acquired properties.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 14. Related party transactions (continued)

#### *Eagle II*

On 13 December 2013, the Company committed \$50 million, alongside \$100 million from Fund V, into Eagle Energy Exploration, LLC, a Tulsa-based oil and gas company formed to pursue oil and gas exploration and production opportunities in the Mid-Continent region of the USA. The Company has a right to commit a further \$50 million, alongside \$100 million from Fund V, in the future.

An initial drawdown of \$989,009 was made on 18 December 2013 on this commitment.

#### **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.

Each Cornerstone Investor has agreed with the Company and the Joint Bookrunners not to dispose of its Ordinary Shares for a specified period from Admission, subject to certain exclusions as described in paragraph 7.8 of Part VIII "Additional information" of this Prospectus. The subscriptions by each of the Cornerstone Investors and REL Coinvestment, LP will be subject to lock-up restrictions for the following specified periods from Admission: in the case of AKRC, Hunt, Casita and McNair, 12 months; in the case of REL Coinvestment, LP, 2 years; and in the case of KFI, the later of the first anniversary of Admission and the date of payment for the second tranche of 5 million Ordinary Shares being made in full (which will become payable on or before the second anniversary of Admission).

### 15. 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, 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**

	2013 \$'000
<b>Financial assets</b>	
<i>Investment at fair value through profit or loss:</i>	
Investment in the Partnership	1,130,051
<i>Loans and receivables:</i>	
Cash and cash equivalents	11,805
<b>Financial liabilities</b>	
<i>Financial liabilities:</i>	
Trade and other payables	(1,132)

#### **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 investment in the Partnership, cash and issued share capital and retained earnings.

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 period ended 31 December 2013, the Company had no borrowings other than trade and other payables. The Company had sufficient cash and cash equivalents to pay these as they fell due.

The Company's investment policy is set out on pages 2 to 4 of the annual report.

## **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.

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 traded in an active market but are indirectly exposed to market price risk arising from uncertainties about future values of the investments held (see Note 7). 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.

This risk is managed by an investment strategy that diversifies the investments in terms of geography, financing stage or industry and 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*

Concentration in an investment portfolio can have opposing effects on the credit risk of a portfolio.

A low number of investments in a portfolio, or high concentration, reduces risk due to better knowledge and information whilst a higher portfolio concentration in a certain sector of; industry, geographic distribution of operations or size increases sector concentration and the risk of the portfolio.

Conversely a high number of investments and lower concentration can reduce the credit risk of the portfolio but may limit availability of resources and flexibility.

The Company, through the Partnership, intends to invest 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 will be exposed to the concentration risk of only making investments in the global energy sector, which concentration risk may further relate to sub-sector, geography, 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 may still arise.

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 (as set out on pages 2 to 4).

#### *(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 2013, \$1,129 million or 99.9 per cent. of the Partnership's financial assets were U.S. treasury bills and cash balances held on deposit with several, A or higher rated, banks. All of these assets have maturities of less than one year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 15. 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.

As detailed in Note 12, the Company will bear the foreign exchange risk on the £50 million second tranche of the KFI share issue, which will be the movement in the exchange rate between the admission date and when the capital is received.

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

ASSETS:	\$ \$'000	£ \$'000	Total \$'000
<b>Non-current assets</b>			
Investment in the Partnership	1,130,051	–	1,130,051
<b>Total non-current assets</b>	<b>1,130,051</b>	<b>–</b>	<b>1,130,051</b>
<b>Current assets</b>			
Debtors and prepayments	547	6	553
Cash and cash equivalents	4,319	7,486	11,805
<b>Total current assets</b>	<b>4,866</b>	<b>7,492</b>	<b>12,358</b>
<b>Current liabilities</b>			
Trade and other payables	150	982	1,132
<b>Total current liabilities</b>	<b>150</b>	<b>982</b>	<b>1,132</b>
<b>Total net assets</b>	<b>1,134,767</b>	<b>6,510</b>	<b>1,141,277</b>

The amounts due to affiliates as detailed in Note 11 have been excluded from this analysis as they are not financial instruments.

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

#### (c) Interest Rate Risk

The Company's exposure to interest rate risk relates to the Company's cash and cash equivalents. 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.

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 2013 \$'000
<b>Fixed rate</b>	
Cash and cash equivalents	7,486
<b>Non-interest bearing</b>	
Cash and cash equivalents	4,319



## 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.

## Credit risk

Credit risk refers to the risk that the 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 2013 was \$1,130 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 investment risk is managed by an investment strategy that diversifies the investments in terms of financing stage, industry or time.

