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13 May 2020

Private and Confidential

The Directors
Diversified Gas & Oil plc
1800 Corporate Drive
Birmingham
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35242
USA

The Directors
Stifel Nicolaus Europe Limited
150 Cheapside
London EC2V 6ET

Dear Ladies and Gentlemen,

Introduction

We report on the audited historical financial information of Alliance Petroleum Corporation ("Alliance Petroleum") for the year ended 31 December 2017 and the two-month period ended 28 February 2018 (together, the "Alliance Petroleum Financial Information"). The Alliance Petroleum Financial Information has been prepared for inclusion in Section D *"Historical Financial Information of Alliance Petroleum"* of Part XIV *"Historical Financial Information"* of Diversified Gas & Oil plc's prospectus dated 13 May 2020 (the "Prospectus"), on the basis of the accounting policies set out in note 3 to the Alliance Petroleum Financial Information. This report is given for the purpose of complying with item 18.3.1 of Annex 1 to Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The directors of the Company (the "Directors") are responsible for preparing the Alliance Petroleum Financial Information in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS").

It is our responsibility to form an opinion on the Alliance Petroleum Financial Information, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Alliance Petroleum Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Alliance Petroleum Financial Information and whether the accounting policies are appropriate to Alliance Petroleum's circumstances consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Alliance Petroleum Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Alliance Petroleum Financial Information gives, for the purpose of the Prospectus, a true and fair view of the state of affairs of Alliance Petroleum as at 31 December 2017 and 28 February 2018 and of its results, cash flows and changes in equity for each of the periods then ended in accordance with IFRS.

Declaration

For the purposes of PR 5.3.2R(2)(F), we declare that, to the best of our knowledge, the information contained in this report, for which we are responsible, is in accordance with the facts and that this report makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 to Commission Delegated Regulation (EU) 2019/980.

Yours faithfully,

Crowe U.K. LLP

Crowe U.K. LLP
Chartered Accountants

SECTION D: HISTORICAL FINANCIAL INFORMATION OF ALLIANCE PETROLEUM

Statements of comprehensive income

The audited statements of comprehensive income of Alliance Petroleum for the year ended 31 December 2017 and the two-month period ended 28 February 2018 are set out below:

	Note	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Revenue	6	45,946	8,516
Cost of sales	7	(26,928)	(5,136)
Depletion	7/11	(2,901)	(754)
Depreciation	7/12	(80)	(19)
Gross profit		**16,037**	**2,607**
Gain on derivative financial instruments	19	9,201	1,927
Gain on bargain purchase	5	21,421	—
Gain on disposal of oil and gas properties		1,522	82
Administrative expenses	7	(7,009)	(994)
Operating profit		**41,172**	**3,622**
Finance costs	17	(1,476)	(210)
Income before taxation		**39,696**	**3,412**
Taxation	8	(10,711)	(268)
Total comprehensive income for the year/period		**28,985**	**3,144**
Earnings per ordinary share – basic and diluted	9	$289,850	$31,440

Statements of financial position

The audited statements of financial position of Alliance Petroleum as at 31 December 2017 and 28 February 2018 are set out below:

	Note	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
ASSETS			
Non-current assets			
Oil and gas properties	11	90,001	89,286
Property and equipment	12	2,172	2,079
		92,173	**91,365**
Current assets			
Inventories	13	248	248
Other current assets	14	964	785
Trade receivables	15	13,683	16,075
Derivative financial instruments	19	—	1,851
Cash and cash equivalents		7,861	8,638
		22,756	**27,597**
Total assets		**114,929**	**118,962**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	—	—
Retained earnings		27,439	30,583
Total equity		**27,439**	**30,583**
Non-current liabilities			
Borrowings	17	37,209	37,215
Asset retirement obligation	18	20,459	20,609
Deferred tax liability	8	7,500	7,672
Derivative financial instruments	19	—	109
Other non-current liabilities	20	105	10
Total non-current liabilities		**65,273**	**65,615**
Current liabilities			
Trade payables	21	3,819	5,821
Borrowings	17	434	146
Derivative financial instruments	19	535	—
Other current liabilities	20	17,429	16,797
		22,217	**22,764**
Total liabilities		**87,490**	**88,379**
Total liabilities and equity		**114,929**	**118,962**

Statements of changes in shareholders' equity

The audited statements of changes in shareholders' equity of Alliance Petroleum for the year ended 31 December 2017 and the two-month period ended 28 February 2018 are set out below:

	Note	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2017		**—**	**(497)**	**(497)**
Income after taxation		—	28,985	28,985
Total comprehensive income for the year		—	*28,985*	*28,985*
Dividends authorised and declared	10	—	(1,049)	(1,049)
Transactions with owners		—	*(1,049)*	*(1,049)*
Balance as at 31 December 2017		**—**	**27,439**	**27,439**
Profit after taxation		—	3,144	3,144
Total comprehensive profit for the period		—	*3,144*	*3,144*
Balance as at 28 February 2018		**—**	**30,583**	**30,583**

Statements of cash flows

The audited statements of cash flows of Alliance Petroleum for the year ended 31 December 2017 and the two-month period ended 28 February 2018 are set out below:

