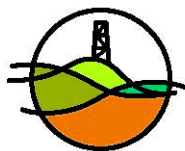




DIVERSIFIED GAS & OIL PLC
2016 INTERIM REPORT & ACCOUNTS
FOR THE PERIOD ENDED 30 JUNE 2016



DIVERSIFIED GAS & OIL
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COMPANY REGISTRATION No. 09156132

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DIVERSIFIED GAS & OIL PLC
Officers and Professional Advisors

DIRECTORS	Robert Marshall Post (Chairman) Robert Russell Hutson, Jr. (Chief Executive Officer) Martin Keith Thomas (Non-Executive Director)
REGISTERED NUMBER	09156132 (England and Wales)
REGISTERED OFFICE	15 Appold Street London EC2A 2HB(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	Balch and Bingham, LLP 1901 Sixth Avenue North, Suite 1500 Birmingham, Alabama 35203 (US)
REGISTRAR	Share Registrars Limited Suite E 1 st Floor 9 Lion and Lamb Yard Farnham, Surrey GU9 7LL (UK)
BROKER	Alexander David Securities 49 Queen Victoria Street London EC4N 4SA (UK)

DIVERSIFIED GAS & OIL PLC

Strategic Report

We are delighted to be able to report on another successful 6 months, as evidenced by the continued acquisition of conventional assets during the interim period and the increase in revenues that were a direct result of the Group's acquisition strategy.

The Directors present their strategic report and the interim financial statements of Diversified Gas & Oil PLC for the 6 months ended 30 June 2016. The Company was initially incorporated on 31 July 2014 in England and Wales as a public limited company by its founders, Robert Hutson Jr. and Robert Post.

Results

Revenues for the first 6 months of 2016 were \$7.6 million, up from \$2.9 million for the same period of 2015. The increase was attributable to three acquisitions closed since June 2015 and the increase in production associated with the assets. Operating profit was \$23.9 million (6m 2015: \$713k loss) credited to obtaining natural gas and crude oil production at bargain prices over its fair market value of \$24.2 million. Net Income was \$36.5 million (6m 2015: \$2.2m loss) which was spurred by the settlement of mezzanine debt with the lending group which resulted in a gain on debt cancellation of \$14.1 million. Excluding the impact of these one-time gains along with other non-cash transactions the EBITDA of the company was \$1.3 million (6m 2015: \$965k).

Business Model

The Group continues to operate conventional natural gas and crude oil properties in the Appalachian Basin of the United States. During the first 6 months of 2016, the company acquired approximately 3,700 natural gas and crude oil wells producing 13,500 MCF/day of natural gas and 295 barrels of oil per day. Because we currently operate properties in the same geographical footprint, we were able to roll the newly acquired wells into operations seamlessly, while adding minimal additional overhead cost. The purchase prices of the two deals resulted in bargain gains under the accounting rules due to the purchase price being significantly lower than the fair market value of the producing properties. The Group continues to evaluate further opportunities within the footprint of the existing operations.

Listing on ISDX

The Group continues to have success raising capital through bond sales on the ISDX Growth Market. During the first 6 months of 2016, the Group raised £5.3m through bond placings (approximately \$7.3m). These placings have been utilized to acquire producing assets at bargain prices and have assisted in increasing the value of our oil and gas portfolio.

Principal activities

The principal activity of the Group is that of conventional natural gas and crude oil production in the Appalachian Basin of the US. The Group currently owns and operates over 7,500 conventional natural gas and crude oil wells in Pennsylvania, West Virginia, and Ohio, producing approximately 23,000 MCF per day of natural gas and over 500 BBL per day of crude oil.

DIVERSIFIED GAS & OIL PLC
Strategic Report

Key performance indicators (KPI's)

1. Obtain growth in operating cash flow

The Directors aim to achieve steady sustainable growth in operating cash flow. Operating cash flow provided by operating activities, as reported on the cash flow statement, are the principal revenue-generating activities of the Group and other activities that are not investing or financing activities. In 2015, the Group generated a net cash outflow from operations of \$381k (2014: inflow \$692k). Such decline was largely impacted by the lower natural gas and crude oil price environment. Trade receivables from external joint interest owners are generally with other oil and natural gas companies that own a working interest in the properties operated by the Group. As the pricing environment increases, the Group has the ability to withhold future revenue payments to recover any non-payment of joint interest trade receivables. If pricing remains flat, management will approach external working interest owners to settle the deficit in return for their ownership percentage.

