

RELIANCE MARCELLUS II LLC

# **Reliance Marcellus II LLC**

# Independent Auditors' Report

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The Member  
Reliance Marcellus II LLC:

We have audited the accompanying financial statements of Reliance Marcellus II LLC (the "Company"), which comprise the statements of financial position as of 31 December 2014, and the related statement of comprehensive loss, changes in member's 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 of 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 of 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 Company'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 Company'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 Marcellus II LLC as of 31 December 2014 and 2013, 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.

## Predecessor Auditors' Opinion on 2013 Financial Statements

The financial statements of the Company as of and for 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 Loss**  
**For the years ended 31 December 2014 and 2013**  
(In US dollars)

	Notes	2014	2013
Revenue		\$ 65,589,831	\$ 54,958,366
Cost of sales	3	<u>(280,193,087)</u>	<u>(45,756,152)</u>
Gross profit/(loss)		(214,603,256)	9,202,214
General and administrative expenses	4	(564,220)	(810,896)
(Loss) on derivative financial instruments	18	(1,580,612)	418,827
(Loss) on sale of sullivan assets	7	<u>(148,269)</u>	<u>(6,729,185)</u>
Operating profit (loss)		(216,896,357)	2,080,960
Finance costs	5	(21,140,591)	(17,656,442)
Finance income	6	-	538
Total comprehensive loss		<u>\$ (238,036,948)</u>	<u>\$ (15,574,944)</u>

*See notes to financial statements.*

## Statements of Financial Position As of 31 December 2014 and 2013

(In US dollars)

	Notes	2014	2013
<b>Assets</b>			
Noncurrent assets:			
Exploration and evaluation assets - net	7	\$ 171,030,476	\$ 409,678,359
Proved oil and gas properties - net	8	<u>372,917,952</u>	<u>355,536,226</u>
Total noncurrent assets		<u>543,948,428</u>	<u>765,214,585</u>
Current assets:			
Accrued revenue and other current assets	10	4,324,263	8,456,687
Commodity derivative assets	18	1,520,686	730,173
Cash and cash equivalents	11	<u>391,276</u>	<u>769,385</u>
Total current assets		<u>6,236,225</u>	<u>9,956,245</u>
Total assets		<u>\$ 550,184,653</u>	<u>\$ 775,170,830</u>
<b>Equity and liabilities</b>			
Equity:			
Member contributions		\$ 325,605,000	\$ 100,605,000
Accumulated deficit		<u>(264,355,088)</u>	<u>(26,318,140)</u>
Total equity		<u>61,249,912</u>	<u>74,286,860</u>
Noncurrent liability:			
Loans from Holding Company	14	350,650,000	565,650,000
Term loan	14	116,932,104	97,762,076
Provision for decommissioning	9	<u>1,278,768</u>	<u>673,336</u>
Total noncurrent liability		<u>468,860,872</u>	<u>664,085,412</u>
Current liabilities:			
Accrued interest	13	2,690,807	116,035
Accounts payable and accrued liabilities	13	17,383,062	36,275,892
Commodity derivative liabilities		<u>-</u>	<u>406,631</u>
Total current liabilities		<u>20,073,869</u>	<u>36,798,558</u>
Total liabilities		<u>488,934,741</u>	<u>700,883,970</u>
Total equity and liabilities		<u>\$ 550,184,653</u>	<u>\$ 775,170,830</u>

*See notes to financial statements.*

## Statements of Changes in Member's Equity

### For the years ended 31 December 2014 and 2013

(In US dollars)

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	Member Contributions	Accumulated Deficit	Total
Balance – 31 December 2012	\$ 100,605,000	\$ (10,743,196)	\$ 89,861,804
Comprehensive loss	-	(15,574,944)	(15,574,944)
Balance – 31 December 2013	<u>100,605,000</u>	<u>(26,318,140)</u>	<u>74,286,860</u>
Contribution during the year	225,000,000	-	225,000,000
Comprehensive loss	-	(238,036,948)	(238,036,948)
Balance – 31 December 2014	<u>\$ 325,605,000</u>	<u>\$ (264,355,088)</u>	<u>\$ 61,249,912</u>

*See notes to financial statements.*

## Statements of Cash Flows

### For the years ended 31 December 2014 and 2013

(In US dollars)