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Cash flows from operating activities		
Income after taxation	28,985	3,144
Cash flow from operations reconciliation:		
Depletion of oil and gas properties	2,901	754
Depreciation of property, plant and equipment	523	118
Accretion of asset retirement obligation	1,474	150
Unrealised gain on derivative financial instruments	(3,690)	(2,277)
Gain on bargain purchase	(21,421)	—
Gain on disposal of oil and gas properties	(1,522)	(82)
Finance costs	1,476	210
Working capital adjustments:		
Change in inventories	27	—
Change in trade receivables	(6,089)	(2,392)
Change in other current assets	(127)	179
Change in trade payables	234	2,002
Change in other current liabilities	14,163	(632)
Change in other non-current liabilities	(46)	77
Net cash from operating activities	**16,888**	**1,251**
Cash flows from investing activities		
Purchase of property, plant and equipment	(553)	(25)
Proceeds from the sale of property, plant and equipment	—	82
Purchase of oil and gas properties	(5,075)	(39)
Proceeds from the sale of oil and gas properties	1,522	—
Net cash (used in)/from investing activities	**(4,106)**	**18**
Cash flows from financing activities		
Repayment of borrowings	(6,170)	(282)
Dividends to shareholders	(1,049)	—
Interest paid	(1,476)	(210)
Net cash used in financing activities	**(8,695)**	**(492)**
Net increase in cash and cash equivalents	**4,087**	**777**
Cash and cash equivalents – beginning of the period	*3,774*	*7,861*
Cash and cash equivalents – end of the period	**7,861**	**8,638**

NOTES TO THE ALLIANCE PETROLEUM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Alliance Petroleum is a natural gas and crude oil producer that is focused on acquiring and operating mature producing wells with long lives and slow decline profiles. Alliance Petroleum's assets are exclusively located within Pennsylvania, West Virginia and Ohio in the Appalachian Basin of the US. Alliance Petroleum is headquartered in Birmingham, Alabama, USA with field offices located in the states of Pennsylvania, West Virginia and Ohio.

Alliance Petroleum was incorporated on 29 April 1985 in Georgia, US, as a private limited company under company number 8604701 and the name Petroleum Management Corporation. Petroleum Management Corporation changed its name to Alliance Petroleum on 12 March 1987.

2. BASIS OF PREPARATION AND MEASUREMENT

The Alliance Petroleum Financial Information has been prepared in accordance with IFRS, issued by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee.

Unless otherwise stated, the Alliance Petroleum Financial Information is presented in $ which is the currency of the primary economic environment in which Alliance Petroleum operates, and all values are rounded to the nearest thousand dollars except per unit amounts and where otherwise indicated.

Transactions in foreign currencies are translated into $ at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange ruling at the balance sheet date. The resulting gain or loss is reflected in the "*Statements of Profit or Loss and Other Comprehensive Income*" within "*Other comprehensive income – gain on foreign currency conversion*".

The Alliance Petroleum Financial Information has been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

The Alliance Petroleum Financial Information has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The Directors have reviewed Alliance Petroleum's overall position and outlook and are of the opinion that Alliance Petroleum is sufficiently well funded to be able to operate as a going concern for at least the next twelve months from the date of Admission.

The Alliance Petroleum Financial Information has been prepared using accounting policies consistent with those used in the preparation of the Group Financial Information set out in Section B "*Historical Financial Information of the Group*" of Part XIV "*Historical Financial Information*".

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Alliance Petroleum Financial Information in compliance with IFRS requires the Directors to exercise judgment in applying Alliance Petroleum's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Alliance Petroleum Financial Information are disclosed in Note 4 "*Significant judgements, estimates and assumptions*" to the Alliance Petroleum Financial Information.

(a) Cash

Cash on the balance sheet comprises cash at banks. As at 28 February 2018, Alliance Petroleum's cash balance was $8,638,000 (2017: $7,861,000).

For the purpose of the "*Statements of Cash Flows*", cash and cash equivalents consist of cash and cash equivalents as defined above.

(b) Trade receivables

Trade receivables are stated at the historical carrying amount, net of any provisions required.

(c) Derivative financial instruments

Derivatives are used as part of the Directors' overall strategy to mitigate risk associated with the unpredictability of cash flows due to volatility in commodity prices. Further details of Alliance Petroleum's exposure to these risks are detailed in Note 19 "*Derivative financial instruments*" to the Alliance Petroleum Financial Information. Alliance Petroleum has entered into financial instruments which are considered derivative contracts, such as swaps and collars which result in net cash settlement each month and do not result in physical deliveries. The derivative contracts are initially recognised at fair value at the date contract is entered into and re-measured to fair value every balance sheet date. The resulting gain or loss is recognised in the "*Statements of Profit or Loss and Other Comprehensive Income*" in the year incurred.

