

RELIANCE EAGLEFORD UPSTREAM HOLDING LP

Reliance Eagleford Upstream Holding LP

Independent Auditors' Report

The Partners

Reliance Eagleford Upstream Holding LP:

We have audited the accompanying financial statements of Reliance Eagleford Upstream Holding LP (the "Partnership"), which comprise the statement of financial position as of 31 December 2014, and the related statement of comprehensive income, changes in equity, and cash flows, for the one year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reliance Eagleford Upstream Holding LP as of 31 December 2014, and the results of its operations and its cash flows for the one year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Member of
Deloitte Touche Tohmatsu

Predecessor Auditors' Opinion on 2013 Financial Statements

The financial statements of the Partnership as of and the year ended 31 December 2013 were audited by other auditors whose report, dated 8, April 2014, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP
17 April, 2015

Statements of Comprehensive Income

For the years ended 31 December 2014 and 2013

(In USD)

	Notes	<u>2014</u>	<u>2013</u>
Revenue		\$ 776,857,703	\$ 649,330,991
Cost of sales	3	<u>(423,522,051)</u>	<u>(368,338,269)</u>
Gross profit		353,335,652	280,992,722
General and administrative expenses	4	(2,391,311)	(2,139,549)
Gain (Loss) on derivative financial instruments	19	<u>3,841,165</u>	<u>(16,466,490)</u>
Operating income		354,785,506	262,386,683
Finance costs	5	(98,014,932)	(88,724,613)
Finance income	6	<u>17,177</u>	<u>73,128</u>
Total comprehensive income		<u>\$ 256,787,751</u>	<u>\$ 173,735,198</u>

See accompanying notes of financial statements.

Statements of Financial Position

As of 31 December 2014 and 2013

(In USD)

	Notes	2014	2013
Assets			
Noncurrent assets:			
Exploration and evaluation assets	7	\$ 784,885,629	\$ 781,147,239
Oil and gas properties, net	8	2,475,399,789	2,137,164,102
Total noncurrent assets		<u>3,260,285,418</u>	<u>2,918,311,341</u>
Current assets:			
Accrued revenue and other current assets	10	105,596,376	121,591,335
Derivative assets	19	984,159	3,919,284
Cash and cash equivalents	11	2,620,999	2,876,479
Total current assets		<u>109,201,534</u>	<u>128,387,098</u>
Total assets		<u>\$ 3,369,486,952</u>	<u>\$ 3,046,698,439</u>
Equity and liabilities			
Partnership Capital			
Partner contributions	13	\$ 228,350,000	\$ 228,350,000
Share of Net Income		653,117,861	396,330,110
Total Partnership Capital		<u>881,467,861</u>	<u>624,680,110</u>
Noncurrent liabilities:			
Loans from partner	15	1,817,182,251	1,936,182,251
Long term debt	16	550,282,129	403,122,797
Decommissioning provisions	9	9,808,003	6,624,176
Total noncurrent liabilities		<u>2,377,272,383</u>	<u>2,345,929,224</u>
Current liabilities:			
Accrued interest	14	-	-
Accounts payable and accrued liabilities	14	26,258,472	71,901,296
Derivative liabilities		84,488,236	4,187,809
Total current liabilities		<u>110,746,708</u>	<u>76,089,105</u>
Total liabilities		<u>2,488,019,091</u>	<u>2,422,018,329</u>
Total equity and liabilities		<u>\$ 3,369,486,952</u>	<u>\$ 3,046,698,439</u>

See accompanying notes of financial Statements.

Statements of Changes in Partnership Capital Account
For the years ended 31 December 2014 and 2013
(In USD)

	Partner Contributions	Net Income	Total Partnership Capital Account
Balance – 1 January 2013	\$ 228,350,000	\$ 222,594,912	\$ 450,944,912
Comprehensive income	-	173,735,198	173,735,198
Balance – 31 December 2013	<u>228,350,000</u>	<u>396,330,110</u>	<u>624,680,110</u>
Comprehensive income	-	256,787,751	256,787,751
Balance – 31 December 2014	<u><u>\$ 228,350,000</u></u>	<u><u>\$ 653,117,861</u></u>	<u><u>\$ 881,467,861</u></u>

See accompanying notes of financial statements.

