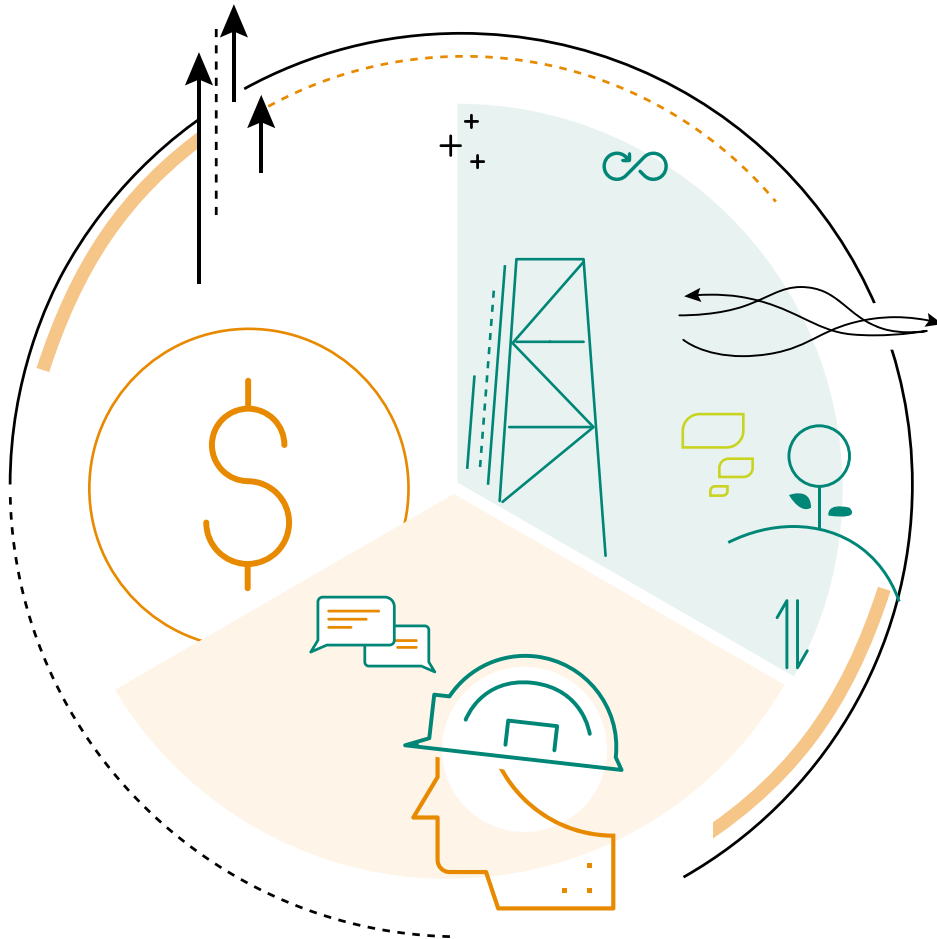




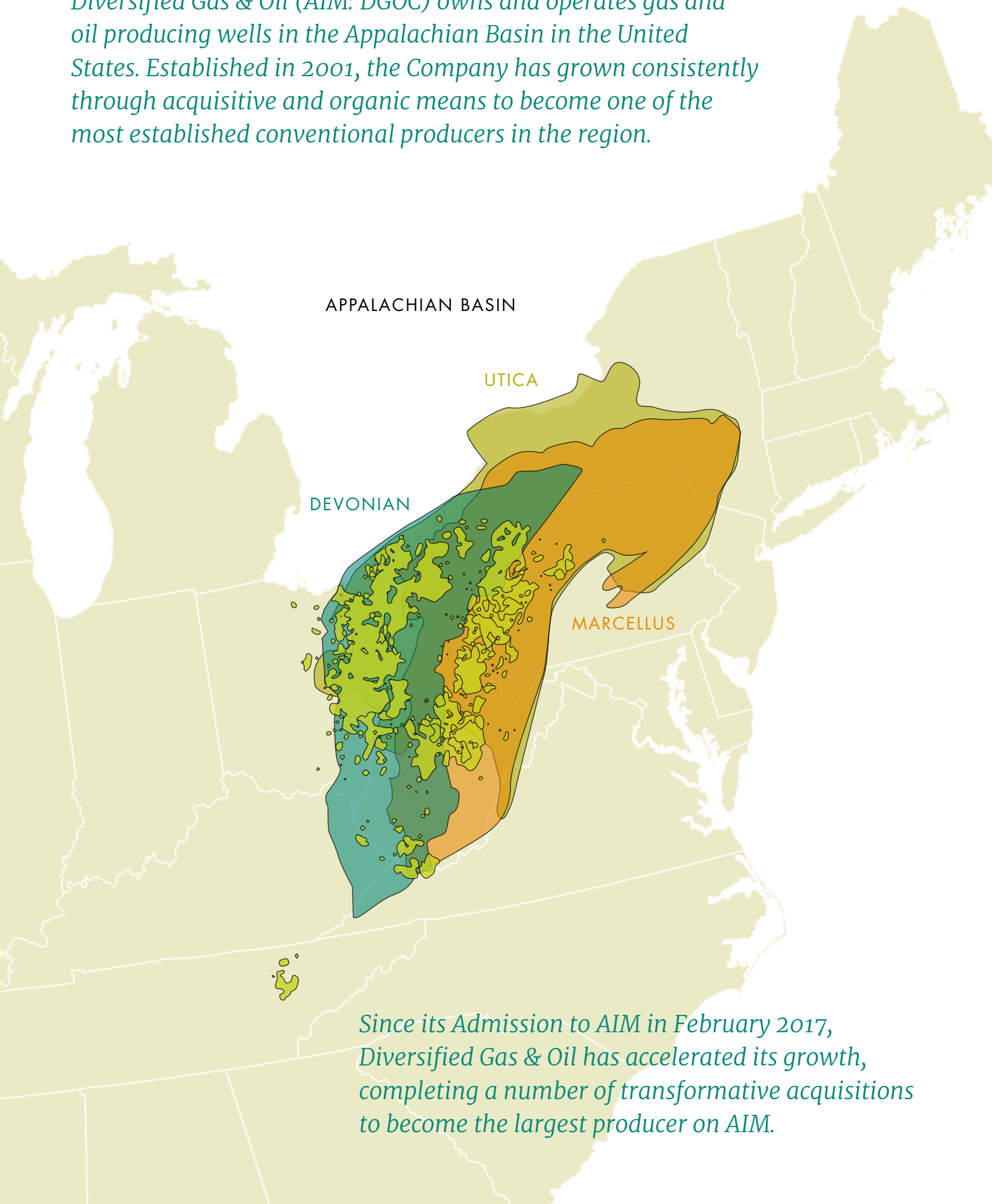
DIVERSIFIED GAS & OIL  
P L C



# CREATING LONG-TERM VALUE FROM SUSTAINABLE, FOCUSSED ASSETS

Diversified Gas & Oil plc  
**Annual Report 2017**

*Diversified Gas & Oil (AIM: DGOC) owns and operates gas and oil producing wells in the Appalachian Basin in the United States. Established in 2001, the Company has grown consistently through acquisitive and organic means to become one of the most established conventional producers in the region.*



*Since its Admission to AIM in February 2017, Diversified Gas & Oil has accelerated its growth, completing a number of transformative acquisitions to become the largest producer on AIM.*

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*We more than doubled our production and cash flows in 2017.*

+ PAGE 6

*Results for the year reflect DGO's solid performance.*

+ PAGE 10

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## Our Vision

Our vision is to consolidate our position as an established operator and producer of long-life, mature natural gas and oil producing assets. We will continue to build on our proven track record as a consolidator to aggregate further producing assets in markets where we believe we can achieve economies of scale and reduce unit operating costs to improve operating margins. We will also maintain a strict focus on capital discipline and operating efficiencies to generate maximum returns for our shareholders.

## Mission

Our mission is to generate returns for our shareholders by delivering on our well-defined growth strategy. We strive to adhere to best in class operatorship standards, with a strong focus on health, safety and environment to ensure the safety of our people, local communities and the environment in which we operate.

## Strategy

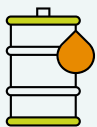
Our strategy is to acquire and manage our oil and natural gas properties to generate cash flows, and return cash to shareholders through our proven dividend policy.

Through operational and cost efficiencies, we have demonstrated our ability to generate maximum value for shareholders by enhancing production from acquired and existing wells whilst lowering unit production and administrative costs. With our primary strategic focus on mature, low risk producing wells – whether conventional or unconventional - our assets are characterised as being long-life with shallow year-on-year declines.

*Long-life,  
low-cost  
& low-risk*

## Key facts

### PRODUCTION



**▲ 28,100 boepd**  
Current net production

### RESERVES



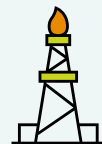
**▲ 173 mboe**  
Current 1P Reserves

### CURRENT ACREAGE HBP



**4 million**  
acres

### PRODUCING WELLS



**> 40,000**  
Producing Wells

**10,400 boepd**

Year end net production

**55 mboe**

Year end 1P Reserves

### CURRENT PRODUCTION MIX



## Investment highlights

### UNIQUE BUSINESS

Differentiated business model and US, onshore operating environment sets company apart from its listed peers

### UPSIDE OPPORTUNITY

Significant PUD and 2P reserve potential across a 4million acre, largely undeveloped leasehold

### CASHFLOW FOCUS

Largest producer on AIM with daily net volumes of 28kboe as of April 2018

### FINANCIALLY STRONG

Healthy balance sheet with strong EBITDA and > \$120m of liquidity

### FOCUSED STRATEGY

Capitalising on unique regional acquisition window to grow production

### PROVEN MODEL

Track record of consistent growth and returns, reducing costs with scale

### LOW COST

> 40% operating margin at prevailing gas prices, resilient to commodity price downside

### LOW RISK

Large 1P PDP Reserves of 173mboe, long-life assets, hedging strategy

### DIVIDEND PAYING

Committed to returning 40% of operating free cash flow to shareholders

### BOARD ALIGNMENT

14.2% of shares are held by the Board and Management

## Operational overview

Diversified Gas and Oil plc ("DGO") has built an extensive acreage position in the prolific Appalachian Basin, the oldest hydrocarbon basin in the United States. With a primary focus to date on mature, conventional producing natural gas wells, DGO has become one of the largest conventional producers in the region by seizing the opportunities presented by a unique regional acquisition window, in which large operators are divesting packages of conventional wells in order to focus on the unconventional Marcellus and Utica shale reservoirs present throughout the Appalachian Basin. As a proven and credible operator, with a strong regional network, access to capital and proven track record for acquiring and integrating large packages of wells, DGO has developed a reputation as a leading consolidator in its target market.

Following completion of two material acquisitions post period-end and three accretive acquisitions during the period, DGO's portfolio covers 4 million acres, and currently produces daily net volumes of 28,000 barrels

of oil equivalent per day, with 98% being natural gas. The portfolio is underpinned by a large, proven, developed, producing (PDP) Reserve base of 173 million barrels of oil equivalent, providing strong visibility on future production from a low-risk reserve base. The producing wells are mature and characterised as being long-life, typically anticipated to produce for 40-50 years with low decline rates and require minimal ongoing capex.

DGO's roll-up strategy centres around its ability to expand its acreage position with complementary acquisitions that provide scope for the Company to achieve operating efficiencies, and in doing so optimise production whilst lowering the operating costs through scales of economy. The Company's tried-and-tested operating model has demonstrated a proven ability to reduce average unit operating costs across the portfolio with each acquisition, ensuring resilience and profitability even in a low commodity price environment.

# CHAIRMAN'S STATEMENT



Robert M. Post *Chairman of the Board*

**As Chairman of Diversified Gas and Oil plc, I am delighted to provide this statement following a remarkable and eventful 2017. While the global energy markets continue to rebalance, creating challenges for many traditional E&Ps, DGO flourished. Against a sector backdrop of uncertainty in which cash flow is key, our commitment to fiscal and operational discipline resonated with shareholders, including blue-chip institutional investors, who supported our successful admission to AIM in early February 2017 raising \$50 million.**

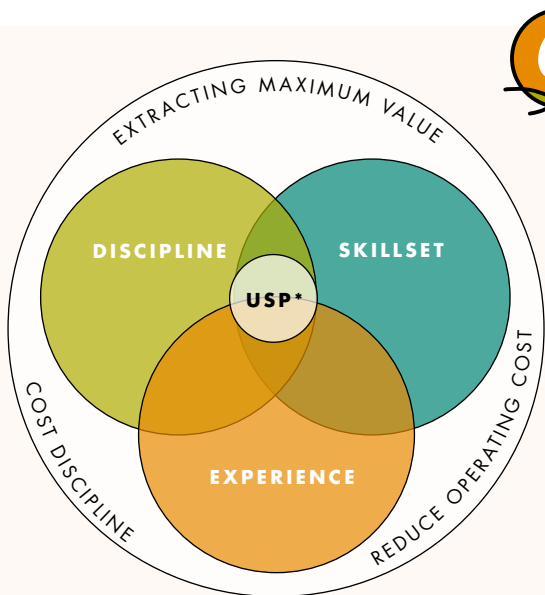
Quickly delivering on our stated objectives to grow our high quality, long-life, cash-flow producing asset base, DGO became the largest producer on AIM and one of the leading conventional producers in the prolific Appalachian Basin. Importantly, our shareholders participated in our success through two 2017 dividend payments totalling nearly \$6 million, with a third dividend declared and payable in May 2018.

When we came to AIM, we clearly defined our long-term vision and near-term growth strategy, which centred on growing through attractively priced acquisitions near our existing assets to grow cash flow, achieve operating efficiencies, and return cash to shareholders in the form of stable dividends. We more than doubled our production and cash flows in 2017, paid two dividends totalling nearly \$6 million and continue to navigate a dynamic industry landscape that is marked for us by a robust pipeline of opportunities to grow the business in ways that are highly accretive to our shareholders.

In fact, in just the first quarter of 2018, the Company has announced and closed two additional transformational acquisitions, significantly transformed our capital structure with a dramatic reduction in our borrowing costs and declared our third dividend which, on a per-share basis, is nearly 75% higher than our previous two dividends.

We have demonstrated that our strategy is an effective, one that is clearly defined, contrarian to traditional E&P companies and, whilst on the face of it quite simple, requires the unique skillset, experience and discipline possessed by our Company.

gas and oil wells and related assets from Titan Energy LLC for \$84 million, significantly enhanced not only our core business, but also served as an important catalyst to place DGO on the regional stage as a capable consolidator of large asset packages. Importantly, successfully completing and integrating an acquisition of this size validated to the international capital markets our business model, the capabilities of our management team and our operational excellence converting the acquisitions to dividend paying cash flows. The acquisitions provide us with additional scale and an enhanced operational platform to deliver even more ambitious growth.



*As we focus on acquisitions that produce free cash flow and complement our significant scale in the region, we can extract additional value from each acquisition through a commitment to cost discipline, reducing operating costs and extracting maximum value from all hydrocarbons that we produce.*

*\*Unique Selling Proposition*

While most US-based operators choose to focus on costly unconventional development opportunities, we seek to leverage our relationships and operational excellence within the Appalachian Basin to capitalise on the unique window of opportunity to acquire largely conventional, long-life, producing assets at compelling valuations. As we focus on acquisitions that produce free cash flow and complement our significant scale in the region, we can extract additional value from each acquisition through a commitment to cost discipline, reducing operating costs and extracting maximum value from all hydrocarbons that we produce.

The Company made three acquisitions during the year: one transformational and two smaller yet synergistic bolt-on transactions. This trebled our production, doubled our PDP reserve and materially increased our cash flow growth. The largest, our acquisition of Appalachian

Ultimately, we exist to create sustainable shareholder value, and we do so without placing our balance sheet at risk. We have structured our operations to efficiently manage mature producing assets that generate significant free cash flow. Unlike other E&P companies with significant leverage and fixed-costs that require the flush production from recently completed wells to support their cost structures, DGO actively manages its operations to keep its administrative and production costs low while optimising its production with dedicated well tenders, tailoring their work to the wells' needs. This operating philosophy has enabled us to remain profitable even during this sustained period of low commodity prices.

Lower global commodity prices create unique growth opportunities for DGO since they encourage

# CHAIRMAN'S STATEMENT

## CONTINUED

financially challenged companies to monetise assets to meet their obligations and motivate traditional onshore US E&Ps to monetise non-core or mature production assets and reinvest into unconventional drilling prospects. We are actively navigating the current environment to identify complementary acquisition opportunities within our target acquisition criteria.

We have recently taken steps to prepare for current and future growth by reducing our cost of debt capital while also affording us the ability to fund sizable purchases with limited equity dilution. As we acquire assets, we are committed to maintaining an optimal capital structure that appropriately uses low-cost leverage to reduce dividend dilution.

Though we continue to see a large inventory of complementary acquisition opportunities within our existing geographic footprint and comprised of mature, conventional wells, we also believe future mature production consolidation could materialise during which operators of mature, unconventional production may seek to monetise those assets. Further, and should commodity prices rise prompting some E&Ps to reduce the pace of asset divestitures, our large, stable production base will increase our ability to focus on organic growth across our vast acreage position and proven reserve base.

The achievement of such operational scale by the Company in the first 12 months as a public company is a testament to our visionary Board, dedicated management team and supportive shareholder base. Leveraging our strong reputation, our ability to access capital, and our proven ability to complete and integrate acquisitions, we seized the opportunity to acquire Alliance Petroleum Corporation ("APC") and assets from CNX Resources LLC ("CNX") in March 2018. We were pleased to gain extraordinary support from new and existing shareholders who understood the rationale and value accretive impact of these transactions.