(d) Oil and gas properties

Development and acquisition costs

Expenditures related to the construction, installation or completion of infrastructure facilities, such as platforms and pipelines, and the drilling of development wells, including delineation wells, are capitalised within oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, for qualifying assets, and borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Exploration and evaluation costs

Alliance Petroleum follows IFRS 6 "*Exploration for and Evaluation of Mineral Resources*" in accounting for oil and gas assets. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the "*Statements of Profit or Loss and Other Comprehensive Income*". Only material expenditures incurred after the acquisition of a license interest are capitalised. Historically, the expenditures related to exploration and evaluation have not been material, as Alliance Petroleum drills in active areas where there are minimal and immaterial exploration and evaluation costs and therefore the cost has been expensed.

Depletion

Oil and gas properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight- line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for the depreciation of field development costs considers expenditures incurred to date, together with sanctioned future development expenditure.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives:

Buildings	27.5 years
Leasehold improvements	7 – 15 years
Drilling costs and equipment	10 – 39 years
Motor vehicles	5 – 7 years
Other property and equipment	3 – 5 years

Property and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life.

(f) Impairment of financial assets

IFRS 9 "*Financial Instruments*" requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39 "*Financial Instruments: Recognition and Measurement*". The expected credit loss model requires Alliance Petroleum to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The credit event does not have to occur before credit losses are recognised. IFRS 9 "*Financial Instruments*" allows for a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

Alliance Petroleum applies the expected credit loss model to trade receivables arising from:

- the sales of inventory;
- the provision of R&D services; and
- the provision of other services.

(g) Impairment of non-financial assets

At each reporting date, the Directors assess whether indications exist that an asset may be impaired. If indications do exists, or when annual impairment testing for an asset is required, the Directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the Directors consider the asset impaired and write the subject asset down to its recoverable amount. In assessing value-in-use, the Directors discount the estimated future cash flows 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. In determining fair value less costs to sell, the Directors consider recent market transactions, if available. If no such transactions can be identified, the Directors utilise an appropriate valuation model.

When applicable, the Directors recognise impairment losses of continuing operations in the "*Statements of Profit or Loss and Other Comprehensive Income*" in those expense categories consistent with the function of the impaired asset.

(h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

(i) Asset retirement obligation

Where a material liability for the removal of production equipment and site restoration at the end of the production life of a well exists, a liability for decommissioning is recognised. The amount recognised is the present value of estimated future net expenditures determined in accordance with local conditions and requirements. The unwinding of the discount on the decommissioning liability is included as accretion of the decommissioning provision. The cost of the relevant property, plant and equipment asset is increased with an amount equivalent to the liability and depreciated on a unit of production basis. The Directors recognise changes in estimates prospectively, with corresponding adjustments to the liability and the associated non-current asset.

(j) Taxation

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

Income taxation

Current income tax assets and liabilities for the year ended 31 December 2017 and the two-month period ended 28 February 2018 are measured at the amount to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the jurisdictions where Alliance Petroleum operates and generates taxable income.

(k) Revenue recognition

Natural gas, NGLs and crude oil

Revenue from sales of natural gas, NGLs and crude oil products is recognised when the customer obtains control of the commodity. This transfer generally occurs when product is physically transferred into a vessel, pipe, sales meter or other delivery mechanism. This also represents the point at which the Group fulfils its single performance obligation to its customer under contracts for the sale of natural gas, NGLs and crude oil.

Revenue from the production of oil in which Alliance Petroleum has an interest with other producers is recognised based on Alliance Petroleum's working interest and the terms of the relevant production sharing contracts.

Other revenue

Revenue from the operation of third-party wells is recognised as earned in the month work is performed and consistent with Alliance Petroleum's contractual obligations. Alliance Petroleum's contractual obligations in this respect are considered to be its performance obligations for the purposes of IFRS 15 "*Revenue from Contracts with Customers*".

Revenue from the sale of water disposal services to third-parties into Alliance Petroleum's disposal well is recognised as earned in the month the water was physically disposed. Disposal of the water is considered to be Alliance Petroleum's performance obligation under these contracts.

Revenue is stated after deducting sales taxes, production taxes, excise duties and similar levies.

(l) Functional currency and foreign currency translation

The Alliance Petroleum Financial Information is presented in $, which is Alliance Petroleum's functional currency. Transactions in currencies other than $ are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the year-end date. Gains and losses arising on retranslation are included in the statement of comprehensive income for the period.

(m) Segmental reporting

Alliance Petroleum complies with IFRS 8 "*Operating Segments*", to determine its operating segments and has identified one reportable segment that produces natural gas and crude oil in the Appalachian Basin of the US.

4. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Directors have made the following judgments which may have a significant effect on the amounts recognised in the Alliance Petroleum Financial Information:

(a) Impairment indicators for oil and gas properties

Following a review by the Directors of ongoing operational performance of Alliance Petroleum's natural gas and crude oil properties for the two-month period ending 28 February 2018, the Directors are of the opinion that no impairment indicators are apparent for these assets.

(b) Reserve estimates

Reserves are estimates of the amount of natural gas and crude oil product that can be economically and legally extracted from Alliance Petroleum's properties. To calculate the reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of fields to be determined by analysing geological data, such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data. The Directors have engaged third-party engineers who are considered experts and have extensive experience in oil and gas engineering, with focus in the Appalachian Basin in the US.

Given the economic assumptions used to estimate reserves change from year-to-year and, because additional geological data is generated during the course of operations, estimates of reserves may change from time-to-time.