Statements of Cash Flows

For the years ended 31 December 2014 and 2013

(In USD)

	Notes	2014	2013
Operating activities			
Total comprehensive income		\$ 256,787,751	\$ 173,735,198
Adjustments for:			
Depletion of oil and gas properties	8	239,774,594	218,604,183
Amortization of debt issuance costs	16	1,167,558	1,007,620
Discount unwinding on decommissioning provision	5	329,372	-
Unrealized (gain) loss on derivative financial instruments	19	(1,252,684)	6,076,888
Finance income	6	(17,177)	(73,128)
		<u>496,789,414</u>	<u>399,350,761</u>
Working capital adjustment:			
Change in accrued revenue and other current assets	10	15,994,959	(24,722,370)
Change in current liabilities	14	27,085,401	4,480,718
Net cash provided by operating activities		<u>539,869,774</u>	<u>379,109,109</u>
Investing activities			
Investment in exploration and evaluation assets and investment in oil and gas properties	7	(567,134,205)	(609,121,223)
Finance income received	6	17,177	73,128
Net cash used in investing activities		<u>(567,117,028)</u>	<u>(609,048,095)</u>
Financing activities			
Repayment of loans to Partner	15	(119,000,000)	-
Proceeds from long-term debt	16	205,000,000	230,000,000
Repayment of long term debt	16	(58,000,000)	-
Debt issuance costs	16	(1,008,226)	(439,832)
Net cash provided by financing activities		<u>26,991,774</u>	<u>229,560,168</u>
Change in cash and cash equivalents		(255,480)	(378,818)
Cash and cash equivalents – beginning of the year		2,876,479	3,255,297
Cash and cash equivalents – end of year	10	<u>\$ 2,620,999</u>	<u>\$ 2,876,479</u>

See accompanying notes of financial statements.

Notes to Financial Statements

As of and for the years ended 31 December 2014 and 2013

1. Corporate Information

Reliance Eagleford Upstream Holding LP (the "Partnership") was formed as a Texas limited partnership on 17 June 2010, in the United States. The principal office of the Partnership is situated at 2000 W. Sam Houston Parkway S, Houston, Texas 77042. The Partnership is engaged in the business of exploration and production of natural resources, primarily oil and gas from minerals properties, and related businesses. The Partnership is composed of two partner companies listed in the table below. The Partnership's ultimate parent is Reliance Industries Limited.

Company	Country of Incorporation	Percentage Ownership	Principal Business Activities
Reliance Eagleford Upstream LLC	USA	99.99%	Exploration and production of oil and gas
Reliance Eagleford Upstream GP LLC	USA	0.01%	Exploration and production of oil and gas

Reliance Eagleford Upstream LLC and Reliance Eagleford Upstream GP LLC are, respectively, the limited partner and general partner, with income from the Partnership allocated based on their respective ownership interests.

On 23 June 2010, the Partnership executed definitive agreements to enter into a joint venture with Pioneer Natural Resources USA, Inc. ("Pioneer") under which the Partnership acquired a 45% interest in Pioneer's core Eagle Ford Shale acreage position in two separate transactions for a total of \$264 million cash and \$1.05 billion of drilling carry commitments. The drilling carry commitments provided for 75% of the other joint venture partners' capital costs over an anticipated six-year development program. In addition, the Partnership will have to fund its share of the development plan. Pioneer and Newpek LLC, Pioneer's then-current partner in the Eagle Ford Shale, simultaneously conveyed 45% of their respective interests in the Eagle Ford Shale to the Partnership. The Partnership became a partner in 262,683 net acres. Pioneer continues to be the operator, with 46.354% participating interest. In December 2012, the entire \$1.05 billion drilling carry commitment was fulfilled.

The Partnership accounted for the initial acquisition of interests in shale properties at cost, which included the purchase price and other costs directly attributable to the asset acquisition. The acquisition costs were allocated to exploration and evaluation assets. Subsequently, the interests in shale properties are accounted for as jointly controlled assets.

2.1. Basis of Preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been presented in United States dollars ("USD"), which is the functional currency of the Partnership.

Subsequent events have been evaluated for purpose of analysis and disclosure through 17 April, 2015, the date the financial statements were available for issuance.