2. Obtain growth of adjusted EBITDA (adjusted earnings before interest, tax, depreciation, depletion amortization)

Useful for companies with significant depreciation and depletion of fixed assets and significant debt financing charges, adjusted EBITDA is of particular interest to the Directors, as it is essentially the cash generated from current year income the Group has free for interest payments and capital investment. To calculate the adjusted EBITDA, management adjusts the operating profit for any gains on bargain purchase, gains or losses on derivative financial instruments, and any one-time acquisition costs. In the first 6 months of 2016, the Group's adjusted EBITDA increased to \$1.3m, from \$965k in the first 6 months of 2015 (see note 13), mainly from the increase in production associated with the acquisitions. The Directors' anticipate an increased adjusted EBITDA for the remainder of 2016 based on the exponential growth in production credited to acquisitions and a mild improvement in commodity prices.

These matters remain the key areas of focus for the remaining financial year.

Best regards,



Robert M. Post
Chairman of the Board



Robert R. Hutson, Jr.
Director and Chief Executive Officer



Martin K. Thomas
Director

DIVERSIFIED GAS AND OIL PLC
Directors' Report
For the six months to 30 June 2016

The Directors present their report on the Group, together with the Interim Consolidated Financial Statements for the 6 months ended 30 June 2016.

Outlook

Continuing for the remainder of 2016, we have and will continue to remain acquisition focused. Management will evaluate opportunities to add producing wells, allowing cash flow to increase while continuing to maintain a low operating cost.

Directors

The directors who served during the year are set out on page 3. The directors' beneficial interests in the share capital of the Group were as follows at 30 June 2016:

	<u>Ordinary shares of 1p</u>	<u>% of issued share capital</u>
Robert M. Post (appointed 31/07/2014)	20,000,000	48.544%
Robert R. Hutson, Jr. (appointed 31/07/2014)	20,000,000	48.544%
Martin K. Thomas (appointed 01/01/2015)	1,200,000	2.912%

There have been no changes in the Directors' shareholdings since the year end.

Directors' remuneration

The remuneration paid to the directors (who are the key management personnel) is shown below:

For the 6 months ended 30 June 2016:

	<u>Robert M. Post</u>	<u>Robert R. Hutson, Jr.</u>	<u>Martin K. Thomas</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits	8	15	-	23
Director remuneration pay	-	-	20	20
	<u>8</u>	<u>15</u>	<u>20</u>	<u>43</u>

For the 6 months ended 30 June 2015:

	<u>Robert M. Post</u>	<u>Robert R. Hutson, Jr.</u>	<u>Total</u>
	\$'000	\$'000	\$'000
Salaries and benefits	13	14	27
	<u>13</u>	<u>14</u>	<u>27</u>

DIVERSIFIED GAS AND OIL PLC
Interim Consolidated Statements of Comprehensive Income
For the six months to 30 June 2016

	Note	Unaudited 6 months to 30 June 2016 \$'000	Unaudited 6 months to 30 June 2015 \$'000
Revenue	4	7,653	2,918
Cost of sales	5	(6,227)	(1,675)
Depreciation, depletion and amortization		(1,584)	(1,360)
Depreciation of decommissioning provision – change in significant estimates	3	1,077	-
Gross profit/(loss)		919	(117)
Administrative expenses	5	(887)	(278)
Loss on disposal of property and equipment		-	(2)
Loss on derivative financial instruments		(308)	(316)
Gain on bargain purchase	8	24,212	-
Operating profit/(loss)		23,936	(713)
Finance costs		(1,371)	(1,381)
Gain on debt cancellation		14,149	-
Accretion of decommissioning provision		(223)	(108)
Income/(Loss) before taxation		36,491	(2,202)
Taxation on income/(loss)	9	-	-
Income/(Loss) after taxation		36,491	(2,202)
Other comprehensive income attributable to the equity holders of the parent - Gain on foreign currency conversion	11	603	8
Total comprehensive income/(loss) for the year attributable to the equity holders of the parent		37,094	(2,194)
Earnings per share – basic and diluted (US\$)	12	0.93	(0.05)