(c) Asset retirement obligation costs

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, significant estimates and assumptions are made in determining the provision for decommissioning. See Note 18 "*Asset retirement obligation*" to the Alliance Petroleum Financial Information for more information.

5. ACQUISITIONS

2018 Acquisitions

There were no acquisitions during the two-month period ended 28 February 2018.

2017 Acquisitions

Acquisition of assets from XTO Energy Inc

On 1 January 2017, Alliance Petroleum acquired shallow formation assets from XTO Energy Inc. The net purchase price consideration of $6,305,000. The Alliance Petroleum directors determined the fair value of the reserves held in the assets acquired to be $27,725,000, which was approximately 9 per cent. cumulative discount reserve valuation derived from a third party engineer at the time of purchase. The estimated fair values of the assets and liabilities assumed were as follows:

	$'000
Total cash consideration	**6,305**
Net assets acquired:	
Oil and gas properties	28,288
Oil and gas properties (asset retirement obligation, asset portion)	7,708
Inventory	550
Trade payables	(812)
Debt	(300)
Asset retirement obligation	(7,708)
Net assets acquired	**27,726**
Gain on bargain purchase	(21,421)
Purchase Price	**6,305**

Other asset acquisitions

During the year ended 31 December 2017, Alliance Petroleum acquired 14 wells in West Virginia from Arsenal Resources LLC, 25 wells in Ohio from Carrizo Oil & Gas, Inc, 27 wells in West Virginia from CNX Gas Company LLC and 10 wells in Ohio from G&O Resources Limited. Aggregate consideration for the above acquisitions was $495,000, paid in cash. No bargain purchase was recognised in respect of these asset acquisitions.

6. REVENUE

Alliance Petroleum extracts and sells natural gas, NGLs and crude oil to various customers in addition to operating a majority of these oil and natural gas wells for customers and other working interest owners. The following table reconciles Alliance Petroleum's revenue for the periods presented:

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Oil and gas production	39,260	7,467
Field operations	6,686	1,049
Total revenue	**45,946**	**8, 516**

During the two-month period ended 28 February 2018, no customer individually totaled more than 10 per cent. of total revenues (2017: none).

7. EXPENSES BY NATURE

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Lease operating expenses	9,476	1,946
Field operating expenses	14,347	2,627
Service department expenses	236	37
Other expenses	2,869	526
Total cost of sales	**26,928**	**5,136**
Depletion of oil and gas properties *(cost of sales)*	2,901	754
Depreciation of property and equipment *(cost of sales)*	80	19
Depreciation of property and equipment *(administrative expenses)*	443	99
Accretion of decommissioning liability *(administrative expenses)*	1,474	150
Total depreciation, depletion and accretion	**4,898**	**1,022**
Employees and benefits	3,608	608
Other administrative	919	45
Professional fees	256	33
Auditors' remuneration		
Fees payable to Alliance Petroleum's auditor for the audit of the annual accounts	309	59
Total administrative expenses	**5,092**	**745**
Total expenses	**36,918**	**6,903**

Staff costs

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Aggregate remuneration (including Directors):		
Wages and salaries	3,003	482
Payroll taxes	174	38
Benefits	431	88
Total employees and benefits expense	**3,608**	**608**

8. TAXATION

The components of the provision for taxation on income included in the "*Statements of Profit or Loss and Other Comprehensive Income*" for the periods presented are summarised below:

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Current income tax expense		
Federal	8,123	(37)
State	1,706	133
Total current income tax expense	**9,829**	**96**
Deferred income tax expense		
Federal	882	172
State	—	—
Total deferred income tax expense	**882**	**172**
Total income tax expense	**10,711**	**268**

As at 28 February 2018, Alliance Petroleum had a net deferred tax liability of $7,672,000 (2017: $7,500,000). The deferred tax liability comprises temporary timing differences arising from depletion of oil and gas properties, depreciation of property and equipment and accretion of the asset retirement obligation.

The income tax expense for the periods under review can be reconciled to the income per the statement of comprehensive income as follows:

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Income before tax for the year/period	**39,696**	**3,412**
Effective statutory US federal income tax rate	*35%*	*21%*
Expected tax charge based on the effective tax rate	13,894	717
Decrease in tax resulting from:		
Federal credits	(3,183)	(449)
Total tax charge for the year/period	**10,711**	**268**

9. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on the income after taxation available to shareholders of Alliance Petroleum and on the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per ordinary share is based on the income after taxation available to shareholders of Alliance Petroleum and the weighted average number of ordinary shares outstanding plus the weighted average number of ordinary shares that would be issued if dilutive options and warrants were converted into ordinary shares on the last day of the reporting period.

Basic and diluted earnings per ordinary share is calculated as follows:

	Audited Year ended 31 December 2017	**Audited 2 months ended 28 February 2018**
Income after taxation	$28,985,000	$3,144,000
Weighted average number of ordinary shares – basic and diluted	100	100
Earnings per ordinary share – basic and diluted	**$289,850**	**$31,440**

10. DIVIDENDS

During the two-month period ended 28 February 2018, no dividends were declared or paid (2017: $1,049,000).