Having recently completed both transactions, our net production currently stands at approximately 28kboepd from a proven and fully producing reserve base of 173 mboe from a vast acreage position covering more than four million acres. While growth opportunities abound, we remain vigilantly focused on the efficient integration of each acquisition, committed to achieving operating synergies from our expanded footprint.

My friend and business partner, Rusty Hutson's great grandfather, grandfather and father invested their careers in the Appalachian oil and gas business, and so we feel a unique sense of satisfaction to see DGO thrive as we begin our second year as an AIM quoted company. I am extremely proud of what the team has accomplished and on behalf of our shareholders, I want to commend every member of our team whose exceptional talent, dedication and commitment to safety and operational excellence collectively strengthen the strong foundation of our long-term success.



*I am extremely proud of what the team has accomplished and on behalf of our shareholders, I want to commend every member of our team whose exceptional talent, dedication and commitment to safety and operational excellence collectively strengthen the strong foundation of our long-term success.*

As we look ahead to a year already marked by significant opportunity, I have tremendous confidence in our team. Their efforts have affirmed DGO as a best-in-class Appalachian operator, one that stands ready to capitalise on an exciting set of near-term growth opportunities.

A handwritten signature in black ink that reads "Robert M. Post".

Robert M. Post Chairman of the Board



# BUSINESS REVIEW

## Transforming the company

Following our admission to AIM in February, 2017 proved to be a transformational year, setting us on a path that continues to deliver significant growth and shareholder value. On admission to AIM, we communicated a clear strategic vision for DGO: leverage our established position in the Appalachian Basin to capitalise on unique market conditions and acquire complementary producing assets on attractive valuation metrics to grow production and cash flow, which DGO will use to fund a consistent dividend to shareholders. Using equity raised, we completed nearly \$90 million of acquisitions in 2017, which increased to nearly \$286 million by the end of March 2018. Through these acquisitions, we increased our year-on-year net production by 125%, though with the addition of the Titan assets in the second half of 2017, net production increased more than 250% compared to FY2016, resulting in DGO producing an average of more than 10,400 boepd in the second half of 2017. With the additional acquisitions in March 2018, net daily production is now up over 850% compared to FY2016.

Importantly, we never pursue growth-for-growth's sake. Instead, we maintain strict discipline as we evaluate each acquisition opportunity to ensure that, if completed, it complements our existing portfolio and generates value for the benefit of shareholders. To deliver value, we optimise the management of each well, many of which have been neglected over time by the seller. We also leverage our scale in the Appalachian Basin to achieve economies that reduce unit operating costs while, at times, increasing production from wells within the portfolio. Illustrative of our success in effecting this strategy, with the enlarged asset base from our 2017 acquisitions, we reduced our operating costs or lease operating expense (LOE) per boe by 30% to less than \$7.50 per boe in the second half of 2017 vs. the FY2016 average. The effect of DGO's business model is higher profit margins driving adjusted EBITDA higher by nearly 500% in the second half of 2017 compared to the same period of 2016. Income before tax decreased by 85%. We increased our dividend per share by 73%, and we look forward to maintaining a progressive dividend policy as we grow DGO.

## ACQUISITIONS SINCE YE2016



# BUSINESS REVIEW

## CONTINUED

### Delivering on our strategic objectives

Results for the year reflect DGO's solid performance, delivering on our stated objectives and building upon our already strong platform for additional growth. We have rapidly transformed the business to become what we believe to be a unique investment proposition on AIM: a low-risk, cash flow positive, dividend paying E&P company. The following table highlights just some of our key successes:

Stated Objective	Unit	FY2016	FY2017	% Change vs 2016FY	2H17	% Change vs 2016FY	(e) 1Q18 PF	% Change vs 2016FY
Grow through accretive acquisitions	\$m	\$11.8	\$88.7	652%	87.2	639%	\$269	2,180%
Increase production	MBOEPD	3.0	6.6	120%	10.4	247%	28.1	837%
Increase proved reserves	MMBOE	28	55	96%	n/a	n/a	173	518%
Increase PV-10 reserves	\$m	\$125	\$259	107%	n/a	n/a	\$619	395%
Increase acres held by production	MM Acres	0.8	1.6	100%	1.6	100%	4.0	400%
Increase revenue (Hedged) (a)	\$m	\$17.2	\$43.3	152%	\$32.3	276%	\$38.4	123%
Increase revenue (Un-hedged)	\$m	\$17.1	\$41.8	144%	\$30.9	261%	\$38.7	126%
Reduce unit lease operating costs (b)	\$ per BOE	\$9.59	\$6.50	(32)%	\$6.10	(36)%	\$6.33	(34)%
Reduce unit recurring G&A (c)	\$ per BOE	\$2.37	\$2.03	(14)%	\$1.84	(22)%	\$1.44	(39)%
Adjusted EBITDA (Hedged) (d)	\$m	\$4.3	\$17.5	307%	\$13.4	212%	\$15.5	1,342%
Adjusted EBITDA Margin (Hedged)	%	25%	40%	15 points	42%	17 points	40%	15 points
Adjusted EBITDA (Un-hedged) (d)	\$m	\$4.2	\$16.0	281%	\$12.1	476%	\$15.8	1,405%
Adjusted EBITDA Margin (Un-hedged)	%	24%	38%	14 points	39	15 points	41%	17 points

(a) Includes the impact of settled hedges. See Note 20 for more information on hedges.

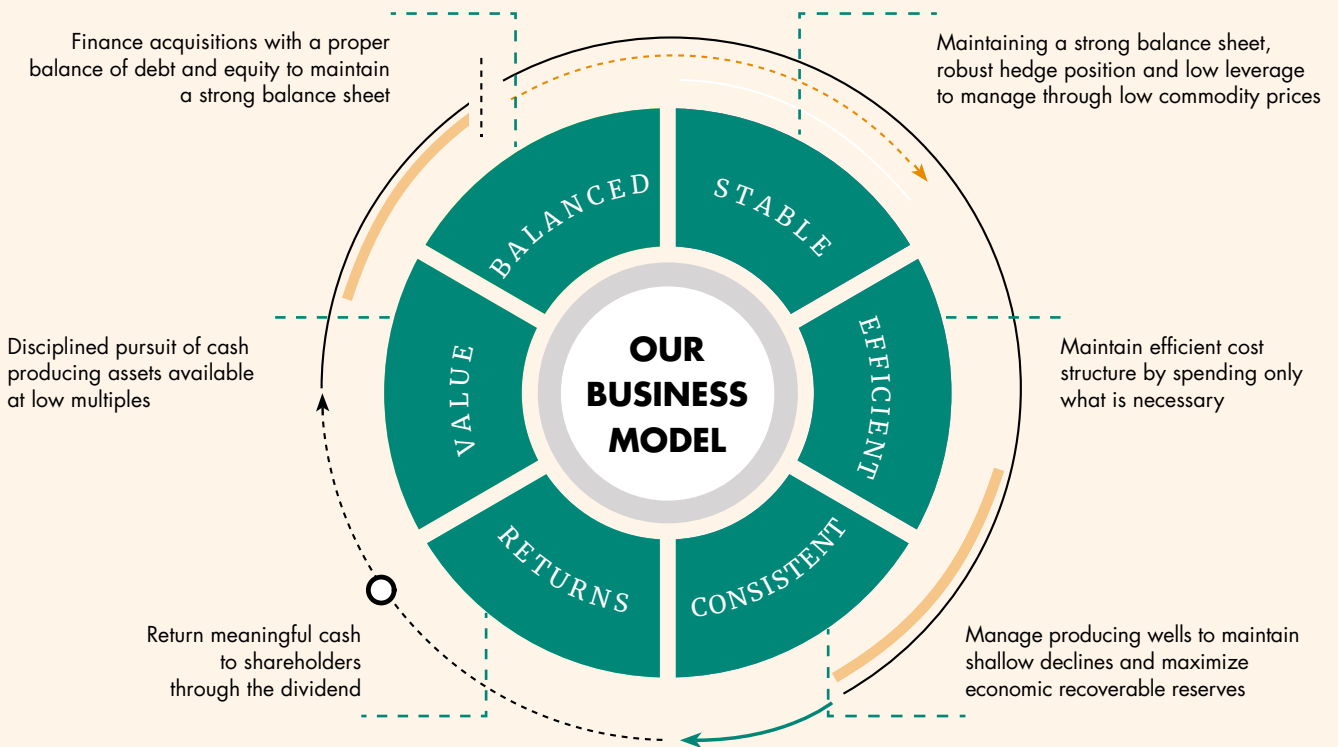
(b) Lease operating expenses are daily costs incurred to extract oil and natural gas and maintain our producing properties. Such costs include maintenance, repairs, insurance, employee and benefits and automobile expenses. See Note 6 for more information.

(c) 2016 recurring G&A per BOE as presented above includes owner distributions of \$0.88 per BOE which were recorded in equity under the Company's corporate structure prior to admission to AIM in February 2017. Corresponding expenses in 2017 are recorded as salaries and wages expense within recurring G&A. For more information on recurring G&A expenses see Note 6.

(d) Note that the calculation of % Change vs 2016FY for Adjusted EBITDA reflects an annualised Adjusted EBITDA for 2H17 and 1Q18PF. For more information on Adjusted EBITDA for 2017 and 2016 see Note 7.

(e) 1Q18PF results reflect the current estimate of the Company's results for the first quarter as if the acquisition of APC and CNX were completed with effect from 1 January 2018.

# EFFECTIVE BUSINESS MODEL THAT PROVIDES SIGNIFICANT DOWNSIDE PROTECTION AGAINST THE VARIABLES OF COMMODITY PRICES



*“...we never pursue growth-for-growth’s sake.”*

# BUSINESS REVIEW

## CONTINUED

### The Appalachian Basin opportunity

The prevailing market conditions in our regional focus on the Appalachian Basin, both before and increasingly more so following our IPO, have created a compelling buyer's market for well-capitalised, credible, local operators wishing to expand their portfolio of mature, producing assets. The Appalachian Basin, the oldest producing basin in the US with an abundance of existing infrastructure, has seen a rapid expansion of unconventional activity as large players focus their operations on the prolific Utica and Marcellus shale reservoirs located throughout the basin. This industry shift towards unconventional assets, the rights to which are held by production ("HBP"), means the mature, often conventional producing assets which routinely retain the rights to the unconventional assets held in deeper zones within the same leasehold, have become non-core to the larger industry players. As such, these parties are keen to offload these assets to buyers who can maintain the conventional production while allowing them to retain the rights to the unconventional reservoirs. With the maintenance of production and rights to the undeveloped, unconventional reservoirs being the main priority for the seller, this market dynamic creates particularly attractive valuation metrics for the appropriate buyers as price is not always the seller's principal factor in completing transactions.

Having operated in the Appalachian Basin since 2001 and having completed three of the largest conventional asset deals in the region in recent history, DGO has developed a strong network and regional reputation as a proven and credible operator, with a first-mover advantage in a small band of appropriate companies competing to capitalise on these unique buying opportunities. Furthermore, our proven ability to raise capital through the debt and equity markets puts us in an even smaller peer group capable of executing the material transactions of larger asset packages being divested.

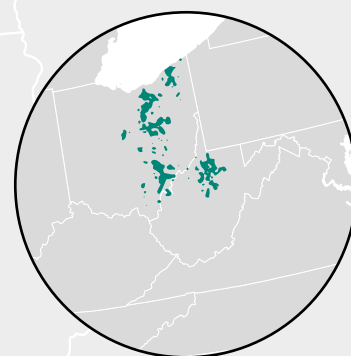
DGO'S NET PRODUCTION

▲ **28,100**  
boepd

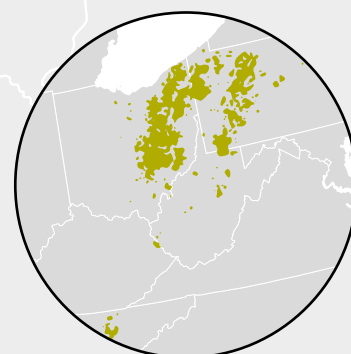
The largest producer  
on AIM as of March 2018

ADDITIONS BY YEAR

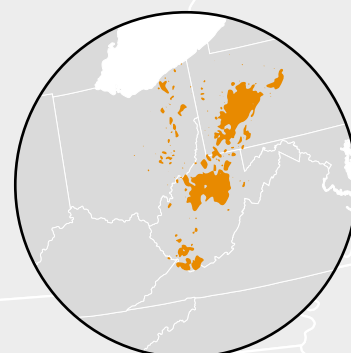
2013



2017



2018



### Growing through acquisition

Our successful placing and admission to AIM in February 2017, raising gross proceeds of \$50m enabled us to significantly strengthen our balance sheet and liquidity and positioned us to transact on the opportunities stated above. We were pleased to complete our first transaction only weeks after coming to market, as we acquired a package of 1,300 producing wells for \$1.75m. The acquisition added production of 3,800 mcf/d and 110bopd. We completed field operation integration for these wells in May 2017, and more fully completed the integration of accounting operations in June 2017.

In March 2017, DGO identified the opportunity to acquire certain Appalachian Basin gas and oil assets from Titan Energy that were consistent with our acquisition criteria and that had the potential to significantly enhance the Company's scale and profile in the region. DGO successfully raised an additional \$35m through a further placing and negotiated a new



*These acquisitions grew DGO's net daily production to over 28,000 boepd, making us the largest producer on AIM.*

\$110m senior secured credit facility to fund the \$84.2m asset acquisition. The Company closed on a portion of the assets in June 2017 and the remaining assets in September 2017. Inclusive of all Titan Energy assets, the Company's gross oil and gas production increased to approximately 10,400 boepd in the fourth quarter of 2017.

Reflective of the robust growth opportunity set in the Appalachian Basin, DGO closed on two additional and transformational acquisitions in the first quarter of 2018, which included the purchase of APC and the conventional Appalachian assets from CNX for a combined purchase price of \$180 million. These acquisitions grew DGO's net daily production to over 28,000 boepd, making us the largest producer on AIM. Importantly, the wells we acquired from APC and CNX are immediately accretive to Adjusted EBITDA

and increased PDP reserves to approximately 173 mmbob, providing a large inventory of future cash flows to fund our quarterly dividend. The acquisitions were funded through a successful further placing that raised \$189m, undertaken by our broker Mirabaud Securities, who have supported DGO since our flotation, and Stifel Nicolaus Europe who we have appointed as the Company's joint broker.

We continue to screen a pipeline of complementary and value accretive opportunities in the Appalachian Basin and other producing regions of the United States with similar long-life, low-decline wells, which DGO is built to operate efficiently. Inclusive of our recently executed, syndicated credit facility led by KeyBank NA, we possess the low-cost liquidity to execute on additional transactions should we find them to be compelling and in the best interest of the Company and its shareholders.

# BUSINESS REVIEW

## CONTINUED

### **Simplified, efficient integration process**

Integration risk is significantly reduced and the process simplified by our decision to retain the field-level personnel who manage the assets day-to-day for the seller. Maintaining these skilled employees allows us time to evaluate the assets while prudently implementing our more efficient asset management programmes. Where appropriate, we have restructured our field operations team to reflect our scale and geographical size. Our legacy employees combined with these new additions to our team are unified in their focus to ensure a smooth and effective integration of the new assets into our operations processes. As part of this process, the enlarged team is working to enhance production and strive to generate cost savings. The addition of many talented, experienced employees from each acquisition plays an important role in our strategy, and we are very pleased to report that we are already seeing tangible benefits from this process.

To further support the integration effort for each acquisition, we routinely enter into transitional services agreements ("TSA") for accounting and other administrative services. In addition to the TSAs, we engage, as necessary, consulting and other professional services to work with our teams on further integration strategies including accounting and technology needs.

### **Organic opportunity**

Whilst our present growth efforts have focused on successfully achieving scale through carefully selected acquisitions, our expansive held-by-production acreage portfolio provides significant organic growth opportunities. As we complete the full integration of the newly acquired assets, our field management team will focus on maximising production by enhancing operational techniques. Our extensive leasehold, which now covers approximately 4 million acres, has been sparsely drilled to date and therefore provides material opportunity for infill drilling to increase the production

throughout the portfolio. Development wells are both low-risk and low-cost, ranging from \$250k - \$350k per well to drill and place on production. Management intends to initiate a development programme when drilling economics become more favourable and offer the Company higher rates of return than are currently provided through the compelling acquisition opportunities available at present valuations from which we have recently benefitted.

### **Enhancing the DGO team**

An important aspect of successfully executing our strategy is ensuring we have leadership and management teams with the skills and experience necessary to oversee our rapid expansion. As such, we have placed a significant focus on adding depth to our team in the past year through the hire of several high quality professionals. With the acquisition of the Titan Energy assets, we added Bob Cayton as our Senior Vice President of Operations and John "Jack" Crook as our Senior Vice President of Environmental, Health & Safety. Both Bob and Jack each have over 30 years of experience operating in the Appalachian Basin and they are focused on delivering operational excellence with a substantial portion of our Appalachian operations. With the APC acquisition, we added Dora Silvis as an Executive Vice President who will oversee the integration of the APC and CNX acquisitions into DGO's systems and processes and Timothy Altier as Senior Vice President of APC's operations who will work closely with Mr. Cayton to manage the day-to-day field operations. Each of these experienced professionals report directly to our Chief Operating Officer, Brad Gray, who is responsible for the overall operational execution of our business and for the successful integration of our acquisitions.