DIVERSIFIED GAS AND OIL PLC
Interim Consolidated Statements of Financial Position
As at 30 June 2016

	Note	<u>30 June 2016</u> \$'000	<u>31 December 2015</u> \$'000
ASSETS			
Non-current assets			
Oil and gas properties	6	79,864	42,353
Property and equipment	7	2,798	2,110
Restricted cash		117	115
		<u>82,779</u>	<u>44,578</u>
Current assets			
Trade receivables		3,336	1,759
Derivative financial instruments	10	-	17
Other current assets		118	43
Cash and cash equivalents		20	90
		<u>3,474</u>	<u>1,909</u>
Total Assets		<u>86,253</u>	<u>46,487</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	630	630
Merger reserve		(478)	(478)
Retained earnings/(Accumulated losses)		27,587	(8,969)
Total Equity attributable to the owners of the parent		<u>27,739</u>	<u>(8,817)</u>
Non-current liabilities			
Decommissioning provision		14,798	8,869
Capital lease		115	58
Borrowings	16	9,592	20,115
Other liabilities		358	277
		<u>24,863</u>	<u>29,319</u>
Current liabilities			
Trade and other payables		3,537	2,869
Derivative financial instruments	10	682	-
Borrowings	16	29,194	22,821
Capital lease		113	115
Other liabilities		125	180
		<u>33,651</u>	<u>25,985</u>
Total Liabilities		<u>58,514</u>	<u>55,304</u>
Total Liabilities and Equity		<u>86,253</u>	<u>46,487</u>

The Notes on pages 11 to 22 form an integral part of these Interim Consolidated Financial Statements.

The Financial Statements were approved by the Board of Directors on 26 September 2016 and signed on its behalf by



Robert M. Post
Chairman of the Board

DIVERSIFIED GAS AND OIL PLC
Interim Consolidated Statements of Changes in Equity
For the six months ended 30 June 2016

	Note	Share capital \$'000	Merger reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance as of 1 January 2016		630	(478)	(8,969)	(8,817)
Income after taxation		-	-	36,491	36,491
Gain on foreign currency conversion		-	-	603	603
<i>Total comprehensive loss for the period</i>		-	-	37,094	37,094
Stockholder distributions	15	-	-	(538)	(538)
Issuance of share capital		-	-	-	-
<i>Transactions with owners</i>		-	-	(538)	(538)
Balance as of 30 June 2016		630	(478)	27,587	27,739

	Note	Share capital \$'000	Merger reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance as of 1 January 2015		611	(478)	(7,470)	(7,337)
Income after taxation		-	-	(2,202)	(2,202)
Gain on foreign currency conversion		-	-	8	8
<i>Total comprehensive loss for the period</i>		-	-	(2,194)	(2,194)
Stockholder contributions	15	-	-	306	306
Issuance of share capital		19	-	-	19
<i>Transactions with owners</i>		19	-	306	325
Balance as of 30 June 2015		630	(478)	(9,358)	(9,206)

DIVERSIFIED GAS AND OIL PLC
Interim Consolidated Statements of Cash Flows
For the six months ended 30 June 2016