11. OIL AND GAS PROPERTIES

The following table summarises Alliance Petroleum's oil and gas properties for each of the periods presented:

	$'000
Cost as at 1 January 2017	164,441
Additions	43,381
Disposals	(7,853)
Cost as at 31 December 2017	**199,969**
Additions	39
Disposals	(4)
Cost as at 28 February 2018	**200,004**
Accumulated depletion and impairment as at 1 January 2017	(114,920)
Charge for the year	(2,901)
Eliminated on disposal	7,853
Accumulated depletion and impairment as at 31 December 2017	**(109,968)**
Charge for the period	(754)
Eliminated on disposal	4
Accumulated depletion and impairment as at 28 February 2018	**(110,718)**
Net book value as at 31 December 2017	**90,001**
Net book value as at 28 February 2018	**89,286**

As at 28 February 2018, Alliance Petroleum's borrowings were secured against the $89,286,000 oil and gas properties (2017: $90,001,000).

12. PROPERTY AND EQUIPMENT

	Land and buildings $'000	Pipelines and compressors $'000	Furniture, fixtures and equipment $'000	Vehicles $'000	Total $'000
Cost					
As at 1 January 2017	1,060	358	3,975	8	5,401
Additions	172	351	217	—	740
Disposals	—	(3)	—	—	(3)
As at 31 December 2017	**1,232**	**706**	**4,192**	**8**	**6,138**
Additions	—	—	25	—	25
Disposals	—	—	(98)	—	(98)
As at 28 February 2018	**1,232**	**706**	**4,119**	**8**	**6,065**
Depreciation					
As at 1 January 2017	(135)	(226)	(3,081)	(4)	(3,446)
Charge for the year	(42)	(80)	(399)	(2)	(523)
Disposals	—	3	—	—	3
As at 31 December 2017	**(177)**	**(303)**	**(3,480)**	**(6)**	**(3,966)**
Charge for the period	(7)	(19)	(91)	(1)	(118)
Disposals	—	—	98	—	98
As at 28 February 2018	**(184)**	**(322)**	**(3,473)**	**(7)**	**(3,986)**
Net book value					
As at 31 December 2017	**1,055**	**403**	**712**	**2**	**2,172**
As at 28 February 2018	**1,048**	**384**	**646**	**1**	**2,079**

13. INVENTORIES

	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Crude oil	139	139
Material, pipe and supplies	109	109
Inventories	**248**	**248**

14. OTHER CURRENT ASSETS

	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Prepaid expenses	964	785
Other current assets	**964**	**785**

15. TRADE RECEIVABLES

The majority of trade receivables are current and the Directors believe these receivables are collectible. Trade receivables also include certain receivables from third-party working interest owners. The Directors consistently assesses the collectability of these receivables. As at 28 February 2018, the Directors considered a portion of these working interest receivables uncollectable and recorded a provision in the amount of $1,242,000 (2017: $1,260,000).

	Audited As at 31 December 2017 $'000	**Audited As at 28 February 2018 $'000**
Trade receivables	13,683	16,075

A significant portion of Alliance Petroleum's trade receivables represent receivables related to either sales of oil and natural gas or field operational services. Oil and natural gas trade receivables are generally uncollateralised, and collected within 30 to 60 days depending on the commodity, location and well-type.

16. SHARE CAPITAL

	Ordinary shares of $1 each #	**Total share capital $'000**
Balance as of 1 January 2017	100	—
Balance as at 31 December 2017	**100**	**—**
Balance as at 28 February 2018	**100**	**—**

17. BORROWINGS

Alliance Petroleum's borrowings consist of the following amounts for the periods presented:

	Audited As at 31 December 2017 $'000	**Audited As at 28 February 2018 $'000**
Crossfirst Bank[(a)]	24,909	24,915
Gateway obligation	12,000	12,000
Syrews Well[(b)]	300	300
Premium Assignment Corporation[(c)]	430	143
A+ Rental Sales and Service Inc.[(d)]	4	3
Total borrowings	**37,643**	**37,361**
Less current portion of long-term debt	(434)	(146)
Total non-current borrowings, net	**37,209**	**37,215**

(a) Alliance Petroleum had a $32,500,000 line of credit with Crossfirst Bank with a termination date of 31 March 2020. The facility bore interest at the Crossfirst Bank base rate plus 0.5 per cent. and was secured Alliance Petroleum's oil and gas reserves.

(b) As part of the acquisition of assets from XTO Energy Inc. during the year ended 31 January 2017, Alliance Petroleum assumed the requirement to lodge a performance bond of $300,000.

(c) On 17 May 2017, Alliance Petroleum signed a note payable to Premium Assignment Corporation for an amount of $1,435,000 for the purchase of its liability insurance policy with Wells Fargo. The note matured on 11 March 2018 and bore interest at 4.1 per cent. per annum payable monthly. The note was payable in full, or in part, at any time without notice or penalty.

(d) On 19 October 2016, Alliance Petroleum signed a note payable to A+ Rental Sales and Service Inc. for an amount of $14,000 for the purchase of various equipment. The note was payable in monthly instalments of $823 through to 1 May 2018 with total interest calculated at rate of 2.3 per cent.