Interests in Joint Ventures

Under IFRS 11, Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Partnership has assessed the nature of its joint arrangements and determined them to be joint operations. We consider this a critical judgment in the application of accounting policy. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. The Partnership's interest in a joint operation, would be recognized as follows:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

2.2. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Partnership and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding royalties, discounts, and rebates.

Notes to Financial Statements 31 December, 2014

2.2. Summary of Significant Accounting Policies (Continued)

Revenue from the sale of oil, natural gas, and other hydrocarbons is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically delivered and the customer has assumed the risks and rewards of ownership. Revenue from the production of oil and gas in which the Partnership has an interest with other producers is recognized based on the Partnership's working interest (the entitlement method).

Finance revenue is recognized as the interest accrues.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use, i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. All other borrowing costs are recognized as finance costs in the statements of comprehensive income in the period in which they are incurred.

Income Taxes

The Partnership is not a taxpaying entity for federal or state income tax purposes, and, accordingly, it does not recognize any expense for such taxes. The income tax liability resulting from the Partnership's activities is ultimately the responsibility of Reliance Holding USA, Inc., the sole member of the Partnership's two partners.

Exploration and Evaluation Assets and Oil and Gas Properties

The Partnership initially capitalizes leasehold property acquisition costs and geological and geophysical costs as intangible exploration and evaluation assets. The costs of exploration and evaluation assets are transferred to oil and gas properties ratably based on the drilling progress made under the overall capital expenditure program. We believe that drilling progress determines the technical feasibility and commercial viability of the assets.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and immediately before reclassification into oil and gas properties.

Oil and gas properties include cumulative capital expenditures incurred and transfers from exploration and evaluation assets. Oil and gas properties are stated at cost, less accumulated depletion and accumulated impairment losses.

Depletion of Oil and Gas Properties

Costs capitalized under oil and gas properties are depleted using the unit-of-production method based upon proved oil and natural gas reserves, taking into account expenditures incurred to date and approved future development expenditures required to develop reserves.

Impairment of Oil and Gas Properties and Exploration and Evaluation Assets.

Oil and gas properties are tested for impairment in accordance with IAS 36 whenever facts and circumstance indicate impairment. An impairment loss is recognized for the amount by which the property's carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the property's estimated fair value less cost to sell or the estimated value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. We consider the determination of the pre-tax discount rate is a critical judgment in application of accounting policy.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

For the purpose of assessing impairment, the oil and gas properties subject to testing are grouped with existing cash-generating units of producing fields.

Notes to Financial Statements 31 December, 2014 (Continued)

2.2. Summary of Significant Accounting Policies (Continued)

Exploration and evaluation assets, comprising of leasehold, tangible, and intangible costs, are reviewed regularly for indicators of impairment following the guidance in IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and tested for impairment where such indicators exist and before reclassification of exploration and evaluation asset to oil and gas properties.

Carrying Values of Oil and Gas Properties

Oil and gas properties are depleted using the unit-of-production method over proved mineral reserves. The calculation of the unit-of-production rate of depletion could be affected to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from changes in any of the factors or assumptions used in estimating reserves. These factors could include:

- Changes in proved reserves
- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

Impairment Indicators

The recoverable amounts of cash-generating units and individual assets are determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil and gas price assumptions may change, which may then impact the estimated life of the field and require a material adjustment to the carrying value of exploration and evaluation assets or oil and gas properties. The Partnership monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Proved Reserves Base

Oil and gas development and production properties are depleted on a unit-of-production basis at a rate calculated by reference to the proved reserves. Proved reserves are those quantities of oil and gas that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations. Proved developed reserves are those reserves that can be expected to be recovered through existing wells and with existing equipment and operating methods. Proved undeveloped reserves comprise total proved reserves less total proved developed reserves. Proved undeveloped reserves incorporate the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the proved reserves, the cost of such wells and associated production facilities, and other capital costs. Future development costs are considered a key source of estimation uncertainty.

Expected Reserves Base

Expected oil and gas reserves are the estimated remaining, commercially recoverable quantities, based on management's judgment of future economic conditions, from projects in operation or justified for development. Recoverable oil and gas quantities are always uncertain. Expected oil and gas reserves may materially impact the financial statements, as changes in the expected reserves, for instance as a result of changes in prices, will impact decommissioning provisions and impairment testing of exploration and evaluation assets and oil and gas properties, which in turn may lead to changes in impairment charges affecting operating income. Expected oil and gas reserves are therefore typically larger than what is referred to as proved reserves. Expected oil and gas reserves have been estimated by internal qualified professionals and are used for impairment testing purposes. Reserves estimates are based on subjective judgments involving geological and engineering assessments of in-place hydrocarbon volumes, the historical production, and operating limits. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting the hydrocarbons.