	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015
	\$'000	\$'000
Cash flows from operating activities		
Income (Loss) after taxes and comprehensive income	36,491	(2,202)
<i>Adjustments to add (deduct) non-cash items:</i>		
Depreciation, depletion and amortization	507	1,360
Accretion of decommissioning provision	223	107
Loss on derivative financial instruments	699	316
Gain on oil and gas program	(84)	-
Gain on bargain purchase	(24,212)	-
Gain on debt cancellation	(14,149)	-
Deferred financing expense	688	-
Loss on disposal of property and equipment	-	2
<i>Working capital adjustments:</i>		
Change in trade receivables	(1,145)	(465)
Change in other current assets	(71)	(10)
Change in trade and other payables	543	1,563
Change in other liabilities	129	21
Net cash (used in)/provided by operating activities	(381)	692
Cash flows from investing activities		
Expenditures on oil and gas properties	(8,642)	(2,669)
Expenditures on property and equipment	(155)	(34)
Increase in restricted cash	(2)	-
Proceeds on disposal of oil and gas properties	93	-
Net cash used in investing activities	(8,706)	(2,703)
Cash flows from financing activities		
Proceeds from borrowings	19,241	3,212
Repayment of borrowings	(7,199)	(304)
Financing expense	(2,541)	(438)
Proceeds from capital lease	133	-
Repayment of capital lease	(79)	-
Stockholder contributions	-	306
Stockholder distributions	(538)	-
Net cash provided by financing activities	9,017	2,776
Net (decrease)/increase in cash and cash equivalents	(70)	765
Cash and cash equivalents - beginning of period	90	34
Cash and cash equivalents - end of period	20	799

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

1. GENERAL INFORMATION

Diversified Gas and Oil PLC (DGO) is an Appalachian focused natural gas and crude oil operations company with headquarters in Birmingham, Alabama, USA. The Company 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 15 Appold Street, London EC2A 2HB, United Kingdom.

2. BASIS OF PREPARATION AND CHANGE OF ACCOUNTING POLICY

(a) Basis of Preparation and Measurement

The Consolidated Financial Statements of Diversified Gas & Oil PLC 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. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for any financial assets which are stated at fair value through profit or loss.

The basis of preparation and measurement and the accounting policies made by DGO Group's management were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

The interim financial information has been prepared in accordance with IAS 34 – Interim Financial Reporting as adopted by the EU ("IFRS") issued by the International Accounting Standards Board ("IASB"), including related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The interim financial information does not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in DGO Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

(b) New Standards and Interpretations Not Yet Adopted

There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year. A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 will have an impact on the recognition of operating leases. At this point the Directors have yet to conclude on their assessment to provide a reasonable estimate of the effect of these standards as their detailed review of these standards is still ongoing.

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

3. CHANGE TO SIGNIFICANT ACCOUNTING ESTIMATES

In accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the Directors of DGO Group have made the following change in estimate, which had a significant adjustment in the carrying amounts recognized in the consolidated interim financial information:

(a) Decommissioning costs

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

For the period ended 30 June 2016, DGO Group's reserve report reflected a longer operating life of the oil and gas properties acquired through the Broadstreet Energy acquisition in 2015. As a result of a longer operating life, the decommissioning provision will be depreciated and accreted over a 25 year period, rather than an accelerated period estimated in 2015.

The impact of the change in estimate on the consolidated interim and future years' financial statements is as follows:

\$'000	06.2016	2017	2018	2019	2020	Later
Increase (Decrease) in oil and gas properties	95	70	55	39	23	(281)
(Increase) Decrease in decommissioning provision	1,107	79	79	79	79	544
Increase (Decrease) in depreciation, depletion and amortization	(1,077)	(70)	(55)	(39)	(23)	281
Increase (Decrease) in Accretion expense	(124)	(79)	(79)	(79)	(79)	(544)

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

4. Revenue and other income

	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015
	\$'000	\$'000
Natural gas and crude oil revenue	6,845	2,367
Operator revenue	468	471
Oil and gas program revenue	84	35
Water disposal revenue	256	45
Total revenue	7,653	2,918

5. Expenses by nature

	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015
	\$'000	\$'000
Automobile	407	129
Employees and benefits	2,099	755
Insurance	120	105
Well operating expenses	3,601	686
Total cost of sales	6,227	1,675
Acquisition costs	384	-
Employees and benefits	74	76
Other administrative	122	33
Professional fees	84	47
Auditors' remuneration	127	76
Other fees payable to auditors	24	-
Rent	44	41
Travel	28	4
Uncollectible accounts	-	1
Total administrative expenses	887	278
Total expenses	7,114	1,953