	Notes	2014	2013
<b>Operating activities</b>			
Comprehensive loss		\$ (238,036,948)	\$ (15,574,944)
Adjustments for:			
Depletion of oil and gas properties	3,8	48,565,608	36,135,542
Impairment loss	3,7,8	221,438,853	
Amortization of debt discount and debt issue costs	5	297,528	153,022
Unwinding discount on decommissioning provision	5	33,669	
Unrealized gain on derivative financial instruments	17	(1,197,144)	(323,542)
Loss on sale of Sullivan assets	7	148,269	6,729,185
Finance income	6		(538)
		<u>31,249,835</u>	<u>27,118,725</u>
Working capital adjustment:			
Change in accrued revenue and other assets	10	4,132,424	(3,058,515)
Change in current liabilities	13	379,950	2,267,482
Net cash provided by operating activities		<u>35,762,209</u>	<u>26,327,692</u>
<b>Investing activities</b>			
Investment in exploration and evaluation assets oil and gas properties	7	(67,893,978)	(106,204,658)
Sale of Sullivan assets - net	7	2,881,160	20,863,088
Finace income received	6	-	539
Net cash used in investing activities		<u>(65,012,818)</u>	<u>(85,341,031)</u>
<b>Financing activities</b>			
Proceeds from secured loans	14	19,000,000	99,000,000
Proceeds of loans from Holding Company	14	30,000,000	20,700,000
Repayments of loans from Holding Company	14	(20,000,000)	(61,400,000)
Debt issuance cost	14	(127,500)	(1,390,946)
Net cash provided by financing activities		<u>28,872,500</u>	<u>56,909,054</u>
Change in cash and cash equivalents		(378,109)	(2,104,285)
Cash and cash equivalents - beginning of year		769,385	2,873,670
Cash and cash equivalents - end of year	10	<u>\$ 391,276</u>	<u>\$ 769,385</u>

See notes to financial statements.

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013

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#### 1. CORPORATE INFORMATION

Reliance Marcellus II LLC (the “Company”) was formed as a limited liability company on 28 June 2010, under Delaware Limited Liability Company Act. The registered office of the Company is situated at 1675 S State Street, Suite B, Dover, Delaware 19901, United States of America. The Company is engaged in the business of exploration and production of natural resources, primarily oil and gas from minerals properties, and related businesses. The Company is a wholly owned subsidiary of Reliance Holding USA, Inc. (the “Holding Company”). The Company is an indirectly wholly owned subsidiary of Reliance Industries Limited, the ultimate parent.

On 4 August 2010, the Company executed definitive agreements to enter into a joint venture with Carrizo Oil & Gas Inc. (“Carrizo”) and ACP Marcellus II LLC (“Avista”), an affiliate of Avista Capital Partners, under which the Company acquired a 60% interest in the existing joint venture’s Marcellus Shale acreage position for \$340 million in cash and \$52 million of drilling carry commitments. The drilling carry commitments provide for 75% of Carrizo’s share of development costs over an anticipated two-year development program. In addition, the Company will have to fund its share of the development plan. Carrizo conveyed 20% of its acreage and Avista conveyed 100% of its acreage. The Company acquired 60% of the acreage of the newly formed joint venture, the net acreage of which is 104,376 net acres. Carrizo (joint venture partner) is the operator, with 40% participating interest. In November 2012, the \$52 million drill carry commitment was fulfilled.

The Company 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 joint operations.

#### 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 Company.

Subsequent events have been evaluated for purposes of analysis and disclosure through 17 April 2015, the date the financial statement 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 Company 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 Company’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 Company 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.

Revenue from the sale of 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 gas and other hydrocarbons in which the Company has an interest with other producers is recognized based on the Company’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

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

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#### 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loss in the period in which they are incurred.

**Income Taxes**—The Company 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 Company's activities is the responsibility of the Holding Company.

**Exploration and Evaluation Assets and Oil and Gas Properties**—The Company 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.

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. We consider the determination of the pre-tax discount rate is a critical judgment in application of accounting policy.

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 circumstances 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.

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 assets to oil and gas properties.