Inventories

Inventories of crude oil and gas are stated at lower of cost and net realizable value. The net realizable value of crude oil and gas is based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, at the statements of financial position date.

Accounts Receivable

Accounts receivable are stated at original invoice amounts less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Notes to Financial Statements 31 December, 2014 (Continued)

2.2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at banks and at hand and short-term investments in overnight interest-bearing deposits with original maturities of three months or less.

Accounts Payable and Accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Decommissioning Provision

Decommissioning provision is recognized when the Partnership has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Decommissioning costs are provided at the present value of expected costs to settle the obligation using the estimated cash flows and are recognized as part of that particular asset. The cash flows are discounted at the current pretax rates that reflect the risks specific to the decommissioning provision. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the cost of the asset.

Decommissioning costs will be incurred by the Partnership at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques, or experience at other production sites. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established, which would affect future financial results.

Provisions and Contingent Liabilities

Provisions are recognized when the Partnership has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

Interest-Bearing Loans and Borrowings

All interest-bearing loans and borrowings are initially recognized at the fair value of the consideration received, gross of issue costs directly attributable to the borrowing. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument. Issue cost associated with obtaining loans and borrowings are amortized over the term of the loan.

Fair Value Hierarchy

The Partnership uses the following hierarchy for determining and disclosing the fair value of the financial instruments that are measured at fair value by valuation technique:

Level 1—Quoted (unadjusted) price in active markets for identical assets and liabilities

Level 2—Significant observable pricing inputs other than quoted prices included within Level 1 that are either directly or indirectly observable as of the reporting date

Level 3—Generally unobservable inputs that are developed based on the best information available and may include the Company's own internal data

We noted no transfers between fair value hierarchy levels during the year ended 31 December 2014 and 31 December 2013.

Estimates and Assumptions

The preparation of the Partnership's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period and the amounts of revenues and expenses recognized during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods, as shown below:

Notes to Financial Statements 31 December, 2014 (Continued)

2.2. Summary of Significant Accounting Policies (Continued)

Reserve Disclosures (Unaudited)

For the years ended 31 December 2014 and 2013, the Partnership engaged an independent petroleum engineering firm, to perform reserve audit services. The following proved reserves, net of royalty, have been agreed to the results of their work:

Nature of Hydrocarbon	Unit of Measure	Change During the Period			Total	Produced During the Period	Closing Balance
		Opening Balance	Proved Developed	Proved Undeveloped			
2014							
Natural Gas	Bcf	525.8	51.8	19.4	71.2	31.6	565.4
NGL	Mmbbl	73.0	12.8	7.0	19.8	4.8	88.0
Condensate	Mmbbl	80.8	8.6	5.2	13.8	6.3	88.3
Total	Bcf equivalent ⁽¹⁾	1,448.6	180.2	92.6	272.8	98.2	1,623.2
2013							
Natural Gas	Bcf	421.2	73.9	59.2	133.1	28.5	525.8
NGL	Mmbbl	47.5	11.2	18.0	29.2	3.7	73.0
Condensate	Mmbbl	62.3	15.8	7.6	23.4	4.9	80.8
Total	Bcf equivalent ⁽¹⁾	1,080.0	235.9	212.8	448.7	80.1	1,448.6

⁽¹⁾ Natural gas liquids and condensate are converted to gas equivalents using a conversion of six Mcf equivalent per barrel of natural gas liquids and condensate.

2.3 New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities—Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off.” The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The application of the amendments has had no impact on disclosures or on the amounts recognized in the Partnership’s financial statements.

Amendments to IFRS 10, IFRS 12, and IAS 27 - Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. As the Partnership is not an investment entity (based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognized in the Partnership’s financial statements.