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

6. Oil and gas properties

	\$'000
Cost as at 1 January 2016	56,659
Additions	37,808
Disposals	(28)
Cost as at 30 June 2016	<u>94,439</u>
Depletion and impairment as at 1 January 2016	(14,306)
Charge for the year	(283)
Disposals	13
Depletion and impairment as at 30 June 2016	<u>(14,576)</u>
Net book value as at 31 December 2015	<u>42,353</u>
Net book value as at 30 June 2016	<u>79,864</u>

7. Property and equipment

	Land, buildings, leasehold improvements	Automobiles	Other property and equipment	Total
	\$'000	\$'000	\$'000	\$'000
Cost as at 1 January 2016	812	1,296	1,398	3,506
Additions	-	656	255	911
Disposals	-	-	(6)	(6)
Cost as at 30 June 2016	<u>812</u>	<u>1,952</u>	<u>1,647</u>	<u>4,411</u>
Depreciation as at 1 January 2016	(39)	(651)	(705)	(1,395)
Charge for the year	(9)	(133)	(82)	(224)
Disposals	-	-	6	6
Depreciation as at 30 June 2016	<u>(48)</u>	<u>(784)</u>	<u>(781)</u>	<u>(1,613)</u>
Net book value as at 31 December 2015	<u>773</u>	<u>644</u>	<u>693</u>	<u>2,110</u>
Net book value as at 30 June 2016	<u>764</u>	<u>1,168</u>	<u>866</u>	<u>2,798</u>

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

8. Business acquisitions

In April 2016, DGO Group acquired 1,300 conventional natural gas and oil wells in Ohio and equipment from Eclipse Resources. The purchase consideration totaling \$4,800,000, comprised of cash of \$1,300,000 and a short-term note payable of \$3,500,000. Management considered the fair value of the reserves held in the assets acquired to be \$11,774,162, which was the 30% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The acquisition has been accounted for as a business acquisition under IFRS 3. The estimated fair values of the assets and liabilities assumed were as follows:

	\$'000
Oil and gas properties	11,774
Oil and gas properties (Decommissioning provision, asset portion)	2,443
Equipment	757
Decommissioning provision, liability	(2,443)
Other liabilities, long term (suspended royalties and customer deposits)	(89)
Gain on bargain purchase	(7,642)
	(7,642)
Purchase price	4,800

Since acquisition the assets acquired have generated \$2,984,000 to the group's revenues.

In June 2016, DGO Group acquired 2,400 conventional natural gas and oil wells in Pennsylvania from Seneca Resources Corporation. The purchase consideration comprised of a short-term note payable of \$3,550,000. Management consider the value of the reserves held in the assets acquired was \$20,119,793 which was the 35% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The estimated fair values of the assets and liabilities assumed were as follows:

	\$'000
Oil and gas properties	20,120
Oil and gas properties (Decommissioning provision, asset portion)	4,249
Decommissioning provision, liability	(4,249)
Gain on bargain purchase	(16,570)
	(16,570)
Purchase price	3,550

The assets acquired in both acquisitions included the necessary permits, rights to production, royalties, contracts and agreements that support the production from the wells.

Since acquisition the assets acquired have generated \$352,000 to the group's revenues.

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

9. Taxation

Beginning in tax year 2016, the DGO Group will file a consolidated U.S. federal income tax return and separate company state tax returns. To date, the 2015 consolidated U.S. federal tax returns have not been completed, thus the beginning deferred tax asset is unknown. The DGO Group does not anticipate any large tax liabilities, as the gain on bargain purchase is a book to tax difference and the gain on debt cancellation will be recognized on the pass-through returns of the members in tax year 2015.

10. Derivative financial instruments

a. Natural gas swap agreements

On 7 January 2016, DGO Group entered into a natural gas swap agreement to exchange 2,000 MMBTUs/day of natural gas during the period 1 February 2016 to 31 December 2016 at a fixed price of \$2.51 per MMBTU paid by the counterparty.