The carrying amount of exploration and evaluation assets was \$171.0 million (31 December 2013: \$409.7 million) after an impairment loss of \$216.4 million was recognized during 2014 (2013: nil). Details of the impairment loss calculation are set out in note 7.

The carrying amount of Oil and Gas Properties was \$478.9 million (31 December 2013: \$413.0 million) after an impairment loss of \$5.0 million was recognized during 2014 (2013: nil). Details of the impairment loss calculation are set out in note 8.

**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:



## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

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#### 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 or 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 affect 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 Company 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.

**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.

**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 Company 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 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 Company 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 expenditure 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.

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Provisions and Contingent Liabilities**—Provisions are recognized when the Company 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 be resolved only 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.

**Estimates and Assumptions**—The preparation of the Company'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 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 the following assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods:

*Reserve Disclosures (Unaudited)*—For the years ended 31 December 2014 and 2013, the Company 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	UOM	Opening Balance	Change during the Period		Total	Produced During the Period	Closing Balance
			Proved Developed	Proved Undeveloped			
<b>31 December 2014</b>							
Natural gas	Bcf	<u>236.4</u>	<u>46.3</u>	<u>(27.3)</u>	<u>19.0</u>	<u>27.1</u>	<u>228.3</u>
31 December 2013							
Natural gas	Bcf	<u>233.8</u>	<u>90.1</u>	<u>(67.8)</u>	<u>22.3</u>	<u>19.7</u>	<u>236.4</u>

#### 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 Company'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 Company 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 Company's financial statements.

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

##### *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 Company.

##### *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 Company's financial statements.

#### 3. Cost of Sales (In US dollars)

	Year Ended 31 December	
	2014	2013
Operating expenses	\$ 8,764,721	\$ 8,141,131
Production Taxes	1,423,905	1,479,479
Impairment loss (Note 8)	221,438,853	-
Depletion on producing properties (Note 8)	48,565,608	36,135,542
	\$ 280,193,087	\$ 45,756,152

#### 4. General and Administrative Expenses (In US dollars)

	Year Ended 31 December	
	2014	2013
Staff costs	\$ 399,688	\$ 435,538
Other operating costs	164,532	375,358
	\$ 564,220	\$ 810,896

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 5. Finance Costs

(In US dollars)

	Year Ended 31 December	
	2014	2013
Bank including letter of credit charges	\$ 21,090	\$ 7,351
Guarantee commission:		
Gross Guarantee commission incurred	3,782,125	5,745,000
Less: amount capitalized	(929,353)	(2,540,502)
	<u>2,852,772</u>	<u>3,204,498</u>
Interest:		
Gross Interest incurred	34,249,749	34,489,998
Less: amount capitalized	(16,314,217)	(20,198,427)
	<u>17,935,532</u>	<u>14,291,571</u>
Amortization of debt discount and debt issue costs	297,528	153,022
Unwinding of discount in decommissioning provision	33,669	-
	<u>\$ 21,140,591</u>	<u>\$ 17,656,442</u>

The total finance costs paid in 2014 and 2013, were \$35.2 million and \$40.4 million, respectively.

Interest costs and guarantee fees in respect of capital expenditures 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

(In US dollars)

	Year Ended 31 December	
	2014	2013
Interest income on bank balances	\$ -	\$ 538
	<u>\$ -</u>	<u>\$ 538</u>

#### 7. Exploration and Evaluation Assets

(In US dollars)

	Leasehold Interest	Tangible	Intangible	Total
Costs:				
At 31 December 2012	\$ 323,801,717	\$ 9,230,993	\$ 85,621,650	\$ 418,654,360
Additions during the period	3,123,171	5,287,522	106,452,271	114,862,964
Less sale of assets	(19,343,400)	(147,898)	(8,100,976)	(27,592,273)
Less transferred to oil and gas properties	(2,717,686)	(11,938,223)	(86,196,354)	(100,852,263)
Other	4,605,571			4,605,571
At 31 December 2013	<u>309,469,373</u>	<u>2,432,395</u>	<u>97,776,591</u>	<u>409,678,359</u>
Additions during the period	2,760,130	4,654,943	43,780,897	51,195,970
Less sale of assets	(2,828,242)	(22,745)	(178,442)	(3,029,429)
Less transferred to oil and gas properties	1,116,251	(3,414,890)	(68,702,893)	(71,001,532)
Other	581,583			581,583
At 31 December 2014	<u>\$ 311,099,095</u>	<u>\$ 3,649,703</u>	<u>\$ 72,676,153</u>	<u>\$ 387,424,951</u>

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 7. Exploration and Evaluation Assets (continued)

Impairment:

Charge for the period

At 1 January 2014

At 31 December 2014

Net carrying cost at 31 December 2014

-  
(216,394,475)  
171,030,476

Borrowing costs capitalized within exploration and evaluation assets during 2014 and 2013, were \$17.2 million and \$22.7 million, respectively.