2.4 Standards Issued But Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Partnership’s consolidated financial statements are disclosed below. This listing of standards and interpretations issued are those that the Partnership reasonably expects to have an impact on disclosures and financial position or performance when applied at a future date. The Partnership intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 issued in November 2009 introduced new requirements for classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a ‘fair value through other comprehensive income’ measurement category for certain simple debt instruments. The standard is effective for annual periods beginning on or after 1 January 2018. A reasonable estimate of the effect of IFRS 9 will be determined upon a detailed review by the Partnership.

Notes to Financial Statements 31 December, 2014 (Continued)

2.4 Standards Issued But Not Yet Effective (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective on or after 1 January 2017. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Prescriptive guidance has been added in IFRS 15 to deal with certain scenarios as well as guidance on required disclosures. A reasonable estimate of the effect of IFRS 15 will be determined upon a detailed review by the Partnership.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. The amendments to IFRS 11 apply prospectively for annual period beginning on or after 1 January 2016. We do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Partnership's consolidated financial statements.

3. Cost of Sales

	2014	2013
Operating expenses	\$ 153,981,102	\$ 121,614,688
Opening inventory	266,055	324,977
Closing inventory	(294,817)	(266,055)
	<u>153,952,340</u>	<u>121,673,610</u>
Production taxes	29,795,117	28,060,476
Depletion of oil and gas properties (Note 8)	239,774,594	218,604,183
	<u>\$ 423,522,051</u>	<u>\$ 368,338,269</u>

4. General and Administrative Expenses

	2014	2013
Staff Cost	\$ 1,751,886	\$ 1,678,809
Miscellaneous office expenses	639,425	460,740
	<u>\$ 2,391,311</u>	<u>\$ 2,139,549</u>

5. Finance Costs

	2014	2013
Bank charges	\$ 7,650	\$ 32,577
Guarantee fees:	11,526,750	17,508,987
Interest expenses:		
Gross amount interest incurred	116,800,442	113,219,895
Less: Capitalized	(31,816,840)	(43,044,466)
	<u>84,983,602</u>	<u>70,175,429</u>
Amortization of debt issuance cost	1,167,558	1,007,620
Discount unwinding in decommissioning provision	329,372	-
	<u>\$ 98,014,932</u>	<u>\$ 88,724,613</u>

Notes to Financial Statements 31 December, 2014 (Continued)

The total finance costs paid in 2014 and 2013 were \$100.1 million and \$133.5 million respectively. Interest cost and guarantee fees in respect of capex attributable to assets which become ready for commercial production are expensed. The remainder of interest cost and guarantee fees incurred are capitalized.

6. Finance Income

	2014	2013
Interest income on bank balances	\$ 17,177	\$ 73,128
	<u>\$ 17,177</u>	<u>\$ 73,128</u>

7. Exploration and Evaluation Assets

	Leasehold Interest	Tangible	Intangible	Total
At 31 December 2012	\$ 827,131,372	\$ -	\$ 48,970,311	\$ 876,101,683
Additions during the period	(1,051,426) ⁽¹⁾	70,898,331	536,995,751	606,842,656
Less transferred to oil and gas properties	(71,049,275)	(70,898,331)	(559,849,494)	(701,797,100)
At 31 December 2013	<u>755,030,671</u>	<u>-</u>	<u>26,116,567</u>	<u>781,147,239</u>
Additions during the period	(12,653)	364,879,801	214,027,068	578,894,216
Less transferred to oil and gas properties	(37,467,877)	(337,266,677)	(200,421,272)	(575,155,826)
At 31 December 2014	<u>\$ 717,550,141</u>	<u>\$ 27,613,124</u>	<u>\$ 39,722,363</u>	<u>\$ 784,885,629</u>

⁽¹⁾ This amount is net of reversals of land renewal changes which were paid in excess in prior period.

Borrowing costs capitalized within exploration and evaluation assets during 2014 and 2013 were \$31.8 million and \$43.0 million, respectively.