We also extended our capital markets, accounting and financial reporting capabilities with the addition of Eric Williams as our new Chief Financial Officer, Michael Garrett as our Vice President of Accounting and Controller and Bryan Berry as Vice President of Finance. We were also pleased to enhance our middle management teams in both field operations and administrative functions.

### **Dividend**

The Board paid a 2016 final dividend of 1.99 cents per share to shareholders on 31 July 2017 and a 2017 interim dividend of 1.99 cents per share on 20 December 2017. The Company announced a recommended 2017 final dividend of 3.45 cents per

*low-risk and low-cost*

DEVELOPMENT WELLS

**\$250k - \$350k**

per well to drill and place  
in production

share which, if approved by shareholders at the Annual General Meeting, will be paid on 31 May 2018 to those shareholders on the register on 11 May 2018. One of DGO's core principals is to return earnings to shareholders through a regular dividend, and we were pleased to announce that our 2017 year-end dividend was 73% higher than our first two dividends. Additionally, we were pleased to announce on 3 April 2018 a move from semi-annual dividend payments to quarterly dividend payments.

### Outlook

2018 promises to represent a step-change in DGO's financial and operational profile as we reap the benefits from the transactions that we completed in 2017 and our two additional acquisitions in the first quarter of 2018. Near term, we will remain highly focused on the successful integration of each asset with a particular emphasis on the work required to ensure we maximise production whilst lowering our per unit operating expenses.

The sector backdrop continues to be challenging and we are in a highly fortunate position to be operating in a safe jurisdiction, benefit from a strong balance sheet and have an effective business model that provides significant downside protection against the variables of commodity prices. Our low-cost operations ensure we are profitable in the current environment, and able to withstand a further decrease in commodity prices. We also take a prudent approach to the way the business is run in terms of cash management by hedging our production to ensure visibility on predictable earnings.



*2018 promises to represent a step-change in DGO's financial and operational profile.*

Ironically, we are uniquely positioned to benefit from the challenging sector backdrop as it creates very compelling acquisition opportunities as distressed companies seek to rationalise their portfolio.

Over the longer-term, we continue to work on our existing portfolio to seek in-fill opportunities and maximise the efficiency, production and longevity of our assets, activities that are a key aspect of company reputation and expertise. Further, we continue to seek attractive acquisition opportunities arising out of current market conditions that have already resulted in a number of strategic purchases for DGO in the past 18 months. As our acquisitive momentum has increased over the years, we seek to continue to deliver valuable additions to our portfolio in the Appalachian Basin and other suitable mature, hydrocarbon basins in the US.

The following pages provide a financial and operational summary of our 2017 results.

### Expanding DGO's management capabilities



#### Eric Williams

Chief Financial Officer

#### Michael Garrett

Vice President of Accounting and Controller

#### Bryan Berry

Vice President of Finance

### TITAN ENERGY

#### Bob Cayton

Senior Vice President of Operations

#### John "Jack" Crook

Senior Vice President of Environmental, Health & Safety



Alliance Petroleum Corporation

#### Dora Silvis

Executive Vice President

#### Timothy Altier

Senior Vice President of APC's operations

# FINANCIAL REVIEW

	Year Ended		\$ Change	% Change
	31 December 2017	31 December 2016		
<b>Net production</b>				
Natural gas (MMcf)	13,119	5,892	7,227	122.7%
Oil (MBbls)	163	110	53	48.2%
NGL (MBbls)	50	—	50	100.0%
Total (MBOE)	2,400	1,092	1,308	119.8%
Average daily production (BOE/d)	6,575	2,992	3,583	119.8%
% gas (BOE basis)	91%	90%		
<b>Average realised sales price</b>				
(excluding impact of cash settled derivatives)				
Natural gas (Mcf)	\$2.32	\$1.81	\$0.51	28.2%
Oil (Bbl)	49.37	38.25	11.12	29.1%
Total (BOE)	\$16.48	\$13.62	\$2.86	21.0%
<b>Average realised sales price</b>				
(including impact of cash settled derivatives)				
Natural gas (Mcf)	\$2.44	\$1.84	\$0.60	32.6%
Oil (Bbl)	49.07	38.25	10.82	28.3%
Total (BOE)	\$17.12	\$13.76	\$3.36	24.4%
<b>Natural gas and oil revenue</b>				
(in thousands)				
Natural gas	\$30,463	\$10,671	\$19,792	185.5%
Oil	8,047	4,207	3,840	91.3%
NGL	1,043	—	1,043	100.0%
Total natural gas, oil and NGL revenue	39,553	14,878	24,675	165.8%
Other revenue	2,224	2,210	14	0.6%
Total revenue	\$41,777	\$17,088	\$24,689	144.5%
<b>Gains (losses) on derivative settlements</b>				
Natural gas	\$1,574	\$146	\$1,428	978.1%
Oil	(49)	—	(49)	(100.0)%
Net gains on derivative settlements	\$1,525	\$146	\$1,379	944.5%
<b>Per BOE metrics</b>				
Realised price (including impact of cash settled derivatives)	\$16.48	13.62	2.86	21.0%
Other revenue	0.93	2.02	(1.09)	(54.0)%
Lease operating expenses	6.50	9.59	(3.09)	(32.2)%
Recurring administrative expenses <sup>a</sup>	2.03	2.37	(0.34)	(14.3)%
Production taxes	1.41	0.76	0.65	85.5%
Gathering and transportation	0.80	—	0.80	100.0%
Operating margin	\$6.67	2.92	3.75	128.4%
% Operating margin	38.3	18.7		

(a) 2016 recurring G&A per BOE as presented above includes owner distributions of \$0.88 per BOE which were recorded in equity under the Company's corporate structure prior to admission to AIM in February 2017. Corresponding expenses in 2017 are recorded as salaries and wages expense within recurring G&A.



## Production, revenue and hedging

Total revenue in 2017 was \$41.8m, a 144.5% increase over \$17.1m for 2016. The increase in revenue was primarily attributable to a 119.8% increase in barrel of oil equivalent sales and an 21.0% increase in the average realised sales price. DGO ended 2017 with net MBOE sales of approximately 2,400 vs. the prior year sales of approximately 1,092. The increase in production was driven by the increase in producing wells from our acquisitions of assets from Titan Energy and EnerVest Energy in 2H17. See Note 4 for additional information regarding DGO's acquisitions.

The following table is intended to reconcile the change in oil and natural gas revenue for 2017 by reflecting the effect of changes in volume and in the underlying prices.

	Natural gas	Oil
<b>Revenue for the year ended 31 December 2016</b>	\$10,671	4,207
Volume increase	13,081	2,027
Price increase	6,711	1,813
Net increase	19,792	3,840
<b>Revenue for the year ended 31 December 2017</b>	<b>\$30,463</b>	<b>\$8,047</b>

To manage its cash flows in a volatile commodity price environment, DGO uses a combination of physical and financial derivative instruments. As required by its Senior Secured Credit Facility, DGO executed a combination of fixed price physical contracts, price swap financial contracts and two-way collar financial contracts equal to approximately 75% of the Company's forecasted production volumes for a 36-month rolling period. Refer to Note 20 for additional information regarding DGO's hedge portfolio.

Expenses	Year ended		Total Change		BOE Change			
	31 December 2017	Per BOE	31 December 2016	Per BOE	\$	%	\$	%
Lease operating expenses <sup>(a)</sup>	\$15,591	\$6.50	\$10,470	\$9.59	\$5,121	49%	\$(3.09)	(32)%
Production taxes	3,392	1.41	833	0.76	2,559	307%	0.65	86%
Gathering and transportation	1,925	0.80	—	—	1,925	100%	0.8	100%
Total cost of sales	20,908	\$8.71	11,303	\$10.35	\$9,605	85%	\$(1.64)	(16)%
Depreciation and depletion	7,013	2.92	4,039	3.70	2,974	74%	(0.78)	(21)%
Administrative expenses	8,919	3.72	2,813	2.58	6,106	217%	1.14	44%
<b>Total expenses</b>	<b>\$36,840</b>	<b>\$15.35</b>	<b>\$18,155</b>	<b>\$16.63</b>	<b>\$18,685</b>	<b>103%</b>	<b>(1.28)</b>	<b>(8)%</b>

(a) Lease operating expenses are daily costs incurred to extract oil and natural gas and maintain our producing properties. Such costs include maintenance, repairs, insurance, employee and benefits and automobile expenses.

# FINANCIAL REVIEW

## CONTINUED

DGO's operating expenses in 2017 were \$36.8m compared to \$18.2m in 2016. The \$18.7m increase reflects the following:

- A \$9.6m increase in costs of sales due to additional expenses related to newly acquired oil and gas properties from the Titan and EnerVest acquisitions in 2H17. On a per BOE basis, cost of sales decreased by 16% which was attributable to higher production volumes received from an increased number of producing wells from these acquired properties.
- A \$3.0m increase in depreciation and depletion primarily due to an increased depreciable base related to oil and gas properties and higher production volumes as a result of acquisitions made in 2H17 as discussed above.
- A \$6.1m increase in administrative expenses reflecting costs of the Company's acquisition efforts in 2017 and the investment made in staff and systems to support the Company's growth.

Refer to Note 4 for additional information regarding DGO's acquisitions.

### Finance costs

	Year ended		Year over Year	
	31 December 2017	31 December 2016	\$ Change	% Change
Interest	\$3,776	\$2,418	\$1,358	56.2%
Finance charge	140	48	92	191.7%
Bond financing costs	675	825	(150)	(18.2)%
Loan standby fee	597	—	597	100.0%
Loan management fee	37	—	37	100.0%
<b>Total finance costs</b>	<b>\$5,225</b>	<b>\$3,291</b>	<b>\$1,934</b>	<b>58.8%</b>
<b>Loss (gain) on early retirement of debt</b>	<b>\$4,468</b>	<b>\$(14,149)</b>	<b>\$18,617</b>	<b>131.6%</b>

DGO's finance costs include interest expense on borrowings and non-cash amortization of deferred financing costs. In June 2017 the Company closed a new \$110.0m senior secured credit facility, of which, \$64.0m was drawn at closing of the Titan acquisition on 30 June 2017 and a subsequent draw of \$11.0m on 30 September 2017, to partially fund the purchase of oil and gas assets. Interest expense on borrowings of \$3.8m in 2017 increased \$1.4m compared to \$2.4m in 2016 primarily due to the increase in borrowings.

In 1H17 and using the proceeds from our successful AIM IPO, DGO repaid its publicly traded bonds and other outstanding debt. Accordingly, DGO incurred a non-recurring loss on the early extinguishment of debt, which primarily included a \$3.8m charge for the accelerated amortization of the remaining deferred financing costs and \$0.6m in premiums paid to redeem convertible bonds prior to DGO's admission to AIM.

For more information on DGO's acquisitions, IPO and borrowings refer to Notes 4, 14 and 17, respectively.

### Income before taxation, EPS and Adjusted EBITDA

DGO reported income before taxation of \$4.7m in 2017 compared to \$32.5m in 2016, a decrease of 85%, and reported statutory earnings for 2017 per diluted ordinary share of \$0.07 compared to \$0.42 per diluted ordinary share in 2016. However, when adjusted for certain non-cash items such as gains on bargain purchases and similar items, DGO reported adjusted EBITDA per diluted ordinary share of \$0.15 per diluted ordinary share, a 50% increase over the prior year's \$0.10 adjusted EBITDA per diluted ordinary share. DGO's adjusted EBITDA for 2017 was \$17.5m, a 307.6% increase over \$4.3m in 2016. Refer to Note 7 for additional information regarding DGO's adjusted EBITDA.

### Principal risks and uncertainties

See Director's Report for principal risks and uncertainties.

### Conclusion

In summary, 2017 has been truly transformational for the Company. We delivered on the strategic, corporate and operational objectives that we defined at the time of obtaining our admission to AIM in February 2017. We entered 2018 in a strong position and I could not be more pleased with our strategic additions of Alliance Petroleum and conventional Appalachian assets from CNX. While we are pleased to become the largest producer on AIM, we remain ever mindful of the importance of successfully executing on our day-to-day commitment to efficiently operate our wells to generate dividends and equity returns for shareholders. I wish to extend my gratitude to our shareholders who have demonstrated confidence in our defined strategy, management team and our focus on additional growth. I would also like to thank my colleagues for their hard work and commitment, without which we would not have been able to deliver such impressive growth. We are wholly focused on delivering value for all our stakeholders as we leverage the strong platform that we have created.



Rusty Hutson Jr. Chief Executive Officer

# BOARD OF DIRECTORS



## DIVERSIFIED CORPORA



### FROM LEFT TO RIGHT

Martin Thomas  
*Independent Non-Executive Director*

Robert Post  
*Non-Executive Chairman*

Rusty Hutson, Jr.  
*Chief Executive Officer*

Bradley Gray  
*Chief Operating Officer & Finance Director*

David Johnson  
*Senior Independent Non-Executive Director*



GAS & OIL  
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*"An important aspect of successfully executing our strategy is ensuring we have leadership and management teams with the skills and experience necessary to oversee our rapid expansion."*

*Rusty Hutson, Jr.  
Chief Executive Officer*

# DIRECTORS' REPORT



Robert M. Post *Chairman of the Board*

*The Directors present their report on DGO, together with the audited Consolidated Financial Statements for the year ended 31 December 2017.*

#### **Review of business, outlook and dividends**

Details of DGO's progress during the year and its future prospects, including its intended dividend strategy, are provided in the Chairman's Statement and Business Review on pages 6 to 15.

#### **Financial instruments**

Details of DGO's principal risks and uncertainties relating to financial instruments are detailed below and in Note 22 to the Consolidated Financial Statements.

#### **Risk management**

Risk management is integral to all of DGO's activities. Each member of executive management is responsible for continuously monitoring and managing risk within the relevant business areas. Every material decision is preceded by an evaluation of applicable business risks. Reports on DGO's risk exposure and reviews of its risk management are regularly undertaken and presented to the Board of Directors.

## Principal risks and uncertainties

### DGO may not successfully manage its growth

Expansion of the business of DGO may place additional demands on the management, administrative and technological resources, and may require additional capital expenditure. If DGO is unable to manage any such expansion effectively, then this may adversely impact the business, future development, financial condition, results of operations, prospects, profits, cash flow and reputation of DGO. DGO's growth and future success will be dependent to some extent on the successful completion of such expansion strategies proposed to be undertaken. The execution of DGO's expansion strategies may also place a strain on its managerial, operational and financial reserves. Should DGO fail to implement such expansion strategies, DGO's business operations, financial performance and prospects may be adversely affected.

### Changes in natural gas and crude oil commodity pricing environment

Changes in commodity pricing may affect the value of DGO's natural gas and oil reserves, operating cash flow and adjusted EBITDA regardless of operating performance. DGO could be affected by unforeseen events outside of its control including economic and political events and trends, inflation and deflation, terrorist attacks or currency exchange fluctuation. The combined effect of these factors is difficult to predict and DGO could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors in any jurisdiction in which DGO may operate. Deterioration in the economic climate could result in a delay or cancellation of DGO's plans and strategies. DGO's management can mitigate several of these risks and streamline cash flows with adequate derivatives in place.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk and other price risk, for example, commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns.

### Liquidity risk

Liquidity risk arises from DGO's ability to generate cash flows from operations to fund its business requirements or to create access to non-operational sources of funding. This risk can result in DGO's difficulty in meeting its financial obligations as they become due. The Directors continually review the cash available to the Company and seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs.

### Environmental risk

DGO's operations are subject to environmental regulation in all the jurisdictions in which it operates. DGO is 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 DGO's operations. There can be no assurance that such new environmental legislation once implemented will not oblige DGO to incur significant expenses and undertake significant investments.

# DIRECTORS' REPORT

## CONTINUED

### Directors

The Directors who served during the year are set out on page 82. The Directors' beneficial interests in DGO's share capital on 31 December 2017 were as follows (based on the issued share capital at that time):

	Appointed	Ordinary shares of 1p	% of issued share capital
Robert M. Post	31/07/2014	20,000,000	13.8 %
Robert R. Hutson, Jr.	31/07/2014	20,000,000	13.8 %
Bradley G. Gray	24/10/2016	2,210,481	1.5 %
Martin K. Thomas	01/01/2015	2,033,500	1.4 %
David E. Johnson	03/02/2017	133,500	0.1 %
		<b>44,377,481</b>	<b>30.6%</b>

### Directors' remuneration

The remuneration paid to the directors (who are key management personnel) for the years ended 31 December 2017 and 2016 is shown below:

Year ended 31 December 2017		Type	Note	Salaries and benefits	Other remuneration	Director remuneration	Total
				\$ '000	\$ '000	\$ '000	\$ '000
Robert M. Post	Non-Executive	a	66	280	17	363	
Martin K. Thomas	Non-Executive	b	—	—	63	63	
David E. Johnson	Non-Executive		—	—	59	59	
Robert R. Hutson, Jr.	Executive	a	390	245	—	635	
Bradley G. Gray	Executive	c	377	148	—	525	
			<b>833</b>	<b>673</b>	<b>139</b>	<b>1,645</b>	

Year ended 31 December 2016		Type	Note	Salaries and benefits	Other remuneration	Director remuneration	Total
				\$ '000	\$ '000	\$ '000	\$ '000
Martin K. Thomas	Non-Executive	b	—	—	70	70	
Bradley G. Gray	Executive	c	54	351	—	405	
Robert R. Hutson, Jr.	Executive		122	—	—	122	
Robert M. Post	Executive		67	—	—	67	
			<b>243</b>	<b>351</b>	<b>70</b>	<b>664</b>	

(a) On 1 July 2017, Robert M. Post became the Company's Non-Executive Chairman. Other remuneration for 2017 for Robert M. Post and Robert R. Hutson, Jr. includes reimbursement of one-time expenses incurred as a result of the contribution of assets from individually owned entities to Diversified Gas & Oil Corporation.