Sale of assets resulted in a net loss of \$148,269 which has been recognized in the Statement of Comprehensive Loss.

In line with its practice of assessing Exploration & Evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount as well as before reclassification into oil and gas properties, annual valuation of carrying values of its Exploration & Evaluation Assets, the Company carried out an impairment review in 2014. The review led to the recognition of an impairment loss of \$216.4 million, which is recognized in the Statement of Comprehensive Loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use, which amounted to \$171.0 million as at 31 December 2014. The discount rate used in measuring value in use was 7% per annum. There was no impairment in 2013.

#### 8. Oil and Gas Properties

(In US dollars)

	Leasehold Interest	Tangible	Intangible	Total
Costs:				
At 1 January 2013	\$ 98,597,063	\$ 22,737,585	\$ 194,708,812	\$ 316,043,460
Net transfer during the period	2,717,686	11,938,223	86,196,354	100,852,263
Other	(4,605,571)	-	-	(4,605,571)
Decommissioning provision	-	-	673,336	673,336
At 31 December 2013	<u>\$ 96,709,178</u>	<u>\$ 34,675,808</u>	<u>\$ 281,578,502</u>	<u>412,963,488</u>
Depletion:				
At 1 January 2013				(21,291,720)
Charge for the period				(36,135,542)
At 31 December 2013				<u>(57,427,262)</u>
Net carrying amount at 31 December 2013				<u>\$ 355,536,226</u>

(In US dollars)

	Leasehold Interest	Tangible	Intangible	Decommissioning Provision Property	Total
Costs:					
At 1 January 2014	\$ 96,709,178	\$ 34,675,808	\$ 281,578,502	-	\$ 412,963,488
Transfer from Exploration & Evaluation assets	(1,116,251)	3,414,890	68,702,893	-	71,001,532
Write back on asset divestiture	(581,583)	-	-	-	(581,583)
Allocation of ARO properties	-	-	(673,338)	673,338	-
Decommissioning provision	-	-	-	571,763	571,763
At 31 December 2014	<u>\$ 95,011,344</u>	<u>\$ 38,090,698</u>	<u>\$ 349,608,057</u>	<u>\$ 1,245,101</u>	<u>483,955,200</u>

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 8. Oil and Gas Properties (continued)

Impairment:

At 1 January 2014	-
Charge for the period	(5,044,378)
At 31 December 2014	<u>(5,044,378)</u>

Depletion:

At 1 January 2014	(57,427,262)
Charge for the period	(48,565,608)
At 31 December 2014	<u>(105,992,870)</u>
Net carrying amount at 31 December 2014	<u>\$ 372,917,952</u>

In line with its practice of testing Oil and Gas Properties for impairment when reclassified from exploration and evaluation assets, or whenever facts and circumstances indicate impairment, the Company carried out an impairment review in 2014. The review led to the recognition of an impairment loss of \$5.0 million, which is recognized in the Statement of Comprehensive Loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use, which amounted to \$373.0 million as at 31 December 2014. The discount rate used in measuring value in use was 7% per annum. There was no impairment in 2013.