8. Oil and Gas Properties

	Leasehold Interest	Tangible	Intangible	Total <i>(In USD)</i>
Costs:				
At 31 December 2012	\$ 603,175,438	\$ 106,014,810	\$ 1,207,753,240	\$ 1,916,943,488
Transferred from exploration and evaluation assets	71,049,275	70,898,331	559,849,494	701,797,100
Decommissioning provision-adjustment			(2,343,228)	(2,343,228)
At 31 December 2013	<u>\$ 674,224,713</u>	<u>\$ 176,913,141</u>	<u>\$ 1,765,259,506</u>	<u>\$ 2,616,397,360</u>
Depletion:				
At 31 December 2012				(260,629,075)
Charge for the period				(218,604,183)
At 31 December 2013				<u>(479,233,258)</u>
Net carrying amount at 31 December 2013				<u>\$ 2,137,164,102</u>

Notes to Financial Statements 31 December 2014 (Continued)

8. Oil and Gas Properties (Continued)

	Leasehold Interest	Tangible	Intangible	Decom- missioning Provision Properties	Total
Costs:					
At 31 December 2013	\$ 674,224,713	\$ 176,913,141	\$ 1,765,259,506	\$ -	\$ 2,616,397,360
Allocation of decommissioning asset Transferred from exploration and evaluation assets	37,467,877	337,266,677	200,421,272	6,624,176	575,155,826
Decommissioning provision for the year	-	(83,010)	-	2,937,465	2,854,455
At 31 December 2014	<u>\$ 711,692,590</u>	<u>\$ 514,096,808</u>	<u>\$ 1,959,056,602</u>	<u>\$ 9,561,641</u>	<u>\$ 3,194,407,641</u>
Depletion:					
At 31 December 2013					(479,233,258)
Charge for the period					(239,774,594)
At 31 December 2014					<u>(719,007,852)</u>
Net carrying amount at 31 December 2014					<u>\$ 2,475,399,789</u>

9. Decommissioning Provision

	As at 31 December	
	2014	2013
Beginning balance	\$ 6,624,176	\$ 8,967,404
Movements during the year		
For the year	2,937,465	6,624,176
Liability settled during the year	(83,010)	-
Unwinding of discount	329,372	-
Changing in estimates	-	(8,967,404)
Closing balance	<u>\$ 9,808,003</u>	<u>\$ 6,624,176</u>

10. Other Current Assets

	2014	2013
Inventories	\$ 294,817	\$ 266,055
Revenue receivable	105,301,559	121,325,280
	<u>\$ 105,596,376</u>	<u>\$ 121,591,335</u>

Revenue receivable includes revenue accrued based on November and December 2014 production estimates to be trued up in subsequent months.

Notes to Financial Statements 31 December 2014 (Continued)

11. Cash and Cash Equivalents

	2014	2013
Cash in Banks	\$ 2,620,999	\$ 2,876,479
	<u>\$ 2,620,999</u>	<u>\$ 2,876,479</u>

12. Non-Cash Transactions

During the current year, the Company entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

The Company accrued for investment in Exploratory and Evaluation assets that resulted in a change in liabilities from 2013 to 2014 of \$11.8 million (corresponding for 2013 \$(2.9) million).

13. Partner Contributions

	2014	2013
Reliance Eagleford Upstream LLC	\$ 228,327,165	\$ 228,327,165
Reliance Eagleford Upstream GP LLC	22,835	22,835
	<u>\$ 228,350,000</u>	<u>\$ 228,350,000</u>

14. Accounts Payable and Accrued Liabilities

	2014	2013
Joint interest payable and accruals – capital expenditures	\$ 52,898,971	\$ 41,138,962
Other current liabilities	-	781,905
Interest on loan from Partner	26,258,472	-
Other payable to Reliance Holding USA, Inc.	2,754,812	1,493,699
Joint interest payable and accruals – operating expenses	28,834,453	28,486,730
	<u>\$ 110,746,708</u>	<u>\$ 71,901,296</u>

The table below summarizes the maturities of the Partnership's undiscounted payables, based on contractual payment dates:

	< 3 Months	3 to 12 Months	1 to 5 Years	> 5 Years	Total
At 31 December 2013					
Joint interest payables	\$ 69,525,690	\$ -	-	-	\$ 69,525,690
At 31 December 2014					
Joint interest payables	81,733,424	-	-	-	81,733,424

15. Loans from Partner

The Partnership's limited partner, Reliance Eagleford Upstream LLC, entered into an unsecured loan facility agreement, where Reliance Holding USA, Inc. grants loans to the limited partner up to a maximum amount of \$2,500 million. Simple interest is charged at a rate per annum equal to the greater of applicable one-year London Interbank Offered Rate ("LIBOR") plus 300 basis points or 2% plus 300 basis points per annum, as determined by the lender two business days prior to the first day of an interest period, which is generally one year but can be of other duration as the borrower and lender may agree. Interest is due at the end of every interest period, and principal is due on the final maturity date of the facility agreement. The facility agreement has an original term of 120 months, which can be extended by the lender at its sole discretion and option, upon request by the borrower. The borrower can prepay the outstanding amount of the facility in full or part, including accrued interest, without any