The following table provides a reconciliation of Alliance Petroleum's future maturities of its total borrowings for each of the periods presented:

	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Not later than one year	434	146
Later than one year and not later than five years	37,209	37,215
Total borrowings	**37,643**	**37,361**

18. ASSET RETIREMENT OBLIGATION

Alliance Petroleum records a liability for future cost of decommissioning production facilities and pipelines. The decommissioning liability represents the present value of decommissioning costs relating to oil and gas properties, which the Directors expect to incur over the long producing life of Alliance Petroleum's wells, presently estimated through to 2092 when the Directors expect Alliance Petroleum's producing oil and gas properties to reach the end of their economic lives.

As discussed more fully in Note 2 "*Basis of preparation and measurement*" to the Alliance Petroleum Financial Information, these liabilities represent the Directors' best estimates of the future obligation. The Directors' assumptions are based on the current economic environment, and represent what they believe is a reasonable basis upon which to estimate the future liability. The Directors review these estimates regularly and adjust for any identified material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices at the time the decommissioning services are performed. Furthermore, the timing of decommissioning will vary depending on when the fields ceases to produce economically, which makes the determination dependent upon future oil and gas prices, which are inherently uncertain.

The discount rate and the cost inflation rate used in the calculation of the decommissioning liability was 8.0 per cent. (2017: 8.0 per cent.).

	$'000
Liability at 1 January 2017	11,456
Additions	7,708
Accretion	1,474
Disposals	(179)
Liability as at 31 December 2017	**20,459**
Accretion	150
Liability as at 28 February 2018	**20,609**

19. DERIVATIVE FINANCIAL INSTRUMENTS

The following tables summarise Alliance Petroleum's derivative financial instruments:

As at 28 February 2018:

Term	Volume	Fixed price/ basis/NYMEX
Natural gas swaps		
1 February 2018 to 31 March 2018	1,250,500 MMBTU/mth	$2.35 fixed price
1 April 2018 to 31 December 2018	1,015,500 MMBTU/mth	$2.35 fixed price
1 January 2019 to 31 March 2019	1,000,000 MMBTU/mth	$2.35 fixed price
Oil collars		
1 January 2018 to 30 June 2018	2,500 Bbls/mth	$45.00 floor/$53.95 cap
Oil swaps		
1 July 2018 to 31 December 2018	2,500 Bbls/mth	$54.10 cap

As at 31 December 2017:

Term	Volume	Fixed price/ basis/NYMEX
Natural gas swaps		
1 January 2018 to 31 March 2018	1,025,500 MMBTU/mth	NYMEX minus $0.584
1 April 2018 to 31 December 2018	1,030,000 MMBTU/mth	NYMEX minus $0.584
1 January 2018 to 28 February 2018	285,000 MMBTU/mth	$3.07 NYMEX
1 January 2018 to 31 March 2018	725,500 MMBTU/mth	$3.282 NYMEX
Oil collars		
1 January 2018 to 30 June 2018	2,500 Bbls/mth	$45.00 floor/$53.95 cap
Oil swaps		
1 July 2018 to 31 December 2018	2,500 Bbls/mth	$54.10 cap

Alliance Petroleum reports derivative financial instrument assets and liabilities net on its balance sheet. The following table reconciles Alliance Petroleum's derivative financial instrument gross assets and gross liabilities for the periods presented:

Derivative financial instruments	Statement of Financial Position line item	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Non-current assets		—	—
Current assets		—	1,851
Total assets		**—**	**1,851**
Non-current liabilities		—	(109)
Current liabilities		(535)	—
Total liabilities		**(535)**	**(109)**
Net liabilities – non-current	*Other non-current liabilities*	—	(109)
Net (liabilities)/assets –current	*Other current (liabilities)/assets*	(535)	1,851
Net (liabilities)/assets		**(535)**	**1,742**

Alliance Petroleum recorded the following gain/(loss) on derivative financial instruments in the "*Statements of Profit or Loss and Other Comprehensive Income*" for the periods presented:

	Audited Year ended 31 December 2017 $'000	Audited 2 months ended 28 February 2018 $'000
Net gain/(loss) on settlements	5,511	(350)
Net gain on fair value adjustments on unsettled financial instruments	3,690	2,277
Total gain on derivative financial instruments	**9,201**	**1,927**

20. OTHER NON-CURRENT AND CURRENT LIABILITIES

The following table includes a detail of other non-current and current liabilities as at the periods presented:

	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Other non-current liabilities		
Revenue to be distributed	105	10
Total other non-current liabilities	**105**	**10**
Other current liabilities		
Accruals	301	414
Accrued income tax	11,029	9,415
Deferred income	1,020	945
Distributions payable	5,079	6,023
Total other current liabilities	**17,429**	**16,797**

21. TRADE PAYABLES

	Audited As at 31 December 2017 $'000	Audited As at 28 February 2018 $'000
Trade payables	3,819	5,821
	3,819	**5,821**

22. FAIR VALUE AND FINANCIAL INSTRUMENTS

(a) Fair value

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal marked (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Directors utilise valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. IFRS 13 "*Fair Value Measurement*" establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is defined as follows:

Level 1: Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date.