#### 9. Decommissioning Provision

(In US dollars)

	As at 31 December	
	2014	2013
Beginning balance	\$ 673,336	\$ -
Movements during the year:		
For the year	571,763	673,336
Unwinding of discount	33,669	
Closing balance	<u>\$ 1,278,768</u>	<u>\$ 673,336</u>

#### 10. Other Current Assets

(In US dollars)

	31 December	
	2014	2013
Revenue receivable	\$ 4,002,176	\$ 8,438,659
Other receivables	322,087	18,028
	<u>\$ 4,324,263</u>	<u>\$ 8,456,687</u>

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

#### 11. Cash and Cash Equivalents

(In US dollars)

	31 December	
	2014	2013
Cash in Banks	\$ 391,276	\$ 769,385
	<u>\$ 391,276</u>	<u>\$ 769,385</u>

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 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 (\$ 16.7) million (corresponding 2013 change was \$8.5 million).
- The Holding Company converted outstanding loan with the Company into Equity that resulted in a decrease in outstanding Loan from Holding Company and corresponding increase in Member Contribution - Capital by \$ 225 Million (corresponding 2013 – Nil).

#### 13. Accounts Payable, Accrued Liabilities and Accrued Interest

(In US dollars)

	31 December	
	2014	2013
Joint interest payable and accruals – capital expenditures	\$ 12,420,561	\$ 29,118,570
Interest payable to Holding Company	2,688,995	103,236
Interest payable to banks	1,812	12,799
Payable to Holding Company	433,190	386,532
Joint interest payable and accruals – operating expenses	1,741,850	2,909,300
Other payable	392,303	—
Revenue royalties payable	2,395,158	3,861,490
Total current liabilities	<u>\$ 20,073,869</u>	<u>\$ 36,391,927</u>

The table below summarizes the maturities of the Company's trade payables and accruals due to unrelated third parties, based on contractual payment dates and current market interest rates:

	Maturities				Total
	< 3 Months	3 to 12 Months	1 to 5 Years	> 5 Years	
(In US dollars)					
At 31 December 2013					
Joint interest payable and accruals	\$ 32,040,670	\$ —	\$ —	\$ —	\$ 32,040,670
Revenue royalties payable	3,861,490	—	—	—	3,861,490
At 31 December 2014					
Joint interest payable and accruals	\$ 14,554,714	\$ —	\$ —	\$ —	\$ 14,554,714
Revenue royalties payable	2,395,158	—	—	—	2,395,158

#### 14. Long-Term Debts

(In US dollars)

	As at 31 December	
	2014	2013
Loan from Holding Company	\$ 350,650,000	\$ 565,650,000
Term loan	118,000,000	99,000,000
Less Expenses in connection with term loan:	(1,518,446)	(1,390,946)
Less Amortization of discount - current period	297,528	153,022
Less Amortization of discount - previous periods	153,022	—
	<u>(1,067,896)</u>	<u>(1,237,924)</u>
	116,932,104	97,762,076
Carrying value of long-term debt	<u>\$ 467,582,104</u>	<u>\$ 663,412,076</u>

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 14. Long-Term Debts (continued)

The Company has an unsecured loan facility agreement with the Holding Company, which grant loans to the Company up to a maximum amount of \$750 million. Simple interest is charged at a rate per annum equal to the greater of applicable one-year LIBOR plus 350 basis points or 2% plus 350 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 (origination date of 6 August 2010), which can be extended by the lender at its sole discretion and option, upon request from the borrower. The borrower can prepay the outstanding amount of the facility in full or in part, including accrued interest, without any premium or penalty. The applicable interest rate on the drawdowns is 5.5% in 2013 and 5.5% in 2014. On 31 December 2014, the Holding Company converted \$225 Million of outstanding loan into Members contribution for Capital.

On 9 May 2013, the Company executed a five year revolving credit agreement with a syndicated bank group (the "Carrizo Credit Facility"). The Carrizo Credit Facility has a maximum commitment of \$300 million and a current conforming borrowing base of \$180 million.

The Carrizo Credit Facility is held by mortgages on the subsidiary's oil and gas properties and related assets. The net carrying value of these assets is \$373 million.

Borrowings under the Carrizo 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 highest of the prime rate or the sum of the Federal Funds Effective Rate plus 0.5% or Adjusted LIBOR rate for one month interest period plus 1%. The LIBOR rate is defined as the applicable British Bankers' Association London Interbank Offered Rate ("LIBOR") for deposits in U.S. Dollars. The Adjusted LIBOR rate is LIBOR rate multiplied by Statutory Reserve Rate.

For the year ended 31 December 2014 and 31 December 2013, the weighted average interest rate was 2.16% and 2.08% respectively. At 31 December 2014, the Company had outstanding loan of \$118 million, and accrued interest of \$1,812.