(b) Martin K. Thomas is a Partner at Watson Farley & Williams LLP, UK legal advisor to DGO.

(c) Effective 24 October 2016, DGO issued 2,210,481 ordinary shares of £0.01 each to Bradley G. Gray as non-cash salary compensation. The total salary expenses related to the issuance of ordinary shares totaled \$351 thousand. Other remuneration includes reimbursement of expenses incurred as a result of the ordinary share issuance in 2016.



### Subsequent events

Refer to Note 25 of the consolidated financial statements.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare DGO's Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of DGO at the end of the financial year and of the profit or loss of DGO for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRS's as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that DGO will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain DGO's transactions and disclose with reasonable accuracy the financial position of DGO and enable them to ensure that the Financial Statements comply with the Companies Act of 2006. They are also responsible for safeguarding the assets of DGO and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the strategic report and director's report and other information included in the annual report and financial statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the website is the responsibility of the Directors. DGO's website is compliant with AIM Rule 26.

The work carried out by the auditors does not involve consideration of information included on DGO's website and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the Financial Statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

### Provision of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which DGO's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board and signed on its behalf.



Robert M. Post *Chairman of the Board*

# DIRECTORS' REPORT

## CONTINUED

### Substantial shareholders

As at 30 April 2018, the Company has received notification from the following shareholders of interests in excess of 3% of the Company's issued Ordinary Shares with voting rights (being 311,476,087):

Shareholder	Ordinary shares of 1p	% of issued share capital
Sand Grove Capital Management	37,651,128	12.09 %
Premier Fund Managers	23,870,000	7.66 %
GLG Partners	23,223,326	7.46 %
Rusty Hutson (Director)	20,000,000	6.42 %
Robert Post (Director)	20,000,000	6.42 %

### Going concern

The Directors have given careful consideration to the appropriateness of the going concern basis in the preparation of the financial statements. The validity of the going concern concept is dependent on funding being available for the working capital requirements of the Group in order to finance the continuing development of its existing projects. Sufficient funds are available in the short term to fund the working capital requirements of the Group. The Directors believe that this will enable the Group to continue in operational existence for the foreseeable future and to continue to meet obligations as they fall due. Further information in respect of going concern considerations is set out in Note 2.

### Annual General Meeting

The AGM of the Company will be held in London on 29 May 2018. In addition to the usual business to be dealt with at the AGM, the Notice contains special business relating to:

- the renewal of authority for the Board to allot shares;
- the dis-application of statutory pre-emption rights on equity issues for cash.

Full details of these proposals are set out in the Notice of Annual General Meeting at the end of this document.

Shareholders should complete the proxy form received either by post or electronically in CREST in accordance with the Notes contained in the Notice of Annual General Meeting. The Notice of the Annual General Meeting and Proxy Form are available on the Company's website [www.dgoc.com](http://www.dgoc.com).

By Order of the Board,



Robert M. Post Chairman of the Board

# CORPORATE GOVERNANCE STATEMENT

**DGO's success is directly linked to sound and effective governance and we remain committed to achieving high standards in all we do. The Directors recognise the importance of sound corporate governance and have developed governance policies appropriate for the size of the group, with reference to the main provisions of the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance.**

As DGO grows, the Directors and Executive Management continue to review and adjust our approach and make ongoing improvements to the Company's policies and procedures as part of building a successful and sustainable company. Good governance creates the opportunity for appropriate decisions to be made by the right people at the right time.

The Board is responsible for the direction and overall performance of DGO with emphasis on policy and strategy, financial results and major operational issues. During the year, the matters reserved for the Board's decision have been reviewed and formally documented. Specific matters for the Board's consideration include:

- approval of DGO's strategic plan;
- review of performance of DGO's strategy, objectives, business plans and budgets;
- approval of DGO's operating and capital expenditure budgets and any material changes to them;
- material changes to DGO's corporate structure and management and control structure;
- changes to governance and business policies;
- ensuring an effective system of internal control and risk management;
- approval of half yearly and annual report and accounts and preliminary announcements of final year results;
- reviewing the effectiveness of the Board and its Committees.

The Board delegates matters not reserved for the Board to the executive management team.

## **Board effectiveness, composition and independence of the Board**

The QCA Guidelines recommend that at least one-third of Board members should be non-executive Directors.

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

During the year ended 31 December 2017, the Board comprised a Non-Executive Chairman, Chief Executive Officer, Chief Operating Officer and two Non-Executive Directors. The skills and experience of the Non-Executive Directors are wide and varied and they provide constructive challenge in the boardroom.

The Board provides effective leadership and overall management of the Group's affairs. The Board approves the Group's strategy and investment plans and regularly reviews operational and financial performance and risk management matters. A schedule of matters reserved for Board decision is maintained. This includes the approval of business plans, the annual budget, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements.

The Board holds scheduled meetings each year. Additional meetings are held where necessary to consider matters of importance which cannot be held over until the next scheduled meeting.

The Board delegates certain of its responsibilities to the Board committees, listed below, which have clearly defined terms of reference.

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

The Company's Articles of Association requires one-third of the Directors to retire by rotation at each Annual General Meeting ("AGM") of the Company and each may be re-elected. Furthermore, every Director must stand for re-election once every three years. The Company's Articles also require any new Director appointed by the Board during the year to retire at the next AGM.

### **The Audit Committee**

Membership of the committee comprises Bradley Gray (Chairman), David Johnson and Martin Thomas. The committee meets at least twice per year.

The audit committee's main functions include, inter alia, reviewing and monitoring internal financial control

systems and risk management systems on which DGO is reliant, considering annual and interim accounts and audit reports, making recommendations to the Board in relation to the appointment and remuneration of DGO's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications.

The committee, with management, reviews the effectiveness of internal controls.

The Board has undertaken a formal assessment of the auditor's independence and will continue to do so at least annually. This assessment includes:

- a review of non-audit services provided to DGO and the related fees;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and parties and staff involved in the audit; and
- obtaining confirmation from the auditor that, in their professional judgement, they are independent.

### **The Remuneration Committee**

Membership of the committee comprises David Johnson (Chairman), Robert Post and Martin Thomas, and meets as often as required to enable the remuneration committee to fulfill its obligations to DGO.

The remuneration committee will be responsible for reviewing the performance of the Chairman and the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of DGO. The remuneration committee will also approve the design of and determine targets for any performance-related pay schemes operated by DGO.

### **Relations with Shareholders**

The Directors attach great importance to maintaining good relationships with shareholders. Extensive information about the Company's activities is included in the Annual Report & Accounts and the Interim Report. The Company also issues regular updates to shareholders.

Market sensitive information is notified in accordance with the AIM Rules of the London Stock Exchange and the Market Abuse Regulation. The Group is active in communicating with both its institutional and private

shareholders. The AGM provides an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities. The Company presents at conferences and maintains a corporate website where information on the Company is regularly updated, including Annual and Interim Reports and all announcements.

### Internal controls

The Board is responsible for DGO's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of DGO. Any internal control system can only provide reasonable, but not absolute assurance against material misstatement or loss.

Given the size of DGO, there is currently no need for an internal audit function.



# INDEPENDENT AUDITOR'S REPORT

## Opinion

We have audited the financial statements of Diversified Gas & Oil PLC (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group income statement and statement of comprehensive income for the year ended 31 December 2017;
- the Group and parent company statements of financial position as at 31 December 2017;
- the Group statement of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

### MATERIALITY

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be \$4,600,000, based on a 2% percentage of Group total assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of \$230,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

### OVERVIEW OF THE SCOPE OF OUR AUDIT

There are two components of the group, Diversified Gas & Oil PLC as an entity and the US group, which are accounted for out of a single location and have the same accounting systems and processes and therefore is considered a single component. The audit of Diversified Gas & Oil PLC was conducted from the UK, transactions

are limited to administrative and professional fees and transactions involving the companies' equity. We obtained audit evidence for these transactions from management. We engaged a member firm of the Crowe Horwath International network to undertake the audit work on the US group under our direction. We held discussions with them regarding the audit approach at the planning stage and we issued instructions to the network firm that detailed the significant risks to be addressed through the audit procedures and indicated the information we required to be reported, we reviewed their working papers and discussed key findings directly with them to form conclusions.

### KEY AUDIT MATTERS

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

This is not a complete list of all risks identified by our audit.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our

# INDEPENDENT AUDITOR'S REPORT

## CONTINUED

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Acquisition of oil &amp; gas assets</b></p> <p>During the year the group has made three acquisitions of oil and gas assets. The accounting for these has a significant impact on the group assets, liabilities and result. We considered the risk the accounting for the acquisitions was materially misstated.</p>	<p>The acquisitions were considered business combinations by management and therefore IFRS 3 was applied. We reviewed the purchase price allocation performed by management and agreed material items to supporting documentation and recalculated the bargain purchase arising and considered the adequacy of disclosures made.</p>
<p><b>Revenue recognition</b></p> <p>Revenue is a significant figure in these financial statements and is generated from various streams. The accounting policy is documented in note 2.</p>	<p>We designed procedures to test each different revenue stream and to consider whether the revenue recognition policy applied to the revenue stream was appropriate. Our testing in this area included examining individual wells and agreeing that revenue was appropriately recognised. This included cut off procedures.</p>

knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

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

In light of the knowledge and understanding of the group and the parent company and their environment obtained

in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors



are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Stephen Bullock** *Senior Statutory Auditor*

for and on behalf of  
**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

30 April 2018

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Revenue	5	41,777	17,088
Cost of sales	6	(20,908)	(11,303)
Depreciation and depletion	6	(7,013)	(4,039)
<b>Gross profit</b>		<b>13,856</b>	<b>1,746</b>
Administrative expenses	6	(8,919)	(2,813)
Gain on disposal of property and equipment		95	34
Loss on derivative financial instruments	20	(441)	(810)
Gain on bargain purchase	4	11,603	24,293
<b>Operating profit</b>		<b>16,194</b>	<b>22,450</b>
Finance costs	17	(5,225)	(3,291)
(Loss) gain on early retirement of debt	17	(4,468)	14,149
Accretion of decommissioning provision	15	(1,764)	(797)
<b>Income before taxation</b>		<b>4,737</b>	<b>32,511</b>
Taxation on income	8	4,138	(14,829)
<b>Income after taxation available to ordinary shareholders</b>		<b>8,875</b>	<b>17,682</b>
Other comprehensive income – gain on foreign currency conversion		355	901
<b>Total comprehensive income for the year</b>		<b>9,230</b>	<b>18,583</b>
<b>Earnings per ordinary share – basic &amp; diluted</b>	9	<b>0.07</b>	<b>0.42</b>
<b>Weighted average ordinary shares outstanding – basic</b>	9	<b>120,136</b>	<b>42,011</b>
<b>Weighted average ordinary shares outstanding – diluted</b>	9	<b>120,269</b>	<b>42,011</b>

The notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Oil and gas properties, net	11	190,358	76,793
Property and equipment, net	12	6,947	3,348
Other non-current assets		1,036	998
Restricted cash		744	117
<b>Total non-current assets</b>		<b>199,085</b>	<b>81,256</b>
<b>Current assets</b>			
Trade receivables	13	13,917	3,084
Other current assets		513	1,311
Cash and cash equivalents		15,168	224
<b>Total current assets</b>		<b>29,598</b>	<b>4,619</b>
<b>Total Assets</b>		<b>228,683</b>	<b>85,875</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	14	1,940	669
Share premium		76,026	313
Merger reserve		(478)	(478)
Share based payment reserve	10	59	—
Retained earnings		12,112	8,658
<b>Total Equity</b>		<b>89,659</b>	<b>9,162</b>
<b>Non-current liabilities</b>			
Decommissioning liability	15	35,448	12,265
Capital lease	16	836	274
Borrowings	17	70,619	10,113
Deferred tax liability	8	11,011	15,148
Other non-current liabilities	18	5,764	414
<b>Total non-current liabilities</b>		<b>123,678</b>	<b>38,214</b>
<b>Current liabilities</b>			
Trade and other payables	19	2,132	4,627
Borrowings	17	373	27,181
Capital lease	16	324	169
Other current liabilities	18	12,517	6,522
<b>Total current liabilities</b>		<b>15,346</b>	<b>38,499</b>
<b>Total Liabilities</b>		<b>139,024</b>	<b>76,713</b>
<b>Total Equity and Liabilities</b>		<b>228,683</b>	<b>85,875</b>

The notes are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 28 April, 2018 and were signed on its behalf by:



Robert M. Post Chairman of the Board

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Share Capital \$'000	Share Premium \$'000	Merger Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 January 2017</b>		669	313	(478)	—	8,658	9,162
Income after taxation		—	—	—	—	8,875	8,875
Gain on foreign currency conversion		—	—	—	—	355	355
<b>Total comprehensive income</b>		—	—	—	—	9,230	9,230
Issuance of share capital, initial offering	14	768	43,550	—	—	—	44,318
Issuance of share capital, secondary offering	14	503	32,163	—	—	—	32,666
Equity compensation		—	—	—	59	—	59
Dividends authorized and declared	10	—	—	—	—	(5,776)	(5,776)
<b>Transactions with shareholders</b>		1,271	75,713	—	59	(5,776)	71,267
<b>Balance at 31 December 2017</b>		1,940	76,026	(478)	59	12,112	89,659

	Note	Share Capital \$'000	Share Premium \$'000	Merger Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 January 2016</b>		630	—	(478)	—	(8,969)	(8,817)
Income after taxation		—	—	—	—	17,682	17,682
Gain on foreign currency conversion		—	—	—	—	901	901
<b>Total comprehensive income</b>		—	—	—	—	18,583	18,583
Stockholder distributions pre-group reconstruction		—	—	—	—	(956)	(956)
Issuance of share capital	14	39	313	—	—	—	352
<b>Transactions with shareholders</b>		39	313	—	—	(956)	(604)
<b>Balance at 31 December 2016</b>		669	313	(478)	—	8,658	9,162

The notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOW

## FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Note</b>		
<b>Cash flows from operating activities</b>		
Income after taxation	8,875	17,682
Cash flow from operations reconciliation:		
Depreciation and depletion	7,013	4,039
Accretion of decommissioning provision	15 1,764	797
Deferred income taxes	8 (4,137)	14,829
Provision for working interest owners receivable	13 632	—
Loss on derivative financial instruments	20 1,965	957
Gain on oil and gas program	(396)	(84)
Gain on bargain purchase	4 (11,603)	(24,293)
Gain on debt cancellation	17 —	(14,149)
Deferred financing expense	4,510	3,291
Gain on disposal of property and equipment	12 95	(34)
Non-cash equity compensation	59	340
Working capital adjustments:		
Change in trade receivables	(11,465)	(907)
Change in other current assets	798	(269)
Change in other assets	(38)	(652)
Change in trade and other payables	(2,495)	2,662
Change in other liabilities	11,345	920
<b>Net cash provided by operating activities</b>	<b>6,922</b>	<b>5,129</b>
<b>Cash flows from investing activities</b>		
Expenditures on oil and gas properties	11 (88,267)	(7,838)
Expenditures on property and equipment from acquisitions	(2,500)	(600)
Expenditures on property and equipment	(1,953)	(862)
Plugging and abandonment	(78)	—
Increase in restricted cash	(627)	(2)
Proceeds on disposal of oil and gas properties	334	93
<b>Net cash used in investing activities</b>	<b>(93,091)</b>	<b>(9,209)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	17 75,000	14,915
Repayment of borrowings	17 (42,514)	(6,794)
Financing expense	(3,298)	(3,222)
Proceeds from capital lease	1,246	435
Repayment of capital lease	(529)	(164)
Proceeds from equity issuance, net	76,984	—
Dividends to shareholders	(5,776)	(956)
<b>Net cash provided by financing activities</b>	<b>101,113</b>	<b>4,214</b>
Net increase in cash and cash equivalents	14,944	134
Cash and cash equivalents – beginning of the period	224	90
<b>Cash and cash equivalents – end of the period</b>	<b>15,168</b>	<b>224</b>

The notes are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

## Note 1 – General Information

Diversified Gas & Oil PLC (“DGO” or the “Company”) 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. The Company’s assets are exclusively located within the Appalachian Basin of the United States. The Company is headquartered in Birmingham, Alabama, USA with field offices located in the states of Pennsylvania, Ohio, West Virginia and Tennessee. DGO was incorporated on 31 July 2014 in England and Wales as a private limited company under company number 09156132. DGO’s registered office is located at 27/28 Eastcastle Street, London W1W 8DH, United Kingdom. In February 2017, the Company’s ordinary shares were admitted to trading on AIM under the ticker “DGOC.”

## Note 2 – Accounting Policies

### Basis of Preparation and Measurement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), issued by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU.

Unless otherwise stated, the consolidated financial statements are presented in US Dollars, which is the currency of the primary economic environment in which DGO operates, and all values are rounded to the nearest thousand dollars except per unit amounts and where otherwise indicated.

Certain prior period amounts within the Revenue and Expense accounts have been reclassified to conform with current presentation as follows:

- Operator revenue of \$1,191 has been reclassified as reductions in operator expenses included in Cost of sales. This represents operator expenses recharged to and recovered from holders of working interests.
- Salaries and benefits of \$273 have been reclassified from Cost of sales to Administrative expenses. This represents salaries and benefits for certain corporate employees that were recorded in Cost of sales.