Notes to Financial Statements 31 December 2014 (Continued)

15. Loans from Partner (Continued)

premium or penalty. In turn, Reliance Eagleford Upstream LLC lends the borrowed funds at the identical interest rates, terms, and conditions to the Partnership. The applicable interest rate on the drawdowns is 5.5% in 2013 and 5.5% in 2014.

At 31 December 2014 and 2013, the Partnership has outstanding drawdowns of \$1,817 million and \$1,936 million, respectively.

16. Long-term Debt and Related Costs

	2014	2013
Principal balance of long-term debt	\$ 554,000,000	\$ 407,000,000
	<u>554,000,000</u>	<u>\$ 407,000,000</u>
Issuance costs on long-term debt:		
At beginning of the year	(5,038,099)	(4,598,267)
Additional expenses during the period	(1,008,226)	(439,832)
Less amortization of issuance costs:		
At beginning of the year	1,160,896	153,276
Current period	1,167,558	1,007,620
	<u>(3,717,871)</u>	<u>(3,877,203)</u>
Carrying value of long-term debt	<u>\$ 550,282,129</u>	<u>\$ 403,122,797</u>

On 19 October 2012, the Partnership executed a five-year revolving credit agreement with a syndicated bank group (the Pioneer Credit Facility). The Pioneer Credit Facility has a maximum commitment of \$1 billion and a current conforming borrowing base of \$800 million.

The Pioneer Credit Facility is held by mortgages on the Partnership's oil and gas properties and related assets. The net carrying value of these assets are \$2,475 million.

Borrowings under the Pioneer Credit Facility bear interest at the Alternative Base Rate (ABR) or LIBOR (in respect to any Eurodollar borrowings) at the borrower's option. Interest will be at the LIBOR or ABR plus the applicable interest margin. The ABR is defined as the higher of the prime rate or the sum of the Federal Funds Effective Rate plus 0.5%. The LIBOR rate is defined as the applicable British Bankers' Association LIBOR for deposits in U.S. dollars.

For the years ended 31 December 2014 and 31 December 2013, the weighted average interest rate was 2.16% and 2.13% respectively. As of 31 December 2014 and 31 December 2013, the outstanding loan was \$554 million and \$407 million, and the accrued interest was \$ Nil and \$Nil.

The agreement for the Pioneer Credit Facility contains financial and other covenants, including a current ratio test and a leverage test. The Partnership is in compliance with the covenant.

17. Fair Values of Financial Instruments

Presented below is a comparison by category of carrying amounts and fair values of all of the Partnership's financial instruments that are carried in the financial statements:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 2,620,999	\$ 2,620,999	\$ 2,876,479	\$ 2,876,479
Revenue receivable	105,301,559	105,301,559	121,325,280	121,325,280
Derivative assets	984,159	984,159	3,919,284	3,919,284
Financial liabilities:				
Accounts payable and accrued liabilities	110,746,708	110,746,708	71,901,296	71,901,296
Long term debt	550,282,129	550,282,129	403,122,797	403,122,797
Derivative liabilities	-	-	4,187,809	4,187,809
Loan from partner	1,817,182,250	1,894,129,011	1,936,182,250	2,031,075,605

Notes to Financial Statements 31 December 2014 (Continued)

17. Fair Values of Financial Instruments (Continued)

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash, accrued revenue, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair values of financial instruments are not materially different from the carrying values.

Carrying amount of long-term debt approximates fair value because its interest rates are variable and reflective of market rates. The fair value related to the loan from Partner and the related interest is determined based on a discount rate that is reflective of current market rates for debt.