The agreement for the Carrizo Credit facility contains financial and other covenants, including a current ratio test and a leverage test. The Company is in compliance with the covenants.

#### 15. Fair Values of Financial Instruments

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

(In US dollars)	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 391,276	\$ 391,276	\$ 769,385	\$ 769,385
Accrued revenue	4,002,176	4,002,176	8,438,659	8,438,659
Other receivables	322,087	322,087	18,028	18,028
Financial liabilities:				
Accounts payable and accrued liabilities	\$ 16,949,872	\$16,949,872	\$ 35,889,361	\$ 35,889,361
Term loan	116,932,104	116,932,104	97,762,076	97,762,076
Loan from Holding Company	350,650,000	365,767,395	565,650,000	593,787,922

The fair values of the financial assets and liabilities are included at the amount 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 payables and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair values of these financial instruments are not materially different from the carrying values.

Carrying amount of term loan approximates fair value because their interest rates are variable and reflective of market rates.

The fair value related to loans from the Holding Company and related interest is determined based on a discount rate that is reflective of current market rates for debt.



## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 16. Contingent Liabilities

(In US dollars)	As at 31 December	
	2014	2013
Contingent Liabilities -		
Guarantees - Standby letter of credit	\$ 499,260	\$ -

#### 17. Related-Party Disclosures

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

##### Related Parties

Name of the Company/Firm/ Associate/Affiliate	Country of Incorporation	Relation	Equity Interest
Reliance Industries Limited	India	Ultimate parent	-
Reliance Holding USA, Inc.	USA	Parent	100%

##### 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
		(In US dollars)	
Reliance Holding USA, Inc.	Member contribution	\$ 325,605,000	\$ 100,605,000
Reliance Holding USA, Inc.	Loan	350,650,000	565,650,000
Reliance Holding USA, Inc.	Other advances	433,190	386,532
Reliance Holding USA, Inc.	Interest	2,688,995	103,236
Reliance Holding USA, Inc.	Stand by line of credit	282,663	282,123

Name of the Company/Firm/ Associate/Affiliate	Nature of Transaction (Refer to Statements of Comprehensive Income)	Year Ended 31 December	
		2014	2013
		(In US dollars)	
Reliance Holding USA, Inc.	Guarantee commission	\$ 3,782,125	\$ 5,745,000
Reliance Holding USA, Inc.	Staff cost	706,290	681,650
Reliance Holding USA, Inc.	Interest	31,610,572	33,800,235
Reliance Holding USA, Inc.	Other cost	228,164	333,052

#### 18. Financial Risk Management Objectives and Policies

##### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company, 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 Company has deposits in excess of \$250,000 in its bank accounts.

##### Commodity Price Risk

The Company is exposed to the risk of commodity market price fluctuations on its share of the mix of oil and gas production. The Company'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 fixed price.

## Notes to Financial Statements

### As of and For the years ended 31 December 2014 and 2013 (continued)

#### 18. Financial Risk Management Objectives and Policies (continued)

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

The Company has entered into the following derivative commodity contracts that have not been designated as hedges; the fair value is recognized as gain or (losses) in the statements of comprehensive loss 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 December 2014, Level 1	
(In US dollars)						
Swap contracts Natural Gas- NYMEX	Held for trading	Jan 14–Dec14	12,500 mmbtu/day	\$4.347/mmbtu	\$ 1,520,686	\$ 730,173
					\$ 1,520,686	\$ 730,173
					\$ 1,520,686	\$ 730,173

#### Derivative Gains (Losses)

(In US dollars)	Year Ended 31 December	
	2014	2013
Unrealized gains –		
gains from natural gas derivative contracts – net	\$ 1,197,144	\$ 323,542
Unrealized gain from derivative financial instruments – net	1,197,144	323,542
Realized gains –		
gains from natural gas derivative contracts – net	(2,777,756)	95,285
Realized gains from derivative financial instruments – net	(2,777,756)	95,285
Gain (losses) on derivative financial instruments – net	\$ (1,580,612)	\$ 418,827

Realized gains/losses on transactions settled within the year are recognized as realized gain/loss from derivative on the statement of comprehensive loss.

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

#### Capital Management

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

The Company 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.