The impact of these changes in presentation is to increase previously recorded Gross profit for 2016 by \$273, to increase previously reported gross profit margin for 2016 from 8.1% to 10.2% and to increase previously reported Administrative expenses for 2016 by \$273. The impact of the change in the presentation basis in 2017 is to reduce each of reported Revenue and Cost of sales by \$3,443, to report a current year gross margin of 33.2% compared to 28.3% which would have been reported under the presentation basis previously adopted and to increase reported Administrative expenses for 2017 by \$1,073 compared to the presentation basis previously adopted.

Transactions in foreign currencies are translated into US Dollars 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 Consolidated Statements of Profit or Loss and Other

## Note 2 – Accounting Policies – continued

Comprehensive Income within Other comprehensive income – gain on foreign currency conversion.

The consolidated financial statements have been prepared under the historical cost convention, except for acquisitions and derivative financial instruments that have been measured at fair value through profit and loss.

The consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business. The Directors have reviewed DGO's overall position and outlook and are of the opinion that DGO is sufficiently well funded to be able to operate as a going concern for at least the next twelve months from the date of approval of these consolidated financial statements.

### Basis of Consolidation

The consolidated financial statements reflect the following corporate structure of DGO:

Diversified Gas & Oil PLC, and its wholly owned subsidiary,

- Diversified Gas & Oil Corporation ("DGO") as well as its, direct and indirect, wholly owned subsidiaries,
  - Diversified Resources, Inc.;
  - M & R Investments, LLC;
  - M & R Investments Ohio, LLC;
  - Marshall Gas and Oil Corporation;
  - R&K Oil and Gas, Inc.;
  - Fund 1 DR, LLC;
  - Diversified Oil & Gas, LLC;
  - Diversified Appalachian Group, LLC;
  - Diversified Energy, LLC;
    - Diversified Partnership Holdings, LLC
    - Diversified Partnership Holdings II, LLC
    - Atlas Energy Tennessee, LLC
      - Atlas Pipeline Tennessee, LLC

### New Standards and Interpretations

Effective 1 January 2017, the Company adopted Amendments to IAS 7 – Statement of Cash Flows. The adoption did not have an impact on the Company's consolidated financial statements or material impact to the financial statement disclosures.

### Not Yet Adopted

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 incorporates the three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Except for hedge accounting, the standard should be applied using the retrospective application. This standard will be effective on or after 1 January 2018.

The Company adopted the new standard on 1 January 2018. The Company does not expect the adoption of this standard will have a material impact on its financial statements.

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

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard

will supersede all current revenue recognition requirements under IFRS when it becomes effective. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoptions. This standard will be effective on or after 1 January 2018.

The Company adopted the new standard on 1 January 2018 using the modified retrospective method at the date of adoption. The Company does not expect the adoption of this standard will have a material impact on its financial statements.

#### *IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 *Leases*. The standard establishes the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard requires all lease transactions (with terms in excess of 12 months) to be recognized on the balance sheet as lease assets and lease liabilities, and to depreciate lease assets separately from interest on lease liabilities in the income statement. IFRS 16 replaces the previous lease standard, IAS 17 *Leases*, and related interpretations. This standard will be effective on 1 January 2019. Early adoption is permitted only if the Company also applies IFRS 15 *Revenue from Contracts with Customers*. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoption. To date, the Company has not yet concluded on the impact of this standard.

### **Significant Accounting Policies**

The preparation of the consolidated financial statements in compliance with IFRS as adopted by the EU requires the Directors to exercise judgment in applying DGO's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3 to these consolidated financial statements.

### **Cash**

Cash on the balance sheets comprise cash at banks. Balances held at banks, at times, exceed federally insured amounts. DGO has not experienced any losses in such accounts and the Directors believe DGO is not exposed to any significant credit risk on its cash. At 31 December 2017 the Company's cash balance was \$15,168.

For the purpose of the consolidated cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above.

### **Trade receivables**

Trade receivables are stated at the historical carrying amount, net of any provisions required. 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 DGO's trade receivables. Any changes in the Directors' provision for un-collectability of trade receivables during the year is recognized in the Statements of Profit or Loss and Other Comprehensive Income. Trade receivables also include certain receivables from third-party working interest owners. The Company consistently assesses the collectability of these receivables. At 31 December 2017, the Company considered a portion of these working interests receivables uncollectable and recorded a provision in the amount of \$632.

### **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 DGO's exposure to these risks are detailed in Note 22. DGO 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 recognized at fair value at the date contract is entered into and remeasured to fair value every balance sheet date. The resulting gain or loss is recognized in the Statement of Profit or Loss and Other Comprehensive Income in the year incurred.



## Note 2 – Accounting Policies – continued

### Restricted cash

Cash held on deposit for bonding purposes is classified as restricted cash and recorded within non-current assets. The cash is restricted in use by state governmental agencies to be utilised and drawn upon if the operator should abandon any wells or is being held as collateral by the Company's surety bond providers. At 31 December 2017 and 2016, the Company's restricted cash balance was \$744 and \$117, respectively.

### 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, is 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*

DGO follows IFRS 6 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 capitalized. Historically, the expenditures related to exploration and evaluation have not been material, as DGO 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.

### 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 and equipment initially recognized 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:

	<u>Years</u>
Buildings and leasehold improvements	7 – 15
Drilling costs and equipment	10 – 39
Motor vehicles	5 – 7
Other property and equipment	3 – 5

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

### **Impairment of non-financial assets**

At each reporting date, the Directors assess whether indications exist that an asset may be impaired. If indications do exist, 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 utilize an appropriate valuation model.

When applicable, DGO recognizes 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.

### **Leases**

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

### **Decommission liability**

Where a material liability for the removal of production equipment and site restoration at the end of the production life of a well exists, the Directors recognize a liability for decommissioning. The amount recognized 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 recognize changes in estimates prospectively, with corresponding adjustments to the liability and the associated non-current asset.

### **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 realized or the deferred liability is settled.

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

#### *Income taxation*

Current income tax assets and liabilities for the year ended 31 December 2017 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 DGO operates and generates taxable income.

## Note 2 – Accounting Policies – continued

### Revenue recognition

#### *Natural gas and crude oil*

Revenue from sales of natural gas and crude oil products is recognized when the significant risks and rewards of ownership have been transferred, which is when title transfers to the customer. This transfer generally occurs when product is physically transferred into a vessel, pipe, sales meter or other delivery mechanism.

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

#### *Operator revenue*

Revenue from the operation of third-party wells is recognized as earned in the month work is performed and consistent with DGO's contractual obligations.

Certain prior period amounts for operator revenue have been reclassified to conform with current presentation.

#### *Oil & gas program revenue*

Revenue from sales of working interest ownership in DGO's operated wells is recognized as earned in the month the ownership transfers to or from the third-party working interest investors.

#### *Water disposal revenue*

Revenue from the sale of water disposal services to third-parties into DGO's disposal well is recognized as earned in the month the water was physically disposed.

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

### Functional currency and foreign currency translation

The consolidated financial statements are presented in United States Dollars ("USD"), which is DGO's functional currency.

The standalone parent company financial statements are presented in Pounds Sterling ("£"), which is the currency of the primary economic environment in which it operates.

The results and financial position of all DGO entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and all resulting exchange differences are recognized in other comprehensive income.

On consolidation, DGO recognizes in other comprehensive income the exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future.

### Segment reporting

DGO 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 United States of America.

### **Note 3 – Significant Accounting Judgments, Estimates and Assumptions**

DGO has made the following judgments which may have a significant effect on the amounts recognized in the consolidated audited financial information:

#### **Valuation of intangible oil and gas assets on acquisition**

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. An assessment of the value of these proved reserves on acquisition is produced, considering the discounted cash flows of production to a present value ("PV"). DGO uses a discount factor ranging between 10% and 35% for acquisitions of oil and gas assets, depending on the market conditions at the time of the transaction as well any additional risk factors arising in the specific transaction, to best obtain a fair value estimate of oil and gas properties.

#### **Impairment indicators for oil and gas properties**

Following a review by the Directors of ongoing operational performance of DGO's natural gas and crude oil properties for the year ended 31 December 2017, the Directors are of the opinion that no impairment indicators are apparent for these assets.

#### **Reserve estimates**

Reserves are estimates of the amount of natural gas and crude oil product that can be economically and legally extracted from DGO's properties. To calculate the reserves, significant 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 analyzing 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 of 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.

#### **Decommissioning 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 15 for more information.

### **Note 4 – Acquisitions**

The assets acquired in all acquisitions include the necessary permits, rights to production, royalties, contracts and agreements that support the production from the wells. The Company accounts for business acquisition under IFRS 3. The acquisitions gave rise to bargain purchases due to the prevailing market conditions in the Appalachian Basin, the context of global oil and gas prices, the financial condition of the sellers, and a change in the operational focus of the sellers compelling these sellers to divest of their conventional oil and gas assets.

**Note 4 – Acquisitions – continued****2017 Acquisitions***EnerVest Acquisition*

In April 2017, DGO acquired approximately 1,300 conventional natural gas and oil wells in Ohio and equipment from EnerVest. The Company paid in cash the consideration totaling \$1,750. Management considered the fair value of the reserves held in the assets acquired to be \$5,629, which was the 30% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	<u>\$'000</u>
Oil and gas properties	5,629
Oil and gas properties (Decommissioning provision, asset portion)	2,406
Decommissioning liability	(2,406)
Gain on bargain purchase	(3,879)
<b>Purchase price</b>	<u><b>1,750</b></u>

*Titan Energy Acquisition*

In June 2017, DGO acquired approximately 8,380 producing conventional natural gas and oil wells in the states of Pennsylvania, Ohio, and Tennessee (including approximately 1,140 non-operated wells) and equipment from Titan Energy. The Company paid total consideration of \$84,200, excluding customary purchase price adjustments. The cash consideration for the purchase was funded by a new \$110,000 Senior Secured Loan Facility, of which, \$64,000 was drawn at closing on 30 June 2017, and an equity placing of DGO's stock. DGO placed 39,300 new ordinary shares at \$0.89 per share with certain existing and new institutional investors to raise \$35,020. The equity placing occurred in two tranches of 11,400 shares which raised \$10,158 and 27,900 shares were placed with the second tranche, which raised \$24,862.

Management determined the fair value of the reserves held in the assets acquired on 30 June 2017 to be \$85,392, which was approximately 25% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	<u>\$'000</u>
Oil and gas properties	85,392
Oil and gas properties (Decommissioning provision, asset portion)	16,366
Other PPE	1,752
Decommissioning liability	(16,366)
Other liabilities	(2,279)
Gain on bargain purchase	(7,522)
<b>Purchase price</b>	<u><b>77,343</b></u>

### *NGO Acquisition*

In November 2017, DGO acquired approximately 550 wells in Central Ohio from NGO Development Corporation, Inc. The Company paid cash consideration totaling \$3,114. Management determined the fair value of the reserves held in the assets acquired to be \$3,003, which was approximately 25% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	<u>\$'000</u>
Oil and gas properties	3,003
Oil and gas properties (Decommissioning provision, asset portion)	818
Other PPE	352
Decommissioning liability	(818)
Other liabilities	(39)
Gain on bargain purchase	(202)
<b>Purchase price</b>	<u><b>3,114</b></u>

### **2016 Acquisitions**

#### *Eclipse Resources Acquisition*

In April 2016, DGO acquired 1,300 conventional natural gas and oil wells in Ohio and equipment from Eclipse Resources. The Company paid consideration totaling \$4,800, including cash of \$1,300 and a short-term note payable of \$3,500. Management determined the fair value of the reserves held in the assets acquired to be \$11,774, which was approximately 30% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	<u>\$'000</u>
Oil and gas properties	11,774
Oil and gas properties (Decommissioning provision, asset portion)	2,443
Equipment	757
Decommissioning liability	(2,443)
Other liabilities	(89)
Gain on bargain purchase	(7,642)
<b>Purchase price</b>	<u><b>4,800</b></u>

**Note 4 – Acquisitions – continued***Seneca Resources Corporation Acquisition*

In June 2016, DGO acquired 2,200 conventional natural gas and oil wells in Pennsylvania from Seneca Resources Corporation. The Company paid consideration including cash financed by a short-term note payable of \$3,500 and an interest free obligation to the seller of \$3,550. Management determined the value of the reserves held in the assets acquired was \$23,620, which was approximately 35% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	<u>\$'000</u>
Oil and gas properties	23,620
Oil and gas properties (Decommissioning provision, asset portion)	4,249
Decommissioning liability	(4,249)
Gain on bargain purchase	(16,570)
<b>Purchase price</b>	<u><b>7,050</b></u>

**Subsequent Events**

In February 2018, DGO placed 166,400 new ordinary shares at \$1.13 per share with certain existing and new institutional investors to raise net proceeds of \$180,000 to fund the following acquisitions (see Note 14 for more information on share issuances):

*Acquisition of the stock of Alliance Petroleum Corporation*

In March 2018, DGO acquired the entire share capital of Alliance Petroleum Corporation, including approximately 13,000 conventional natural gas and oil wells in the states of Pennsylvania, West Virginia and Ohio and all other property and equipment. The Company paid consideration of \$95,000, excluding customary purchase price adjustments, including cash consideration of \$70,000 and the assumption of \$25,000 of outstanding debt (which was fully paid on the closing date). The Company funded the cash consideration for the purchase with the \$180,000 net proceeds from its equity placing of DGO's stock in February 2018. The Company is evaluating the fair value of the assets acquired and liabilities assumed and any necessary pro forma financial information.

*Acquisition of assets from CNX Resources LLC*

In March 2018, DGO acquired approximately 11,000 conventional natural gas and oil wells principally in the states of Pennsylvania and West Virginia and other equipment from CNX Resources LLC ("CNX"). The Company paid purchase consideration of \$85,000, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the \$180,000 net proceeds from its equity placing of DGO's stock in February 2018. The Company is evaluating the fair value of the assets acquired and liabilities assumed and any necessary pro forma financial information. Subsequent to the purchase of these assets, CNX agreed to retain a monthly tariff obligation applicable to the Appalachian assets that requires monthly cash payments to a pipeline transmission company through a portion of calendar year 2022. Tariff payments from the effective date of the purchase through their expiration in 2022 totaled \$27,000. In exchange for CNX retaining this \$27,000 pipeline tariff obligation, the Company paid CNX \$17,000. This one-time payment allows DGO to retain complete and uninterrupted access to the applicable pipeline system and eliminates the \$27,000 tariffs the Company would have paid over the remaining term.

## Note 5 – Revenue

DGO extracts and sells natural gas, natural gas liquids 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 the Company's revenue for the periods presented:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Natural gas	30,463	10,671
Oil	8,047	4,207
NGL	1,043	—
Total natural gas, oil and NGL	39,553	14,878
Operator	936	18
Oil and gas program	705	1,573
Water disposal	565	619
Other	18	—
<b>Total revenue</b>	<b>41,777</b>	<b>17,088</b>

A significant portion of DGO's trade receivables represent receivables related to either sales of oil and natural gas or operational services. Oil and natural gas trade receivables are generally uncollateralized.

During the year ended 31 December 2017, two customers individually totaled more than 10% of total revenues, totaling 25% and 17% and for the year ended 31 December 2016, three customers individually totaled more than 10% of total revenues, totaling 21%, 18% and 10%. All revenue was generated in the United States of America. Because alternative purchasers of oil and natural gas are readily available, the Company believes that the loss of any of these purchasers would not result in a material adverse effect on its ability to market future oil and natural gas production.

Certain prior period amounts of Operator revenue have been reclassified to conform with current presentation. See Note 2 for additional information regarding reclassifications.



**Note 6 – Expenses by Nature**

The following table provides a detail of the Company's expenses:

Explanation	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Employees and benefits	8,539	3,844
Automobile	1,441	797
Insurance	491	162
Production taxes	3,392	833
Gathering and transportation	1,925	—
Well operating expenses, net	5,120	5,667
<b>Total cost of sales</b>	<b>20,908</b>	<b>11,303</b>
Depreciation	1,469	756
Depletion	5,544	3,283
<b>Total depreciation and depletion</b>	<b>7,013</b>	<b>4,039</b>
Employees and benefits	2,655	646
Other administrative	1,525	301
Professional fees	360	272
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the group and the Company's annual accounts	55	34
Fees payable to the Company's auditor and its associates for other services		
Audit of the accounts of subsidiaries	125	247
Corporate finance services	73	42
Total auditors' remuneration	253	323
Rent	86	93
<b>Recurring administrative expenses</b>	<b>4,879</b>	<b>1,635</b>
Non-recurring costs associated with acquisitions & contribution of assets	3,349	838
Provision for working interest owners receivable	632	—
Non-cash equity compensation	59	340
<b>Non-recurring administrative expenses</b>	<b>4,040</b>	<b>1,178</b>
<b>Total administrative expenses</b>	<b>8,919</b>	<b>2,813</b>
<b>Total expenses</b>	<b>36,840</b>	<b>18,155</b>
<b>Aggregate remuneration (including Directors):</b>		
Wages and salaries	8,272	3,346
Payroll taxes	729	278
Benefits	2,252	1,206
<b>Total employees and benefits expense</b>	<b>11,253</b>	<b>4,830</b>
<b>Monthly average number of employees</b>	<b>162</b>	<b>81</b>

(a) The increase in expenses is primarily related to the oil and gas properties acquired during 2017. See Note 4 for more information about the Company's acquisitions.

- b) Non-cash equity issuance in 2017 reflects the expense recognition related to the issuance of restricted stock units to certain key managers. The expense for 2016 was a non-recurring expense related to the initial issuance of stock to a Company senior manager.

Details of the Directors' remuneration can be found in the Directors' Report.