Level 2: Inputs (other than quoted prices included in Level 1) can include the following:

- observable prices in active markets for similar assets;
- prices for identical assets in markets that are not active;
- directly observable market inputs for substantially the full term of the asset; and
- market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3: Unobservable inputs which reflect the Director's best estimates of what market participants would use in pricing the asset at the measurement date.

The Group does not hold derivatives for speculative or trading purposes and the derivative contracts held by Alliance Petroleum do not contain any credit-risk related contingent features. The Directors have not elected to apply hedge accounting to derivative contracts.

Netting the fair values of derivative assets and liabilities for financial reporting purposes is permitted if such assets and liabilities are with the same counterparty and a legal right of set-off exists, subject to a master netting arrangement. The Directors have elected to present derivative assets and liabilities net when these conditions are met. When derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. As at 28 February 2018, there were no collateral assets or liabilities associated with derivative assets and liabilities (2017: $nil).

Derivatives expose Alliance Petroleum to counterparty credit risk. The derivative contracts have been executed under master netting arrangements which allow Alliance Petroleum, in the event of default by its counterparties, to elect early termination. The Directors monitor the creditworthiness of Alliance Petroleum's counterparties but are not able to predict sudden changes and hence may be limited in their ability to mitigate an increase in credit risk.

Possible actions would be to transfer Alliance Petroleum's positions to another counterparty or request a voluntary termination of the derivative contracts, resulting in a cash settlement in the event of non-performance by the counterparty. For the two-month period ended 28 February 2018 and the year ended 31 December 2017, the counterparties for all of Alliance Petroleum's derivative financial instruments were lenders under formal credit agreements.

The derivative instruments consist of non-financial instruments considered normal purchases and normal sales.

All financial instruments measured at fair value use Level 2 valuation techniques for the two-month period ended 28 February 2018 and the year ended 31 December 2017.

Level 2 fair value measurements are those including inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. The fair value of the swap commodity derivatives is calculated using a discounted cash flow model and the fair value of the option commodity derivatives are calculated using a relevant option pricing model, which are calculated from relevant market prices and yield curves at the balance sheet date and are therefore based solely on observable price information. These instruments are not directly quoted in active markets and are accordingly classified as Level 2 in the fair value hierarchy.

There were no transfers between fair value levels during the two-month period ended 28 February 2018 (2017: $nil).

(b) Financial instruments

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

Alliance Petroleum is not a financial institution. Alliance Petroleum does not apply hedge accounting and its customers are considered creditworthy and pay consistently within agreed payments terms.

Classification of financial instruments:

	Audited As at 31 December 2017 $'000	**Audited As at 28 February 2018 $'000**
Cash and cash equivalents held at amortised cost	7,861	8,638
Trade receivables and accrued income held at amortised cost	13,683	16,075
Derivatives at fair value through profit or loss	—	1,851
Borrowings, net of deferred financing costs, at amortised cost	(37,643)	(37,360)
Derivatives at fair value through profit or loss	535	109
Total	**(15,564)**	**(10,687)**

23. FINANCIAL RISK MANAGEMENT

Alliance Petroleum's financial steering framework is built upon the principles of operational efficiency, capital efficiency, financing efficiency and sustainable portfolio management with a focus on strengthening Alliance Petroleum's balance sheet, delivering positive free cash flow and growing its profitability to create value for Shareholders.

The Directors manage Alliance Petroleum's capital structure to safeguard Alliance Petroleum's capital base in order to preserve investor, creditor and market confidence, as well as to provide a sustainable financial foundation for the future operational development of Alliance Petroleum. The Directors' financing strategy focuses on cash flow and financial stability. Principal targets are positive free cash flow after dividends, a strong leverage ratio and a healthy balance sheet.

Alliance Petroleum's principal financial liabilities comprise of borrowings and trade and other payables, which it uses primarily to finance and financially guarantee its operations.

Alliance Petroleum's principal financial assets include cash and cash equivalents and trade and other receivables derived from its operations.

Alliance Petroleum also enters into derivative transactions, which depending on market dynamics are recorded as assets or liabilities. To assist with its hedging program design and composition, the Directors engage a specialist firm with the appropriate skills and experience to manage Alliance Petroleum's risk management derivative-related activities.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of two types of risk: interest rate risk and commodity price risk. Financial instruments affected by market risk include borrowings and derivative financial instruments. Derivative and non-derivative instruments are used to manage market price risks resulting from changes in commodity prices and foreign exchange rates which could have a negative effect on assets, liabilities or future expected cash flows.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Alliance Petroleum is subject to this risk exposure as it relates to changes in interest rates on its variable rate borrowings. As discussed in Note 17 "*Borrowings*" to the Alliance Petroleum Financial Information, Alliance Petroleum had $24,915,000 of total debt outstanding as at 28 February 2018 (2017: $24,909,000) on its senior secured credit facility with interest rate of 5.00 per cent. plus LIBOR. Based on a notional amount of $10,000 outstanding under the senior secured credit facility, an increase or decrease of 1 per cent. in the interest rate would have a corresponding increase or decrease in our annual net income of approximately $100.