The effects of the natural gas swap agreements are recorded in the statement of comprehensive income.

b. Natural gas call/put option agreements

On 10 June 2016, the DGO Group entered into a three-way collar gas call/ option agreement to exchange 4,500 MMBTUs/day of natural gas during the period of 1 January 2017 to 31 December 2017 at a fixed price range of \$2.50 to \$3.00 to \$3.48 per MMBTU paid by the counterparty.

The effects of the natural gas call/put option agreements are recorded in the statement of comprehensive income.

c. Natural gas basis swap agreements

On 6 May 2016, DGO Group entered into a natural gas basis swap agreement to exchange 3,500 MMBTUs/day of natural gas during the period 1 June 2016 to 31 December 2016 at a fixed price of \$0.92 per MMBTU, paid by the counterparty and the Dominion Transmission Appalachian monthly settlement price to be paid by DGO Group.

The effects of the natural gas swap agreement were recorded in the statement of comprehensive income.

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

10. Derivative financial instruments (Continued)

d. Oil call/put option agreements

On 13 May 2016, the DGO Group entered into an oil put option agreement to exchange 250 BBLs/day of WTI Crude Oil during the period of 1 July 2016 to 31 December 2016 at a fixed price of \$43.00 per barrel paid by the counterparty. The DGO Group also executed an oil call agreement on 13 May 2016 to exchange 250 BBLs/day of WTI Crude Oil during the period of 1 July 2016 to 31 December 2016 at a fixed price of \$52.00 per barrel paid by the counterparty.

On 16 May 2016, the DGO Group entered into a three-way collar oil call/put option agreement to exchange 125 BBLs/day of WTI Crude Oil during the period of 1 January 2017 to 31 December 2017 at a fixed price range of \$37.00 to \$47.00 to \$59.00 per BBL paid by the counterparty.

The DGO Group agreed to the variable price per barrel equal to the arithmetic average of the daily settlement prices for the WTI first traded contract month on the New York Mercantile Exchange.

Effects of the oil put/call option agreements are recorded in the statement of comprehensive income.

The following table summarizes DGO Group's calculated fair value of derivative agreements:

	<u>30 June 2016</u>	<u>31 December 2015</u>
	\$'000	\$'000
Natural gas swap agreements	(474)	-
Natural gas call/put option agreements	(140)	(88)
Natural gas basis swap agreements	53	-
Oil swap agreements	-	105
Oil put option agreements	(121)	-
	<u>(682)</u>	<u>17</u>

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

11. Gain on foreign currency conversion

In June 2016, the British Pound experienced a sharp decline in value due to the United Kingdom voting to leave the European Union. DGO Group's British Pound to US Dollar conversion rate dropped from \$1.53 at 31 December 2015 to \$1.37. The \$603k gain on foreign currency conversion is the decline in the US Dollar conversion of the DGOPLC balance sheet.

12. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit/(loss) after income tax attributable to equity holders for the period as follows:

	30 June 2016	30 June 2015
Profit/(Loss) attributable to equity holders	37,094,000	(2,194,000)
Weighted average number of Ordinary Shares	40,100,000	40,100,000
Earnings per ordinary share	0.93	(0.05)

The 30 June 2015 calculation uses the Proforma number of shares, both basic and diluted, to reflect the number of shares following the stock reorganization transaction which occurred in 2015.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion there were no potential dilutive ordinary shares in issue. The effect of potential dilutive shares would be anti-dilutive and therefore are not included in the above calculation of diluted earnings per share.

DIVERSIFIED GAS AND OIL PLC
Notes to the Interim Consolidated Financial Statements
For the 6 month period ended 30 June 2016

13. 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 current year income the Group 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 comprehensive income (loss) plus or minus:

- finance costs, including accrued finance costs and deferred financing costs;
- depreciation, depletion amortization and accretion;
- gain on bargain purchase;
- net gains or losses on the valuation of commodity derivative contracts;
- net gains or losses on foreign currency translation;
- net gains or losses on disposal of property and equipment;
- acquisition costs; and
- potential initial public offering financing costs.