Certain prior period amounts have been reclassified to conform with current presentation.

### Note 7 – Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure, which is of particular interest to the industry and Directors, as it is essentially the cash generated from operations that DGO has free for interest payments and capital investment. Adjusted EBITDA should not be considered as an alternative to operating profit (loss), comprehensive income, cash flow from operating activities or any other financial performance or liquidity measure presented in accordance with IFRS. Adjusted EBITDA is a non-IFRS financial measure that is defined as operating profit plus or minus items detailed below in the table below.

The Company believes Adjusted EBITDA is a useful measure because it enables a more effective way to evaluate operating performance and compare the results of operations from period-to-period and against its peers without regard to DGO's financing methods or capital structure. The Company excludes the items listed in the table below from operating profit in arriving at Adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired.

The following table reconciles operating profit to Adjusted EBITDA:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Operating profit</b>	<b>16,194</b>	<b>22,450</b>
Depreciation and depletion	7,013	4,039
Gain on bargain purchase	(11,603)	(24,293)
Gain on disposal of property and equipment	(95)	(34)
Loss on derivative financial instruments	1,965	957
Non-recurring costs associated with acquisitions & contribution of assets	3,349	838
Provision for working interest owners receivable	632	—
Non-cash equity issuance included in administrative expense	59	340
Total adjustments	1,320	(18,153)
<b>Adjusted EBITDA</b>	<b>17,514</b>	<b>4,297</b>
Weighted average ordinary shares outstanding – basic	120,136	42,011
Weighted average ordinary shares outstanding – diluted	120,269	42,011
<b>Adjusted EBITDA per share – basic and diluted</b>	<b>0.15</b>	<b>0.10</b>

**Note 8 – Taxation**

For taxable year ending 31 December 2016, all DGO subsidiaries became subject to U.S. federal and state income tax and began filing a consolidated U.S. federal and state income tax returns and several separate state income tax returns. Prior to this date, DGO subsidiaries had pass-through tax status. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to differences between the basis of assets and liabilities for financial and income tax reporting.

For the taxable years ending 31 December 2017 and 2016, DGO had tax benefits of \$4,137 and tax expenses of \$14,829, respectively. The effective tax rate was (81.2)% and 45.6%, respectively, for the same periods. The change in the effective tax rate was primarily related to a reduction in the U.S. rate applied to deferred tax liabilities, and was also impacted by recurring permanent differences including meals and entertainment, state taxes, and other deferred tax.

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 summarized below:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Current income tax expense</b>		
Federal	—	—
State	—	—
<b>Total current income tax expense</b>	<b>—</b>	<b>—</b>
<b>Deferred income tax (benefit) expense</b>		
Federal	(4,365)	13,168
State	228	1,661
<b>Total deferred income tax (benefit) expense</b>	<b>(4,137)</b>	<b>14,829</b>

The differences between the statutory federal income tax rate and the effective tax rate for the year ended 31 December 2017 are summarized below:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Expected tax at U.S. statutory income tax rate	1,731	34.0%
Increase (decrease) in tax resulting from:		
State income taxes, net of federal tax benefit	(90)	(1.8)%
Federal and state rate changes due to TCJA	(5,463)	(107.3)%
Federal credits	(250)	(4.9)%
Other – net	(65)	(1.3)%
<b>Total taxation on income</b>	<b>(4,137)</b>	<b>(81.2)%</b>

On 22 December 2017, the President of the United States signed into law the Tax Credits and Jobs Act ("TCJA") tax reform legislation. The legislation, among other things, (i) permanently reduces the U.S. corporate income tax rate, (ii) repeals the corporate alternative minimum tax, (iii) eliminates the deduction for certain domestic production activities, (iv) imposes new limitations on the utilization of net operating losses, and (v) provides for more general changes to the taxation of corporations, including changes to cost recovery rules and to the deductibility of interest expense, which may impact the taxation of oil and gas companies. The legislation reduces the U.S. corporate income tax rate from the current rate of 34% to 21% for the year ended 31 December 2018. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities at 22 December 2017. The revaluation of deferred taxes for the rate reduction resulted in \$5,463 of benefit to income tax expense. The other provisions of the TCJA are not expected to have a material impact on the Company's consolidated financial statements in future years.

The Company had a net deferred tax liability of \$11,011 and \$15,148 at 31 December 2017 and 2016, respectively. The decrease of \$4,137 primarily related to the reduction of the statutory U.S. tax rate from 34% to 21% following the enactment of the TCJA and 2017 acquisitions whereby bargain purchase gains were recorded for financial reporting purposes but not for tax purposes, which resulted in a deferred tax liability on acquired assets.

At 31 December 2017, DGO has unused net operating losses available of \$5,026 and \$3,615 for federal and states, respectively, that may be applied against future taxable income and that begin to expire in 2034.

The components of the net deferred income tax liability included in non-current liabilities are as follows:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Deferred tax assets</b>		
Decommissioning provision asset	9,133	4,696
Derivative adjustment	742	360
Allowance for doubtful accounts	166	—
Net operating loss carryforward	1,272	1,677
Federal tax credits carryover	250	—
Other	83	—
<b>Total deferred tax assets</b>	<b>11,646</b>	<b>6,733</b>
<b>Deferred tax liabilities</b>		
Depreciation	(22,657)	(21,562)
Foreign currency translation adjustment	—	(319)
<b>Total deferred tax liabilities</b>	<b>(22,657)</b>	<b>(21,881)</b>
<b>Net deferred tax liability</b>	<b>(11,011)</b>	<b>(15,148)</b>

For U.S. federal tax purposes, DGO is taxed as one consolidated entity, which includes its parent company, PLC. PLC is subject to additional taxes in its home jurisdiction of the United Kingdom. For the years ended 31 December 2017 and 2016, PLC did not incur any income tax liability in the United Kingdom.

### Note 9 – Earnings Per Share

The calculation of basic income/(loss) per ordinary share is based on the income/(loss) after taxation available to ordinary shareholders and on the weighted average number of ordinary shares outstanding during the period. The calculation of diluted income/(loss) per ordinary share is based on the income/(loss) after taxation available to ordinary shareholders and the weighted average number of ordinary shares outstanding plus the weighted average number of 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 income/(loss) per ordinary share is calculated as follows:

	Calculation	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Income after taxation available to ordinary shareholders</b>	A	8,875	17,682
Weighted average ordinary shares outstanding – basic	B	120,136	42,011
Weighted average ordinary shares outstanding – diluted	C	120,269	42,011
<b>Earnings per ordinary share – basic (\$)</b>	= A/B	<b>0.07</b>	<b>0.42</b>
<b>Earnings per ordinary share – diluted (\$)</b>	= A/C	<b>0.07</b>	<b>0.42</b>
<b>Adjusted EBITDA per ordinary share – basic &amp; diluted (\$)</b>	Note 7	<b>0.15</b>	<b>0.10</b>

### Note 10 – Dividends

The following table summarizes the Company's dividends paid and declared:

Date Declared	Dividend per Ordinary Share		Record Date	Pay Date	Shares Outstanding	Gross Dividends Paid \$'000
	USD \$	GBP £				
15 June 2017	0.0199	0.0155	07 July 2017	31 July 2017	145,076	2,888
11 September 2017	0.0199	0.0149	17 November 2017	20 December 2017	145,076	2,888
						<b>5,776</b>
3 April 2018	0.0345	Pending <sup>(a)</sup>	11 May 2018	31 May 2018	311,476	Pending <sup>(a)</sup>

- (a) Note that the Company declared its 2017 final dividend of \$0.0345 per share on 3 April 2018, which it expects to pay on the 311,476 ordinary shares in issue on 11 May 2018 representing a total dividend of approximately \$10,746. The dividend will be paid in US\$.

## Note 11 – Oil and Gas Properties

The following table summarizes the Company's oil and gas properties for each of the periods presented:

Period	Costs			Depletion and Impairment				Net Book Value \$'000	
	Beginning Balance \$'000	Additions <sup>(a)</sup>	Disposals	Ending Balance \$'000	Beginning Balance \$'000	Period Charges	Disposals		Ending Balance \$'000
As at and for the year ended 31 December 2017	94,608	120,037	(321)	214,324	(17,815)	(6,151)	—	(23,966)	<b>190,358</b>
As at and for the year ended 31 December 2016	56,659	41,077	(3,128)	94,608	(14,306)	(3,553)	44	(17,815)	<b>76,793</b>

a) See Note 4 for more information about the Company's acquisitions.

## Note 12 – Property and Equipment

The following table summarizes the Company's property and equipment for each of the periods presented:

Period	Plant, Property & Equipment			Accumulated Depreciation and Disposals				Net Book Value \$'000	
	Beginning Balance \$'000	Additions <sup>(a)</sup>	Disposals	Ending Balance \$'000	Beginning Balance \$'000	Period Charges	Disposals		Ending Balance \$'000
As at and for the year ended 31 December 2017	5,223	4,595	(142)	9,676	(1,875)	(862)	8	(2,729)	<b>6,947</b>
As at and for the year ended 31 December 2016	3,506	1,791	(74)	5,223	(1,395)	(486)	6	(1,875)	<b>3,348</b>

(a) Of the \$4,595 in additions, \$2,500 relates to equipment purchased through acquisitions. See Note 4 for more information about the Company's acquisitions.

### Note 13 – Trade Receivables

The majority of trade receivables are current and DGO believes these receivables are collectible. Trade receivables also include certain receivables from third-party working interest owners. The Company consistently assesses the collectability of these receivables. At 31 December 2017, the Company considered a portion of these working interests receivables uncollectable and recorded a provision in the amount of \$632.

	31 December 2017 \$'000	31 December 2016 \$'000
Trade receivables	13,917	3,084
<b>Total trade receivables</b>	<b>13,917</b>	<b>3,084</b>

### Note 14 – Share Capital

In February 2017, DGO placed 61,000 new ordinary shares at 65 pence per share to raise gross proceeds of \$49,563 (approximately £39,650). DGO used the funds raised for the repurchase of bonds, repayment of existing debt facilities, costs of admission to AIM and working capital requirements of the Company. Following this initial placing, and as discussed in Note 4, in June 2017, DGO issued an additional 39,300 ordinary shares at 70 pence per share to raise additional gross proceeds of \$34,938 (approximately £27,510) to fund part of the purchase price of an additional acquisition. The following table summarizes the Company's share capital for the periods presented:

	Number of Shares	Total Share Capital \$'000	Total Share Premium \$'000
<b>Balance at 1 January 2017</b>	<b>44,210</b>	<b>669</b>	<b>313</b>
Issuance of share capital, initial offering	61,381	768	43,550
Issuance of share capital, secondary offering	39,485	503	32,163
<b>Balance at 31 December 2017</b>	<b>145,076</b>	<b>1,940</b>	<b>76,026</b>
	Number of Shares	Total Share Capital \$'000	Total Share Premium \$'000
<b>Balance at 1 January 2016</b>	<b>41,200</b>	<b>630</b>	—
Issuance of share capital, Board Member <sup>a</sup>	800	12	—
Issuance of share capital, Chief Operating Officer & Finance Director <sup>b</sup>	2,210	27	313
<b>Balance at 31 December 2016</b>	<b>44,210</b>	<b>669</b>	<b>313</b>

(a) Effective 1 July 2016, DGO PLC issued 800,000 ordinary shares of £0.01 each to Martin K. Thomas.

(b) Effective 24 October 2016, DGO PLC issued 2,210,481 ordinary shares £0.01 each to Bradley G. Gray as non-cash salary compensation. These shares are subject to a vesting schedule over three years.

### *Subsequent Event*

In February 2018, DGO placed 166,400 new ordinary shares at \$1.13 per share (80 pence) to raise gross proceeds of \$188,775 (approximately £133,120). DGO used the proceeds to fully fund the two acquisitions that closed in March 2018 as discussed in Note 4.

### **Note 15 – Decommissioning Liability**

The Company 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 Company expects to incur over the long producing life of its wells, presently estimated through to 2047 when the Company expects its producing oil and gas properties to reach the end of their economic lives.

As discussed more fully in Note 2, these liabilities represent the Directors' best estimates of the future obligation. 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 were 8.0% and 3.0%, respectively as at each of the periods presented. The table below summarizes the activity for the Company's decommissioning liability:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
<b>Balance at 1 January</b>	12,265	8,869
Additions <sup>a</sup>	21,497	5,457
Accretion <sup>a</sup>	1,764	797
Disposals	(78)	(4)
Revisions to estimate	—	(2,854)
<b>Balance at 31 December</b>	<b>35,448</b>	<b>12,265</b>

(a) See Note 4 for more information about the Company's acquisitions.



**Note 16 – Leases**

DGO leased automobiles, equipment and real estate under both operating and capital leases at 31 December 2017 and 2016.

**Capital leases**

DGO leases automobiles under leases classified as capital leases with an interest rate of 5.5% and mature 2018 January through 2021 December. The net book value of assets under lease at 31 December 2017 and 2016 is \$2,127 and \$556, respectively.

The following table presents future minimum lease payments for the periods presented:

	31 December 2017 \$'000	31 December 2016 \$'000
Not later than one year	324	169
Later than one year and not later than five years	971	313
Later than five years	—	—
Total minimum lease payments	1,295	482
Less amount representing interest	(135)	(39)
<b>Present value of minimum lease payments</b>	<b>1,160</b>	<b>443</b>

Reconciliation of capital leases arising from financing activities:

	31 December 2016 \$'000	Net Cash Flows	31 December 2017 \$'000
<b>Total present value of minimum lease payments</b>	<b>443</b>	<b>717</b>	<b>1,160</b>

**Operating leases**

DGO leases both equipment and real estate under multi-year agreements that are classified as operating leases. Operating lease expense for the year ended 31 December 2017 was \$124 (2016: \$126). Future minimum lease payments for leases with original terms greater than one year are included in the table below:

	31 December 2017 \$'000	31 December 2016 \$'000
Not later than one year	122	123
Later than one year and not later than five years	412	410
Later than five years	1,371	1,466
<b>Future minimum lease payments</b>	<b>1,905</b>	<b>1,999</b>

Operating leases between related parties are detailed in Note 24.

## Note 17 – Borrowings

As discussed in Note 14, the Company used part of the equity proceeds raised through its IPO on AIM to repay much of the debt outstanding at 31 December 2016. DGO's borrowings consist of the following amounts for the periods presented:

	31 December 2017 \$'000	31 December 2016 \$'000
Financial institution, with interest rate of 3.25%, secured by oil and gas properties	—	15,768
Financial institution, interest rate of 4.00%, secured by oil and gas properties	—	3,165
Financial institution, interest rate of WSJ Prime Rate plus 0.50%, secured by oil and gas properties	—	2,000
Financing companies, interest rates of 10%-12%, secured by oil and gas properties	—	4,750
Individuals and institutional investor bonds, interest rate of 8.50%, maturing June 2020, unsecured	81	13,928
Financial institution, interest rate of 8.25% plus LIBOR, maturing July 2020, secured by oil and gas properties (a)	73,249	—
Miscellaneous notes, primarily for equipment, real estate and operational cash flow	495	1,728
<b>Total borrowings</b>	<b>73,825</b>	<b>41,339</b>
Less current portion of long-term debt	(373)	(27,181)
Less deferred financing costs (b)	(2,833)	(4,045)
<b>Total non-current borrowings, net</b>	<b>70,619</b>	<b>10,113</b>

(a) In June 2017 the Company closed a new \$110,000 senior secured credit facility, of which, \$64,000 was drawn at closing on 30 June 2017. On 30 September 2017, an additional \$11,000 was drawn to close on the remaining purchase of oil and gas assets discussed in Note 4.

(b) Deferred financing costs outstanding at 31 December 2017 were incurred with the financing of the senior secured term loan.

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

	31 December 2017 \$'000	31 December 2016 \$'000
Not later than one year	373	27,181
Later than one year and not later than five years	73,452	14,158
Later than five years	—	—
<b>Total borrowings</b>	<b>73,825</b>	<b>41,339</b>

**Note 17 – Borrowings – continued**

Reconciliation of borrowings arising from financing activities:

	31 December 2016 \$'000	Net Cash Flows	31 December 2017 \$'000
<b>Total borrowings</b>	<b>41,339</b>	<b>32,486</b>	<b>73,825</b>

*Gain/Loss on Debt Extinguishment*

As discussed above, DGO entered into a new senior secured credit facility in June 2017 that resulted in a non-recurring loss on the early extinguishment of debt, which primarily included a \$3,835 charge for the accelerated amortization of the remaining deferred financing costs and \$633 in premiums paid to redeem convertible bonds.

In March 2016, outstanding borrowings of \$14,800 and accrued finance charges of \$925 were settled in exchanged for an immediate payment of \$950. The remaining balance, net of expenses, is recognized as a gain on early retirement of debt totaling \$14,149.

*Subsequent Event*

In March 2018, the Company closed a new \$500,000 five-year senior secured revolving credit facility, initially subject to a borrowing limit of \$140,000. Following the closing of the acquisition of certain assets of CNX Resources LLC in March 2018, as discussed in Note 4, the borrowing limit increased to \$200,000. The facility has an initial interest rate of 2.50% plus LIBOR and is subject to a grid that fluctuates based upon utilisation with a pricing of 2.25% – 3.25% plus LIBOR. At 16 April 2018, the Company had an outstanding balance of \$88,000.