The investment objectives, policy and restrictions of the Company are set out on pages 2 to 4. 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 Shareholders and a majority of the independent directors of the Company, and otherwise in accordance with the Listing Rules.

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

Counterparty			31 December 2013
	Location	Rating	\$'000
Royal Bank of Scotland International Limited	Guernsey	A	11,805

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

	Carrying Value and Maximum exposure \$'000
31 December 2013	
Investment at fair value through profit or loss:	—
Limited partnership	1,130,051
Loans and receivables (including cash and cash equivalents but excluding prepayments)	11,805

## Gearing

As at the date of these Financial Statements the Company itself has no gearing, however, the Partnership may have indirect gearing through the operations of the underlying investee companies.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period from incorporation on 23 May 2013 to 31 December 2013

### 16. Earnings per share and Net Asset Value per share

#### Earnings per share

	Period from 23 May 2013 to 31 December 2013	
	Basic	Diluted
Profit for the period (\$'000)	575	361
Weighted average numbers of shares in issue	71,032,058	76,032,058
EPS (cents)	0.81	0.47
		\$'000
<b>Profit for the period</b>		575
Less: impact of assumed share issues		
Finance income relating to KFI arrangement – see Note 12		(214)
Profit for the period including assumed share issues		361
<b>Weighted average numbers of shares in issue</b>		71,032,058
Plus incremental shares assumed		
Dilutive potential ordinary shares relating to KFI arrangement – see Note 12		5,000,000
<b>Weighted average numbers of shares in issue</b>		76,032,058

The earnings per share is based on the profit or loss of the Company for the period and on the weighted average number of shares the Company had in issue for the period from Admission to the Official List on 29 October 2013 until 31 December 2013.

The deferred issue of shares to KFI as outlined in Note 12 may have a dilutive effect on earnings per share. There are no other dilutive shares in issue.

#### Net Asset Value per share

	31 December 2013
NAV (\$'000)	1,139,006
Number of shares in issue	71,032,058
<b>Net Asset Value per share (\$)</b>	16.04

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.

### 17. Subsequent events

On 30 January 2014, Liberty II signed an agreement to acquire approximately 53,000 net acres and approximately 4,000 Boepd net in the Williston Basin in North Dakota. The acquisition is expected to require approximately \$55–65 million net from REL (of the initial \$100 million commitment) pending financing arrangement and is expected to close in March 2014. REL made a \$13.3 million deposit on 30 January 2014. Liberty II will continue to target acquisitions in the Bakken and Three Forks formations as it furthers the development of the acquired properties.

## GLOSSARY OF CAPITALISED DEFINED TERMS

- “**Administrator**” or “**Heritage**” or “**HIFM**” means 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;
- “**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;
- “**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;
- “**Board**” or “**Directors**” means the directors of the Company;
- “**Companies Law**” means the Companies (Guernsey) Law, 2008, (as amended);
- “**Company**” or “**REL**” means Riverstone Energy 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 Governance Code**” means The UK Corporate Governance Code as published by the Financial Reporting Council;
- “**Eagle II**” means Eagle Energy Exploration, LLC;
- “**EBITDA**” means earnings before interest, taxes, depreciation and amortisation;
- “**EU**” means the European Union;
- “**FCA**” means the UK Financial Conduct Authority (or its successor bodies);
- “**Financial Statements**” means the audited financial records 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;
- “**Fund V**” means Riverstone Global Energy & Power Fund V, 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;
- “**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;
- “**Hunt**” means Hunt REL Holdings LLC together with various members of Ray L. Hunt’s family and their related entities;
- “**IFRS**” means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name adopted by the International Accounting Standards Board, as adopted by the EU;
- “**Interim Financial Report**” means the Company’s half yearly report and unaudited financial statements for the period ended 30 June;
- “**Investment Manager**” or “**RIL**” means Riverstone International Limited which is majority-owned and controlled by Riverstone;

## GLOSSARY OF CAPITALISED DEFINED TERMS (CONTINUED)

“**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 Guideline**” 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;

“**ISA**” means international accounting standards as issued by the Board of the International Accounting Standards Committee;

“**ISIN**” means an International Securities Identification Number;

“**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;

“**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;

“**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;

“**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;

“**Nominations Committee**” means a formal committee of the Board with defined terms of reference;

“**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;

“**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;

“**Other Riverstone Funds**” means other Riverstone-sponsored, controlled or managed entities, including Fund V, 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;

“**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;

“**Prospectus**” means the prospectus published on 24 September 2013 by the Company in connection with the IPO of Ordinary Shares;

“**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;

“**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;

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

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

“**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.

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

“**\$**” means United States dollar.

## Cautionary Statement

The Chairman’s Statement and Investment Manager 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 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.

## GENERAL INFORMATION

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