	6 months to 30 June 2016	6 months to 30 June 2015
	\$'000	\$'000
Operating profit/(loss)	23,936	(713)
Gain on bargain purchase	(24,212)	-
Fair value movement on open derivatives	699	316
Loss on disposal of property and equipment	-	2
Depreciation, depletion and amortisation	507	1,360
Acquisition costs	384	-
Adjusted EBITDA	1,314	965

14. Share capital

There has been no movement in share capital from the period ending 31 December 2015 to 30 June 2016.

15. Stockholder distributions

	6 months to 30 June 2016	6 months to 30 June 2015
	\$'000	\$'000
Stockholder distributions		
Cash to Robert R. Hutson, Jr. and Robert M. Post	538	-
Stockholder contributions		
Cash from Robert R. Hutson, Jr. and Robert M. Post	-	306

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16. Borrowings

Borrowings payable as at each of 30 June 2016 and 31 December 2015 consist of the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
	\$'000	\$'000
Note payable - Financing companies and institution, with interest rates ranging from 4.19% to 9.39%, maturing March 2015 through to October 2019, secured by automobiles.	384	305
Note payable - Financial institution, with interest rate of 3.25%, maturing December 2016, secured by oil and gas assets.	16,118	16,218
Note payable – unsecured revolving line of credit of up to \$50,000, with a rate of 10.25%, with an annual renewal term.	22	33
Note payable, Mezzanine lender, with interest rate of 12%, maturing 31 January 2018, secured by a mezzanine lien on oil and gas assets.	-	14,771
Financial institution, with interest rates ranging from 5%-6.90%, maturing July 2017 through to December 2020, secured by buildings.	99	113
Note payable – financial institution, with interest rate of 4%, maturing August 2016, secured by oil and gas properties.	3,225	3,285
Note payable - individual, with interest of 6.0%, maturing March 2016, unsecured.	280	420
Notes payable - individuals, with interest of 8.0%, maturing September 2017, unsecured.	104	116
Note payable – unsecured revolving line of credit of up to \$125,000, with a rate of Wall Street Journal Prime Rate plus 2% rounded to the nearest 0.125%, having a floor of 6% and a ceiling of 18%, with an annual renewal term.	-	17
Note payable - business institution, no interest rate, matured, remaining balance owed on building properties acquired, unsecured	125	725
Note payable – financial institution, with interest rate of Wall Street Journal Prime Rate plus 0.50%, maturing June 2016, secured by oil and gas properties.	2,000	2,000
Bonds payable - individuals and institutional investors, with interest of 8.5%, maturing June 2020, unsecured	13,009	6,375
Notes payable – Financing companies, with interest rates ranging from 10%-12%, maturing September 2016 through to November 2016, secured by oil and gas properties	6,650	-
Notes payable - individuals, with interest of 8.5%, maturing September 2016, unsecured	523	-
Total Borrowings	42,539	44,378

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16. Borrowings (Continued)

Borrowings payable as at each of 30 June 2016 and 31 December 2015 consist of the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
	\$'000	\$'000
Total Borrowings	42,539	44,378
Less current portion of long-term debt	(29,194)	(22,821)
Less deferred financing costs (see below)	(3,753)	(2,367)
Plus accrued finance costs (see below)	-	925
	<u>9,592</u>	<u>20,115</u>

Deferred financing costs as at each of 30 June 2016 consist of the following:

	\$'000
Deferred financing costs as at 31 December 2015	2,367
Additions	2,022
Charge	(170)
Foreign currency translation adjustment	(466)
Deferred financing costs as at 30 June 2016	<u>3,753</u>

Future maturities of the long-term notes payable as at 30 June 2016 are as follows:

	\$'000
Not later than one year	29,194
Later than one year and not later than five years	13,345
Later than five years	-
	<u><u>42,539</u></u>

During year ended 2015, the mezzanine lender had introduced settlement terms which were finalized in March 2016. Outstanding borrowings of \$14,771,000 and accrued finance charges of \$925,000 were settled in exchange for an immediate payment of \$950,000. The remaining balance, net of expenses, is recognized as a gain on debt settlement totaling \$14,149,000.