**Note 18 – Other Liabilities**

The following table includes a detail of other liabilities as at the periods presented:

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Other non-current liabilities</b>		
Customer deposits	52	52
Revenue to be distributed	3,486	362
Derivative financial instruments	1,943	—
Other	283	—
<b>Total other non-current liabilities</b>	<b>5,764</b>	<b>414</b>
<b>Other current liabilities</b>		
Accrued expenses	2,300	1,112
Net revenue clearing	6,472	498
Acquisition related short term financing	—	3,500
Derivative financial instruments	961	939
Other	2,784	473
<b>Total other current liabilities</b>	<b>12,517</b>	<b>6,522</b>

## Note 19 – Trade and Other Payables

	31 December 2017 \$'000	31 December 2016 \$'000
Trade payables	1,893	3,439
Other payables and accruals	239	1,188
<b>Total trade and other payables</b>	<b>2,132</b>	<b>4,627</b>

## Note 20 – Derivatives

The following table summarizes the Company's calculated fair value of derivative financial instruments:

(Liabilities)/Assets	31 December 2017 \$'000	31 December 2016 \$'000
<b>Natural gas</b>		
Swaps	28	(99)
Collars	311	(685)
Basis swaps	(965)	—
<b>Total natural gas financial derivative contracts</b>	<b>(626)</b>	<b>(784)</b>
<b>Oil</b>		
Swaps	(56)	—
Collars	(2,222)	(155)
<b>Total oil financial derivative contracts</b>	<b>(2,278)</b>	<b>(155)</b>
<b>Total financial derivative contracts</b>	<b>(2,904)</b>	<b>(939)</b>

**Note 20 – Derivatives – continued**

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

Derivative Financial Instruments	Statement of Financial Position line item	31 December 2017 \$'000	31 December 2016 \$'000
Non-current assets		1,348	–
Current assets		955	640
<b>Total assets</b>		<b>2,303</b>	<b>640</b>
Non-current liability		(3,291)	–
Current liabilities		(1,916)	(1,579)
<b>Total liabilities</b>		<b>(5,207)</b>	<b>(1,579)</b>
Net liabilities – non-current	Other non-current liabilities	(1,943)	–
Net liabilities – current	Other current liabilities	(961)	(939)
<b>Net (liabilities)/assets</b>		<b>(2,904)</b>	<b>(939)</b>

The Company recorded the following gain (loss) on derivative financial instruments in the Consolidated Statements of Profit or Loss and Other Comprehensive Income for the periods presented:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Net gain on settlements	1,524	147
Net loss on fair value adjustments on unsettled financial instruments	(1,965)	(957)
<b>Total loss on derivative financial instruments</b>	<b>(441)</b>	<b>(810)</b>

The Company's natural gas and oil derivative financial instruments outstanding at 31 December 2017 are listed below:

Financial Instrument Type	Remaining Volumes	Ending Month	Swap Price \$'000	Floor Price \$'000	Short Put Price \$'000	Ceiling Price \$'000	Mark-to-Market 31 December 2017 \$'000
<b>Natural gas</b>							
Swap	900,000 MMBTUs	Nov-18	2.84	—	—	—	13
Swap	6,000,000 MMBTUs	Mar-19	2.89	—	—	—	102
Swap	6,000,000 MMBTUs	Mar-20	2.81	—	—	—	62
Swap	207,000 MMBTUs	Dec-20	2.83	—	—	—	(6)
Swap	6,000,000 MMBTUs	Mar-21	2.82	—	—	—	(85)
Swap	1,470,000 MMBTUs	Mar-21	3.01	—	—	—	(58)
Two-Way Collar	1,500,000 MMBTUs	Mar-18	—	3.00	—	3.55	311
Basis Swap: TCO	20,000 MMBTUs	Apr-18	(0.21)	—	—	—	1
Basis Swap: TCO	320,000 MMBTUs	Oct-18	(0.34)	—	—	—	(6)
Basis Swap: Leidy	320,000 MMBTUs	Oct-18	(0.71)	—	—	—	9
Basis Swap: Dominion SP	3,600,000 MMBTUs	Dec-18	(0.60)	—	—	—	(316)
Basis Swap: Dominion SP	305,000 MMBTUs	Dec-18	(0.53)	—	—	—	(2)
Basis Swap: TCO	65,000 MMBTUs	Feb-19	(0.32)	—	—	—	(1)
Basis Swap: Dominion SP	7,668,000 MMBTUs	Sep-20	(0.59)	—	—	—	(532)
Basis Swap: TCO	2,100,000 MMBTUs	Sep-20	(0.39)	—	—	—	(4)
Basis Swap: Dominion SP	124,000 MMBTUs	Oct-20	(0.70)	—	—	—	17
Basis Swap: Dominion SP	397,500 MMBTUs	Nov-20	(0.60)	—	—	—	5
Basis Swap: Dominion SP	387,500 MMBTUs	Dec-20	(0.54)	—	—	—	(3)
Basis Swap: TCO	207,000 MMBTUs	Dec-20	(0.43)	—	—	—	(3)
Basis Swap: Leidy	207,000 MMBTUs	Dec-20	(0.69)	—	—	—	13
Basis Swap: Dominion SP	1,770,000 MMBTUs	Mar-21	(0.48)	—	—	—	(90)
Basis Swap: Tetco	810,000 MMBTUs	Mar-21	(0.46)	—	—	—	(28)
Basis Swap: Leidy	397,500 MMBTUs	Mar-21	(0.60)	—	—	—	(25)
<b>Oil</b>							
Swap	33,000 BBLs	Mar-21	50.78	—	—	—	(56)
Two-Way Collar	2,800 BBLs	Feb-18	—	39.00	—	53.35	(1,265)
Two-Way Collar	146,000 BBLs	Dec-18	—	41.50	—	51.45	(20)
Two-Way Collar	5,600 BBLs	Feb-19	—	40.00	—	56.05	(27)
Two-Way Collar	146,000 BBLs	Dec-19	—	43.50	—	52.40	(854)
Two-Way Collar	33,000 BBLs	Dec-20	—	42.50	—	57.40	(56)
<b>Total derivative financial instruments</b>							<b>(2,904)</b>

**Note 20 – Derivatives – continued***Subsequent Event*

Listed in the table below are the natural gas and oil derivative financial instruments executed subsequent to 31 December 2017:

Financial Instrument Type	Remaining Volumes	Ending Month	Swap Price \$'000	Floor Price \$'000	Short Put Price \$'000	Ceiling Price \$'000
<b>Natural Gas</b>						
Swap	5,220,000 MMBTUs	Dec-18	2.88	—	—	—
Swap	12,094,500 MMBTUs	Mar-19	2.35	—	—	—
Swap	6,000,000 MMBTUs	Dec-19	2.83	—	—	—
Swap	6,207,000 MMBTUs	Dec-20	2.81	—	—	—
Swap	2,970,000 MMBTUs	Mar-21	2.91	—	—	—
Basis Swap: Dominion SP	4,355,000 MMBTUs	Dec-18	(0.58)	—	—	—
Basis Swap: Dominion SP	175,500 MMBTUs	Dec-18	(0.58)	—	—	—
Basis Swap: TCO	523,000 MMBTUs	Dec-18	(0.35)	—	—	—
Basis Swap: Dominion SP	6,180,000 MMBTUs	Dec-19	(0.58)	—	—	—
Basis Swap: TCO	1,160,000 MMBTUs	Dec-19	(0.39)	—	—	—
Basis Swap: Dominion SP	4,197,000 MMBTUs	Dec-20	(0.59)	—	—	—
Basis Swap: TCO	1,029,000 MMBTUs	Dec-20	(0.40)	—	—	—
<b>Oil</b>						
Swap	15,000 BBLs	Dec-18	54.10	—	—	—
Swap	36,000 BBLs	Dec-18	63.65	—	—	—
Swap	48,000 BBLs	Dec-19	63.65	—	—	—
Two-Way Collar	7,500 BBLs	Jun-18	—	45.00	—	53.95
Two-Way Collar	108,000 BBLs	Sep-20	—	45.00	—	64.60
Two-Way Collar	36,000 BBLs	Dec-20	—	45.00	—	60.00

**Note 21 – 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, DGO utilizes 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:

- (a) observable prices in active markets for similar assets;

- (b) prices for identical assets in markets that are not active;
- (c) directly observable market inputs for substantially the full term of the asset; and
- (d) 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.

DGO does not hold derivatives for speculative or trading purposes and the derivative contracts held by DGO do not contain any credit-risk related contingent features. The Directors have elected to not 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. At 31 December 2017 and 2016, there were no collateral assets or liabilities associated with derivative assets and liabilities.

Derivatives expose DGO to counterparty credit risk. The derivative contracts have been executed under master netting arrangements which allow DGO, in the event of default by its counterparties, to elect early termination. The Directors monitor the creditworthiness of DGO'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 DGO'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 years ended 31 December 2017 and 2016, the counterparties for all DGO's derivative financial instruments were lenders under formal credit agreements.

The derivative instruments consist of non-financial instruments considered normal purchases and normal sales. As such, significant fair values inputs can generally be verified and do not typically involve significant judgments of the Directors (Level 2 inputs).

For recurring and non-recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (ex: changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it.

All financial instruments measured at fair value use Level 2 valuation techniques for the years ended 31 December 2017 and 2016.

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 cashflow 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 reporting year.

A classification of the fair value of the Company's financial instruments for the periods presented is included in the table below:

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Financial assets</b>		
Trade receivables	13,917	3,084
<b>Total financial assets</b>	<b>13,917</b>	<b>3,084</b>
<b>Financial liabilities</b>		
Borrowings, net of deferred financing costs	70,992	37,294
Trade and other payables	2,132	4,627
Fair value through profit or loss	2,904	939
<b>Total financial liabilities</b>	<b>76,028</b>	<b>42,860</b>

## Note 22 – Financial Risk Management

### Financial Risk Management

DGO actively manages its exposure to market risk, credit risk and liquidity risk.

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

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

DGO 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, DGO engages a specialist firm with the appropriate skills and experience to manage its risk management derivative-related activities.

### 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.

### 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. DGO is subject to this risk exposure as it relates to changes in interest rates on its variable rate borrowings. As discussed in Note 17, DGO had \$73,249 of total debt outstanding at 31 December 2017 on its senior secured credit facility with interest rate of 8.25% plus LIBOR. In March 2018, the Company closed a new \$500,000 five-year senior secured revolving credit facility, subject to a current borrowing limit of \$200,000. The facility has an initial interest rate of 2.50% plus LIBOR and is subject to a grid that fluctuates based upon utilisation with a pricing of 2.25% – 3.25% plus LIBOR.

An interest rate swap, which is designed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount is a way to mitigate interest rate risk. At 31 December 2017, the Directors have elected not to enter an interest rate swap.

## **Commodity price risk**

The prices for natural gas 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. DGO's revenues are primarily derived from the sale of its natural gas and crude oil production, and as such, DGO is subject to this commodity price risk. For 2017 and 2016, DGO's revenue was 94.7% and 87.1% related to the sale of natural gas and crude oil, respectively.

To help manage natural gas and oil price risk, DGO has entered into various direct/physical purchase contracts with gas purchasers and entered into various gas and oil financial contracts with BP Energy Company ("BP") and Cargill ("Cargill"). In March 2018 and concurrent with establishing the revolving credit facility with KeyBank (see Note 17), the Company novated its existing financial hedge contracts from BP and Cargill to KeyBank and Huntington Bank. Further, DGO is working with other financial institutions to broaden its network of financially stable financial hedge counterparties. See Note 20 for more information on DGO's financial hedge contracts.

DGO'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 for approximately 36 months on approximately 75% of its anticipated production volumes to minimize commodity risk and create stabilized and predictable cash flow important to funding its operation and stated dividend for shareholders.

### *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 DGO's cash in banks and trade receivables.

### *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.

### *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. DGO reviews the financial condition of customers prior to extending credit and generally does not require collateral in support of their trade receivables. The majority of trade receivables are current and DGO believes these receivables are collectible. At 31 December 2017, DGO had two customers that individually accounted for more than 10% of total receivables, totaling 35% of total trade receivables.

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 DGO. DGO has the ability to withhold future revenue payments to recover any non-payment of joint interest receivables.

## **Liquidity risk**

Liquidity risk is the risk that DGO will not be able to meet its financial obligations as they are due. DGO manages this risk by 1) maintaining adequate cash reserves through the use of its cash from operations and bank borrowings and 2) continuously monitors its forecast and actual cash flows to ensure it maintains an appropriate amount of liquidity. In March 2018, DGO closed a new \$500,000 five-year senior secured revolving credit facility, subject to a current borrowing limit of \$200,000, that furthers the Company's liquidity position. See Note 17 for more information on DGO's secured revolving credit facility.

	Less than 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>31 December 2017</b>					
Trade and other payables	2,130	2	—	—	2,132
Borrowings	266	107	70,619	—	70,992
Capital lease	54	270	971	—	1,295
Other liabilities	7,978	3,578	3,821	—	15,377
<b>Total</b>	<b>10,428</b>	<b>3,957</b>	<b>75,411</b>	<b>—</b>	<b>89,796</b>
<b>31 December 2016</b>					
Trade and other payables	3,719	908	—	—	4,627
Borrowings	24,982	2,199	10,113	—	37,294
Capital lease	36	125	321	—	482
Other liabilities	967	4,616	414	—	5,997
<b>Total</b>	<b>29,704</b>	<b>7,848</b>	<b>10,848</b>	<b>—</b>	<b>48,400</b>

### Capital risk

DGO's 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. DGO's management does not establish a quantitative return on capital criteria, but rather promotes year over year growth.

### Note 22 – Financial Risk Management – continued

#### Collateral risk

DGO has pledged its oil and gas properties to fulfill the collateral requirements for borrowing credit facilities with its senior secured lenders. The collective fair value of the oil and gas properties pledged was \$258,710 at 31 December 2017. The fair value is based on a third-party engineering reserve calculation using a 10% cumulative discount cash flow and a commodities futures price schedule.

### Note 23 – Contingencies and Provisions

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

DGO'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 DGO's operations. DGO can offer no assurance regarding the significance or cost of compliance associated with any such new environmental legislation once implemented.

## Note 24 – Related Party Transactions

### UK Legal Counsel

Martin K. Thomas is a partner at Watson Farley & Williams LLP, the UK legal advisor for DGO.

	Year ended 31 December 2017		Year ended 31 December 2016	
	£'000	\$'000	£'000	\$'000
Billings from Watson Farley & Williams, LLP	661	834	418	588

### Office Space Lease

For its corporate headquarters in Birmingham, Alabama (US) and commencing in 2017, DGO entered into a twenty year lease with Diversified Real Estate Holdings, LLC, a company owned by DGO's founders, Rusty Hutson, Jr. and Robert Post. The Directors believe the terms of this lease are reasonable and reflect market rates for a facility of this type.

Future lease payments are as follows:

Lease Years	Annual Rent \$'000
1 – 5	467
6 – 10	479
11 – 15	491
16 – 20	401
<b>Total</b>	<b>1,838</b>

## Note 25 – Subsequent Events

The Directors determined the need to disclose the following material transactions that occurred subsequent to 31 December 2017, which have been described within each relevant footnote as follows:

Description	Footnote
Acquisitions	Note 4
Dividends	Note 10
Share Capital	Note 14
Borrowings	Note 17
Derivatives	Note 20

DIVERSIFIED GAS AND OIL PLC  
**STATEMENTS OF FINANCIAL POSITION**  
 FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
<b>ASSETS</b>			
Investments	4	350	350
Other assets		20	20
<b>Total non-current assets</b>		<b>370</b>	<b>370</b>
<b>Current assets</b>			
Other current assets		2	780
Receivables from subsidiaries	10	70,565	10,055
Cash and cash equivalents		235	—
<b>Total current assets</b>		<b>70,802</b>	<b>10,835</b>
<b>Total Assets</b>		<b>71,172</b>	<b>11,205</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	5	1,451	442
Share premium		60,390	256
Share based payment reserve		44	—
Retained earnings		8,625	2,039
<b>Total Equity</b>		<b>70,510</b>	<b>2,737</b>
<b>Non-current liabilities</b>			
Borrowings	7	67	7,785
<b>Total non-current liabilities</b>		<b>67</b>	<b>7,785</b>
<b>Current liabilities</b>			
Trade and other payables		595	426
Borrowings	7	—	257
<b>Total current liabilities</b>		<b>595</b>	<b>683</b>
<b>Total Liabilities</b>		<b>662</b>	<b>8,468</b>
<b>Total Equity and Liabilities</b>		<b>71,172</b>	<b>11,205</b>

The profit for the financial year of the Company was £10,992 (2016: £2,634)

The notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 28 April 2018 and signed on its behalf by:



Robert M. Post *Chairman of the Board*

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital £'000	Share Premium £'000	Share Based Payment Reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>Balance at 1 January 2017</b>	<b>442</b>	<b>256</b>	<b>—</b>	<b>2,039</b>	<b>2,737</b>
Total comprehensive income	—	—	—	10,992	10,992
Issuance of share capital, initial offering	614	34,819	—	—	35,433
Issuance of share capital, secondary offering	395	25,315	—	—	25,710
Equity compensation	—	—	44	—	44
Dividends authorized and declared	—	—	—	(4,406)	(4,406)
<b>Balance at 31 December 2017</b>	<b>1,451</b>	<b>60,390</b>	<b>44</b>	<b>8,625</b>	<b>70,510</b>

	Share Capital £'000	Share Premium £'000	Share Based Payment Reserve £'000	Retained Earnings £'000	Total Equity £'000
<b>Balance at 1 January 2016</b>	<b>412</b>	<b>—</b>	<b>—</b>	<b>(595)</b>	<b>(183)</b>
Issuance of share capital	30	256	—	—	286
Comprehensive income	—	—	—	2,634	2,634
<b>Balance at 31 December 2016</b>	<b>442</b>	<b>256</b>	<b>—</b>	<b>2,039</b>	<b>2,737</b>

The notes are an integral part of these consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2017

### Note 1 – General Information

Diversified Gas & Oil PLC (the Company) is a public limited company incorporated in England and Wales on 1 July 2014. The registered office is 27/28 Eastcastle Street, London W1W 8DH, United Kingdom. In February 2017, the Company's shares were admitted to trading on AIM under the ticker "DGOC."