(c) Commodity price risk

The prices for natural gas, NGLs and crude oil can be volatile and sometimes experience fluctuations as a result of relatively small changes in supply, weather condition, economic conditions and government actions. Alliance Petroleum's revenues are primarily derived from the sale of its natural gas, NGLs and crude oil production and, as such, Alliance Petroleum is subject to this commodity price risk. During the two-month period ended 28 February 2018, Alliance Petroleum's revenue was $6,253,000 and $267,000 in relation to the sale of natural gas and crude oil (2017: $34,252,000 and $1,502,000).

To help manage natural gas and oil price risk, Alliance Petroleum entered into various direct/physical purchase contracts with oil and gas purchasers.

Alliance Petroleum's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on petroleum exchanges and keep options and swaps in place on a proportion of its anticipated production volumes to minimise commodity risk and create stabilised and predictable cash flow important to funding its operation and stated dividend for shareholders.

The mark-to-market amount associated with the unsettled natural gas and oil collars and swaps was $1,742,000 (2017: $(535,000)). The key variable which affects the fair value of Alliance Petroleum's hedging instruments is the market's expectations about future commodity prices. An increase of 10 per cent. in the forward natural gas and oil prices would decrease the mark-to-market gain of these instruments, and hence profit before tax, by $369,000. A consequential decrease of 10 per cent. in forward natural gas an oil prices would increase the mark-to-market gain by $369,000.

(d) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will not meet its obligations under a contract and arises primarily from Alliance Petroleum's cash in banks and trade receivables.

Balances held at banks, at times, exceed federally insured amounts. Alliance Petroleum has not experienced any losses in such accounts and the Directors believe that Alliance Petroleum is not exposed to any significant credit risk on its cash.

For trade receivables, Alliance Petroleum applies the simplified approach permitted by IFRS 9 "*Financial Instruments*", which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables are due from customers throughout the oil and natural gas industry. Although diversified among several companies, collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. The Directors review the financial condition of customers prior to extending credit and generally do not require collateral to support of Alliance Petroleum's trade receivables. Any changes in the Directors' provision for un-collectability of trade receivables during the year is recognised in the "*Statements of Profit or Loss and Other Comprehensive Income*". Trade receivables also include certain receivables from third-party working interest owners. The Directors consistently assess the collectability of these receivables. As at 28 February 2018, the Directors considered a portion of these working interest receivables uncollectable and recorded a provision in the amount of $1,242,000 (2017: $1,260,000).

(e) Cash and cash equivalents

The credit risk from its cash and cash equivalents is limited because the counter parties are banks with high credit ratings and have not experienced any losses in such accounts.

(f) Trade receivables

Trade receivables are due from customers throughout the oil and natural gas industry and collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. The Directors review the financial condition of customers prior to extending credit and generally does not require collateral in support of Alliance Petroleum's trade receivables. The majority of trade receivables are current and the Directors believe these receivables are collectible.

Receivables from joint interest owners, classified in other non-current assets, are generally with other oil and natural gas companies that own a working interest in the properties operated by Alliance Petroleum. The Directors have the ability to withhold future revenue payments to recover any non-payment of joint interest receivables.

(g) Liquidity risk

Liquidity risk is the risk that Alliance Petroleum will not be able to meet its financial obligations as they are due. The Directors manage this risk by:

- maintaining adequate cash reserves through the use of Alliance Petroleum's cash from operations and bank borrowings; and
- continuously monitoring projected and actual cash flows to ensure Alliance Petroleum maintains an appropriate amount of liquidity.

(j) Capital risk

The Directors' objectives when managing capital are to safeguard the ability to continue as a going concern while pursuing opportunities for growth through identifying and evaluating potential acquisitions and constructing new infrastructure on existing proved leaseholds. The Directors do not establish a quantitative return on capital criteria, but rather promotes year-over-year growth.

(k) Collateral risk

Alliance Petroleum has pledged its oil and gas properties to fulfill the collateral requirements for borrowing credit facilities with its senior secured lenders. The fair value is based on a third-party engineering reserve calculation using an 8.0 per cent. cumulative discount cash flow and a commodities futures price schedule.

24. CONTINGENCIES AND PROVISIONS

Alliance Petroleum is involved in various pending legal issues that have arisen in the normal course of business, none which are expected to have any material impact on Alliance Petroleum's financial position or results of operations.

Alliance Petroleum's operations are subject to environmental regulation in all the jurisdictions in which it operates. The Directors are unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect Alliance Petroleum's operations. The Directors can offer no assurance regarding the significance or cost of compliance associated with any such new environmental legislation once implemented.

25. SUBSEQUENT EVENTS

On 28 February 2018, the entire share capital of Alliance Petroleum was acquired by the Group.

26. ULTIMATE CONTROLLING PARTY

As at 28 February 2018, Alliance Petroleum's ultimate controlling party was Lake Fork Resources Acquisition Corporation.

27. NATURE OF THE ALLIANCE PETROLEUM FINANCIAL INFORMATION

The Alliance Petroleum Financial Information presented above does not constitute statutory financial statements for the periods under review.