18. Related-Party Disclosures

The following describes the related parties to the Partnership and the transactions among them:

Related Parties

Name of the Company/Partnership/Firm/Associate/Affiliate	Country of Incorporation	Relation	Equity Interest
Reliance Industries Limited	India	Ultimate Parent	
Reliance Holding USA, Inc.	USA	Parent	
Reliance Eagleford Upstream LLC	USA	Partner	99.99%
Reliance Eagleford Upstream GP LLC	USA	Partner	0.01%

Related-Party Transactions

Name of the Company/Firm/Associate/Affiliate	Nature of Transaction (Refer to Statements of Financial Position)	As at 31 December	
		2014	2013
			<i>(In USD)</i>
Reliance Eagleford Upstream LLC	Partner contribution	\$ 228,327,165	\$ 228,327,165
Reliance Eagleford Upstream GP LLC	Partner contribution	22,835	22,835
Reliance Eagleford Upstream LLC	Loan from partner	1,817,182,251	1,936,182,251
Reliance Holding USA, Inc.	Other advances	2,746,262	1,485,149
Reliance Eagleford Upstream LLC	Other advances	8,550	-
Reliance Eagleford Upstream LLC	Interest payable	26,258,472	-

Name of the Company/Firm/Associate/Affiliate	Nature of Transaction (Refer to Statements of Comprehensive Income)	Year Ended 31 December	
		2014 Amount	2013 Amount
			<i>(In USD)</i>
Reliance Eagleford Upstream LLC	Interest	105,907,175	106,490,024
Reliance Holding USA, Inc.	Staff Cost	3,095,765	2,627,461
Reliance Holding USA, Inc.	Guarantee commission	11,526,750	17,508,987
Reliance Holding USA, Inc.	Other Costs	671,534	132,815

Notes to Financial Statements 31 December 2014 (Continued)

19. Financial Risk Management Objectives and Policies

Liquidity Risk

Liquidity risk is the risk that the Partnership will not be able to meet its obligations as they fall due. The Partnership, with the support of its ultimate parent, will ensure that sufficient liquidity is available to meet all of its commitments by raising loans or arranging other facilities as and when required.

Bank deposit accounts in the United States of America owned by corporations, partnerships, and unincorporated associates are insured by the FDIC up to \$250,000 per account, per corporation, partnership or unincorporated associate. The Partnership has deposits in excess of \$250,000 in its bank account.

Capital Management

The primary objective of the Partnership's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize partnership value.

The Partnership manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies, or processes during the years ended 31 December 2014 and 2013.

Commodity Price Risk

The Partnership is exposed to the risk of commodity market price fluctuations on its share of the mix of oil and gas production. The Partnership's policy is to manage these risks through the use of contract-based prices with customers and derivative commodity contracts and to keep a reasonable percentage of its share of production on a fixed price.

Since the above derivative instruments are not designated as hedges, the Partnership accounts for changes in fair value of open derivative instruments through its statements of comprehensive income. The fair values are based on market quotes of oil and gas commodities published by the New York Mercantile Exchange (NYMEX).

The Partnership has entered into the following derivative commodity contracts that have not been designated as hedges; the fair value is recognized as gains or (losses) in the statements of comprehensive income and derivative assets and liabilities in the statements of financial position:

Derivative	Financial instrument Classification	Term	Quantity	Weighted Average Rate	Fair value Assets (Liabilities) at 31 Dec 2014 Level 1 (in USD)
Swap Contracts					
Natural Gas - NYMEX	Held for trading	Jan '15 - Mar '15	7,500 mmbtu/day	\$ 4.453/ mmbtu	\$ 984,159

Derivative Gains (losses)

	Year Ended 31 December	
	2014	2013
	<i>(In Thousands USD)</i>	
Unrealized gains:		
Gains (losses) from crude oil derivative contracts	\$	\$ (5,319,846)
Gains (losses) from natural gas derivative contracts	1,252,684	(757,042)
Unrealized gains (losses) from derivative financial instruments	1,252,684	(6,076,888)
Realised gains (losses)		
Gains (losses) from crude oil derivative contracts	6,085,621	(11,017,492)
Gains (losses) from natural gas derivative contracts	(3,497,140)	627,890
Realized gains from derivative financial instruments - net	2,588,481	(10,389,602)
Gain (losses) on derivative financial instruments - net	\$ 3,841,165	\$ (16,466,490)

Realized gains (losses) on transactions settled within the year are recognized as realized gain (loss) from derivative in the statements of comprehensive income.

All derivative financial instruments measured at fair value use Level 1 valuation techniques..