### Note 2 – Accounting Policies

#### Basis of Preparation and Measurement

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and the Companies Act 2006 under the historical cost basis. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see Note 3).

The financial information of the Company is presented in Pound Sterling ("£") and rounded to the nearest thousand, unless otherwise stated.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these financial statements. The Company has also taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland": the requirements of Section 7 – Statement of Cash Flows and the requirements of Section 11 – Financial Instruments.

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business. The Directors have reviewed DGO's overall position and outlook and are of the opinion that the Company is sufficiently well funded to be able to operate as a going concern for at least the next twelve months from the date of approval of these financial statements.

#### New Standards and Interpretations Not Yet Adopted

At the date of authorisation of this financial information, the Directors have reviewed the standards in issue by the International Accounting Standards Board ("IASB") and IFRIC, which are effective for annual accounting years ending on or after the stated effective date. In their view, none of these standards would have a material impact on the financial reporting of the Company.

#### Significant Accounting Policies

##### *Cash and cash equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

##### *Borrowings*

Borrowings which are basic financial instruments are initially recorded at the present value of future payments discounted at a market rate of interest for a similar loan. Subsequently, they are measured at amortised cost using the effective interest method.

#### *Finance costs*

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

#### *Investments*

Investment in a subsidiary company is held at cost less accumulated impairment losses.

### **Note 3 – Significant Accounting Judgements, Estimates and Assumptions**

In preparing these financial statements the Directors consider that the key judgement is the allocation of costs between the loan balance and the profit or loss account relating to expenses of the former bond listing on the NEX Exchange growth market (formerly ISDX). See Note 7 for details.

### **Note 4 – Investments**

The Company owns in its entirety the issued share capital of Diversified Gas & Oil Corporation, a company incorporated in Delaware, United States of America. The carrying value at both 31 December 2017 and 2016 of investments held was £350.

Diversified Gas & Oil Corporation (DGOC) owns in its entirety, direct and indirect, the issued share capital of the following entities:

- Diversified Resources, Inc.;
- M & R Investments, LLC;
- M & R Investments Ohio, LLC;
- Marshall Gas & Oil Corporation;
- R & K Oil and Gas, Inc.;
- Fund 1 DR, LLC;
- Diversified Oil & Gas, LLC;
- Diversified Appalachian Group, LLC;
- Diversified Energy, LLC;
- Diversified Partnership Holdings, LLC
- Diversified Partnership Holdings II, LLC
- Atlas Energy Tennessee, LLC
  - Atlas Pipeline Tennessee, LLC

The country of incorporation for the above entities is the United States of America.

### **Note 5 – Share Capital**

In February 2017, DGO placed 61,000 new ordinary shares at 65 pence per share to raise gross proceeds of approximately £39,650. DGO used the funds raised for the repurchase of bonds, repayment of existing debt facilities, costs of admission to AIM and working capital requirements of the Company. Following this initial placing, and as discussed in Note 4 to the consolidated financial statements, in June 2017, DGO issued an additional 39,300 ordinary shares at 70 pence per share to raise additional gross proceeds of approximately £27,510 to fund part of the purchase price of an additional acquisition.



The following table summarizes the Company's share capital for the periods presented:

	Number of Shares	Total Share Capital £'000
<b>Balance at 1 January 2017</b>	<b>44,210</b>	<b>442</b>
Issuance of share capital, initial offering	61,381	614
Issuance of share capital, secondary offering	39,485	395
<b>Balance at 31 December 2017</b>	<b>145,076</b>	<b>1,451</b>
	Number of Shares	Total Share Capital £'000
<b>Balance at 1 January 2016</b>	<b>41,200</b>	<b>412</b>
Issuance of share capital, Board Member	800	8
Issuance of share capital, Chief Operating Officer & Finance Director	2,210	22
<b>Balance at 31 December 2016</b>	<b>44,210</b>	<b>442</b>

#### Subsequent Event

In February 2018, DGO placed 166,400 new ordinary shares at 80 pence per share to raise gross proceeds of approximately £133,120. DGO used the proceeds to fully fund two transformative acquisitions that closed in March 2018 as discussed in Note 4 to the consolidated financial statements.

#### Note 6 – Dividends

The following table summarizes the Company's dividends paid and declared:

Date Declared	Dividend per Ordinary Share	Record Date	Pay Date	Shares Outstanding	Gross Dividends Paid £'000
	GBP £				
15 June 2017	0.0155	07 July 2017	31 July 2017	145,076	2,249
11 September 2017	0.0149	17 November 2017	20 December 2017	145,076	2,157
					<b>4,406</b>
3 April 2018	Pending <sup>(a)</sup>	11 May 2018	31 May 2018	311,476	Pending <sup>(a)</sup>

a) Note that the Company declared its 2017 final dividend of \$0.0345 per share on 3 April 2018, which it expects to pay on the 311,476 ordinary shares in issue on 11 May 2018 representing a total dividend of approximately \$10,746. The dividend will be paid in US\$.

## Note 7 – Borrowings

Borrowings consist of the following amounts for the periods presented:

	31 December 2017 £'000	31 December 2016 £'000
Individual and institutional investors, interest rate of 8.00%, matured July 2017 through September 2017, unsecured	—	75
Individuals, interest rate of 8.50%, unsecured	—	270
Individuals and institutional investor bonds, interest rate of 8.50%, maturing June 2020, unsecured (a)	67	10,650
<b>Total borrowings</b>	<b>67</b>	<b>10,995</b>
Less current portion of long-term debt	—	(257)
Less deferred financing costs (b)	—	(2,953)
<b>Total non-current borrowings, net</b>	<b>67</b>	<b>7,785</b>

a) During 2017, 99% of bonds were repaid with IPO proceeds.

b) Deferred financing costs were expensed when borrowings were paid in full with IPO proceeds.

The following table provides a reconciliation of future maturities of total borrowings for each of the periods presented:

	31 December 2017 £'000	31 December 2016 £'000
Not later than one year	—	257
Later than one year and not later than five years	67	10,738
Later than five years	—	—
<b>Total borrowings</b>	<b>67</b>	<b>10,995</b>

## Note 8 – Operating Expenses

Details of the Director's remuneration is included in the Director's Report on page 24.

Details of Auditor's remuneration is included in Note 6 to the consolidated financial statements.

**Note 9 – Taxation**

The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19.25% (2016: 20%).

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Profit on ordinary activities before tax</b>	<b>10,992</b>	<b>2,634</b>
Corporate tax in the UK of 19.25% (2016: 20%) on profits for the period	2,116	527
Non-taxable income	(2,195)	(543)
Permanent differences	43	–
Effects of tax losses carried forward	36	16
<b>Total tax charge for the year</b>	<b>–</b>	<b>–</b>

Non-taxable income of PLC for 2017 relates to dividend income received from US subsidiaries in the amount of £11,400.

A deferred tax asset of approximately £87 (2016: £51) has not been recognized on the losses due to the uncertainty of the availability of future profits.

**Note 10 – Related Party Transactions**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Subsidiary receivables	70,565	10,100
Billings from Watson Farley & Williams, LLP	661	418

**Subsidiary Receivables**

The Company provided working capital to its subsidiaries that resulted in a receivable. The balance is interest free and repayable on demand. There is no ultimate controlling party.

**UK Legal Counsel**

Martin K. Thomas is a partner at Watson Farley & Williams LLP, the UK legal advisor for DGO.

**Note 11 – Subsequent Events**

The Directors determined the need to disclose the following material transactions that occurred subsequent to 31 December 2017, which have been described within each relevant footnote as follows:

Description	Footnote
Share Capital	Note 5
Dividends	Note 6

# NOTICE OF ANNUAL GENERAL MEETING

DIVERSIFIED GAS & OIL PLC (COMPANY)

(incorporated in England and Wales with registered number 09156132)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN at 10.00 a.m. (UK time) on 29 May 2018 for the purpose of considering and, if thought fit, passing the following resolutions numbered 1 to 5 as Ordinary Resolutions and resolution 6 as a Special Resolution.

## ORDINARY RESOLUTIONS

**To consider and if thought fit pass the following resolutions, which will be proposed as ordinary resolutions:**

1. **THAT** the annual report including the accounts and the reports of the Directors and Auditor for the financial year ended 31 December 2017 be received and adopted.
2. **THAT** the Company declare a final dividend of 3.45 cents per ordinary share for the year ended 31 December 2017 and it be distributed to the shareholders whose names appear on the Register of Members at the close of business on 11 May 2018.
3. **THAT** Crowe Clarke Whitehill LLP be re-appointed as auditor of the Company until the next annual general meeting and that the Directors be authorised to determine the remuneration of the auditors.
4. **THAT** Robert Post, as a director of the Company, retires in accordance with Article 24.2 of the Company's Articles of Association and is re-elected.
5. **THAT:**
  - 5.1 the directors of the Company be generally and unconditionally authorised under section 551 of the Act to exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the Act):
    - 5.1.1 up to £105,591.25 in respect of up to 10,559,125 new Shares issuable to satisfy awards made under the Company's share option scheme;
    - 5.1.2 up to £42,290 in respect of up to 4,229,000 new Shares to satisfy the issue of new Shares pursuant to the Company's warrant instruments; and
    - 5.1.3 otherwise than pursuant to 5.1.1 and 5.1.2 above, up to an aggregate nominal amount of £2,074,430.73;
  - 5.2 such authority shall expire (unless previously revoked by the Company) at the conclusion of the next annual general meeting of the Company and the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be granted after the authority has expired and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that this authority has expired; and

# NOTICE OF ANNUAL GENERAL MEETING

## CONTINUED

- 5.3 all previous authorities to allot equity securities to the extent unused, shall be revoked.

### SPECIAL RESOLUTION

#### 6. THAT:

- 6.1 The directors of the Company be generally and unconditionally empowered under section 570 of the Act) to exercise all the powers of the Company to allot equity securities for cash pursuant to the authorisation conferred by resolution 5 above as if section 561 of the Act did not apply to the allotment, provided that this power shall be limited to:
- 6.1.1 the allotment of equity securities (as defined in section 560 of the Act) in connection with an offer by way of a rights issue to:
- 6.1.1.1 ordinary shareholders in proportion (as nearly as may be) to their existing holdings; and
- 6.1.1.2 holders of other equity securities, if this is required by the rights of those securities or, if the directors consider it necessary, but subject to such exclusions and other arrangements as the directors may consider necessary or appropriate in relation to fractional entitlements, record dates, legal, regulatory or practical problems nor under the laws of any territory (including the requirements of any regulatory body or stock exchange) or any other matter;
- 6.1.2 otherwise than pursuant to 6.1.1 above, the allotment of up to an aggregate nominal amount of £105,591.25 in respect of up to 10,559,125 new Shares to satisfy awards made under the Company's share option scheme;
- 6.1.3 otherwise than pursuant to 6.1.1 and 6.1.2 above, the allotment of up to an aggregate nominal amount of £42,290 in respect of up to 4,229,000 new Shares to satisfy the issue of new Shares pursuant to the Company's warrant instruments; and
- 6.1.4 otherwise than pursuant to 6.1.1 to 6.1.3 above the allotment of further equity securities up to an aggregate nominal amount of £155,738.04;
- 6.2 such power shall expire (unless previously revoked by the Company) at the conclusion of the next annual general meeting of the Company and in each case the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

*Registered Office:*  
27/28 Eastcastle Street  
W1W 8DH London

By Order of the Board

Dated: 3 May 2018

**Cargil Management Services Limited**  
Company Secretary

- a. Only those shareholders registered in the Company's register of members at:
- (i) 10.00 a.m. (UK time) on 24 May 2018; or,
  - (ii) if this meeting is adjourned, at 10.00 a.m. (UK time) on the day two days prior to the adjourned meeting, shall be entitled to attend, speak and vote at the meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- b. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, can be found at [www.dgoc.com](http://www.dgoc.com).
- c. If you wish to attend the meeting in person, please attend the offices of Buchanan Communications Ltd, 107 Cheapside, London EC2V 6DN on 29 May 2018 at 10.00 a.m. (UK time) for the purpose of considering and, if thought fit, passing the proposed Resolutions.
- d. If you are a shareholder who is entitled to attend and vote at the meeting, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. A proxy does not need to be a shareholder of the Company but must attend the meeting to represent you. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. To appoint more than one proxy, please contact the Company's share registrar on telephone number 0121 585 1131.
- e. To be valid, an instrument appointing a proxy and any power of attorney or other authority under which the proxy instrument is signed (or a notarially certified copy thereof) must be deposited with the Company's share registrar, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen B63 3DA ("Neville Registrars") by 10.00 a.m. (UK time) on 24 May 2018.
- f. The completion and return of a proxy card will not affect the right of a member to attend, speak and vote in person at the meeting convened by this notice. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
- g. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
- h. In the case of joint holders, where more than one of the joint holders completes a proxy appointment, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

## NOTICE OF ANNUAL GENERAL MEETING

CONTINUED

- i. Shareholders may change proxy instructions by submitting a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
- j. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars.
- k. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy must be transmitted so as to be received by Neville Registrars Limited (ID: 7RA11) no later than 10.00 a.m. on 24 May 2018. Normal system timings and limitations will apply in relation to the input of CREST Proxy Instructions. It is therefore the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable their CREST sponsor(s) or voting service provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 as amended.
- l. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- m. A shareholder may change a proxy instruction but to do so you will need to inform the Company in writing by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to the Neville Registrars. In the case of a shareholder which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
- n. In either case, the revocation notice must be received by Neville Registrars no later than 10.00 a.m. (UK time) on 24 May 2018.

- o. If you attempt to revoke your proxy appointment but the revocation is received after the time specified, your original proxy appointment will remain valid unless you attend the meeting and vote in person.
- p. A corporation which is a shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a shareholder provided that no more than one corporate representative exercises powers over the same share.
- q. As at 6.00 p.m. (UK time) on 2 May 2018, which is the latest practicable date before publication of this notice, the Company's issued share capital comprised 311,476,087 ordinary shares of £0.01 each and therefore, the total number of voting rights in the Company are 311,476,087.
- r. Any member attending the meeting has the right to ask questions. The Company must answer any question you ask relating to the business being dealt with at the meeting unless:
  - (i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - (ii) the answer has already been given on a website in the form of an answer to a question; or
  - (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- s. Copies of the service contracts of the executive directors and the non-executive directors' contracts for services are available for inspection at the Company's registered office during normal business hours and at the place of the meeting from at least 15 minutes prior to the meeting until the end of the meeting.
- t. The quorum for the meeting is two or more members, who are entitled to vote, present in person or by proxy or a duly authorised representative of a corporation which is a member.
- u. The ordinary resolutions must be passed by a simple majority of the total number of votes cast for and against such resolution.
- v. At the meeting the vote may be taken by show of hands or by poll. On a poll, every member, who is present in person or by proxy, shall be entitled to one vote for every share held by him.
- w. If, within five minutes after the time appointed for the meeting (or such longer interval not exceeding one hour as the Chairman of the meeting may think fit to allow) a quorum is not present, the meeting shall stand adjourned to a day (but not less than 10 days later, excluding the day on which the meeting is adjourned and the day for which it is reconvened) the time and place to be decided by the Chairman, and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present in person and by proxy shall be a quorum.



# OFFICERS AND PROFESSIONAL ADVISORS

**DIRECTORS** Robert Marshall Post (Non-Executive Chairman)  
Robert "Rusty" Russell Hutson, Jr. (Chief Executive Officer)  
Bradley Grafton Gray (Chief Operating Officer & Finance Director)  
David Edward Johnson (Senior Independent Non-Executive Director)  
Martin Keith Thomas (Independent Non-Executive Director)

**REGISTERED NUMBER** 09156132 (England and Wales)

**REGISTERED OFFICE** 27/28 Eastcastle Street  
London W1W 8DH (UK)

**HEAD OFFICE** 1100 Corporate Drive  
Birmingham, Alabama 35242 (US)

**COMPANY SECRETARY** Cargill Management Services Limited  
27/28 Eastcastle Street  
London W1W 8DH (UK)

**NOMINATED ADVISER** Smith & Williamson Corporate Finance Limited  
25 Moorgate  
London EC2R 6AY (UK)

**BROKERS** Mirabaud Securities Limited  
10 Bressenden Place  
London SW1E 5DH (UK)

Stifel Nicolaus Europe Limited  
150 Cheapside  
London, EC2V 6ET (UK)

**INDEPENDENT AUDITOR** Crowe Clark Whitehill LLP  
St Bride's House, 10 Salisbury Square  
London EC4Y 8EH (UK)

**LEGAL ADVISOR, UK** Watson Farley & Williams LLP  
15 Appold Street  
London EC2A 2HB (UK)

**LEGAL ADVISOR, US** Maynard Cooper & Gale  
1901 Sixth Avenue North, Suite 2400  
Birmingham, Alabama 35203 (US)

**COMPETENT PERSON** Wright & Company, Inc.  
12 Cadillac Drive, Suite 260  
Brentwood, Tennessee 37027 (US)

**SHARE REGISTRAR** Neville Registrars Limited  
Neville House, 18 Laurel Lane  
Halesowen B63 3DA (UK)



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