

Corporate Governance Disclosure

As an AIM-traded company, the board of Diversified Gas & Oil PLC (the “Company”) has determined to adopt the QCA Corporate Governance Code (the “QCA Code”), in the form as issued by the Quoted Companies Alliance in April 2018. The QCA Code identifies ten principles of good governance for companies to apply and against which companies must publish certain specified related disclosure.

The board of the Company recognizes the benefits of good governance and is seeking to apply this in a meaningful way. The Company finds itself as the parent of a rapidly evolving group (the “Group”) which is in an expansion and transition phase. Accordingly, the board is acutely aware of the need to rapidly and effectively integrate new businesses into the reporting and governance framework of the Company, as determined by the board. The Company therefore finds itself in the front line of balancing the three fundamental elements of good governance, namely to:

1. deliver business growth; and
2. build trust; whilst
3. maintaining a dynamic management framework.

The Company appreciates the importance of good and effective communication and remains in close contact with its shareholders and other stakeholders.

The Company is actively engaged in the process of putting in place a governance framework for its rapidly expanding business. As part of this process the board expects to appoint an additional non-executive director and is currently seeking a suitable candidate with relevant financial experience in order to strengthen the Company's Audit Committee.

The sections below set out the ways in which the Group applies the ten principles of the QCA Code.

1. Establish a strategy and business model which promote long-term value for shareholders

The Group’s strategy and business model has been developed by the Chief Executive and his senior management team and has been approved by the board and clearly stated to the market. Amendments to this strategy will similarly be developed by the senior management team and approved by the board.

The management team, led by the Chief Executive, is responsible for implementing the strategy and managing the business at an operational level.

Our business model and strategy is summarised on page 4 of the 2017 Annual Report which states that our strategy is to acquire new, and manage existing, oil and natural gas properties to generate cash flows, and return cash to shareholders through our proven dividend policy. To date, the Group has focused its operation of conventional natural gas and oil assets in the Appalachian Basin in the Northeastern United States. The board considers this to be a clear and focused business model which minimizes operational, financial and legal risk to shareholders.

The Group’s business model focusses on driving value maximization for shareholders by enhancing production from acquired and existing wells through operational and cost efficiencies, both by reducing 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.

The strategy is set out in greater detail on our website <https://www.dgoc.com/about-us/our-strategy> .

2. Seek to understand and meet shareholder needs and expectations

Each of the directors attaches great importance to maintaining good relationships with the Company's shareholders. The Annual General Meeting (AGM) provides a formal opportunity for all shareholders to communicate with and to question the board on any aspect of the Group's activities. Extensive information about the Company's activities is included in the Annual Report and the Interim Report. The Company also issues regular updates to shareholders in the form of regulatory announcements, press releases and audiocast presentations. The Company also makes available to all shareholders copies of its investor presentations and other information.

These documents can be found within the 'Document Downloads' section of the 'Investor Relations' tab on the Company's website. <https://ir.dgoc.com/document-downloads> .

In addition, any shareholder who wishes to raise any issue is invited to do so, either by contracting the Chief Executive, the Chief Financial Officer or any non-executive director.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

Our business model and strategy are clearly summarised on page 4 of the 2017 Annual Report.

The Group is aware of its corporate social responsibilities and the need to maintain effective working relationships across a range of stakeholder groups. These include the Group's employees, industry partners, suppliers, customers and regulatory authorities involved across the Group's activities. The activities of the Group have the potential to impact on local communities, including land owners, where our assets are located and the environment more generally. Accordingly, the Group has in place positive strategies to engage with each stakeholder group, whether individually or collectively, as part of its ongoing operations.

The Group's operations and working methodologies take account of the need to balance the needs of all of these stakeholder groups whilst maintaining a primary focus on the promotion of the success of the Group for the benefit of shareholders as a whole. A broad range of stakeholders, including our supply chain partners, our employees and taxing authorities benefit when the Group is successful. The directors attach great importance to maintaining good relationships with shareholders, as set out on page 28 of the 2017 Annual Report.

We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible the wishes of stakeholders are considered. The operations of the Group need to be carefully managed and conducted in order to reduce environmental impact, enhance rather than impair communities and to protect our employees and others who operate at our assets. We adopt an open-door policy from the executive team down where employees are able to voice their opinions and make suggestions. Our strategy is set out on the website <https://www.dgoc.com/sustainability/health-safety-environment> .

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

As we have already noted in the narrative setting out the manner in which principle 3 above has been applied, positive management of risk is integral to all of the Group's activities. Each member of the executive management team 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 the Group's risk exposure and reviews of its risk management are regularly undertaken and presented to the board of directors. The Audit Committee is responsible for overseeing risk management and it is through this committee that the effectiveness of the Group's internal controls is reviewed annually.

The board has determined what it considers to be the principal risks and uncertainties facing the Group, as well as mitigating actions. These are set out in further detail on page 23 of the Group's 2017 Annual Report.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the board. The Group has a system of regular financial and operational reporting which will flag up unexpected results almost immediately in order that trends may be observed and/or mitigating actions taken. Actual performance, compared with the budget, is reported to the board on a monthly basis.

The Group maintains appropriate insurance cover in respect of its activities. The insured values and type of cover are comprehensively reviewed on a periodic basis.

5. Maintain the board as a well-functioning, balanced team led by the chair

DGO's board currently comprises three Non-executive Directors and two Executive Directors. The biography of each director is set out on the Company's website <https://www.dgoc.com/governance/board>.

Two of the Non-executive Directors are based in the UK, with the rest of the board based in the United States.

This board has proven to be a nimble team which works well together, as demonstrated by the growth of the Company since it first came to AIM.

The skills and experience of the Non-Executive Directors are wide and varied and they provide constructive challenge in the boardroom, bringing together both industry knowledge and objective analysis.

The board offers effective leadership of and overall management to the affairs of the Group. The board approves the Group's strategy and investment plans and regularly reviews operational and financial performance and risk management matters. Matters reserved for board decision include 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 will hold at least six 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's three committees (Audit, Remuneration and Nomination Committees) which have clearly defined terms of reference, as well as to the executive team.

The board considers each of Martin Thomas and David Johnson to be Independent Directors. The Company is delighted that each of Martin Thomas and David Johnson has decided to invest personal funds into ordinary shares in the Company. The Company believes that these investments demonstrate an alignment of interests between the non-executive directors and the Company. However, the size of these holdings represent less than 1% per cent. of the Company's issued share capital and therefore the Company does not consider the size of the holding to compromise independence.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Each of the directors brings much-needed skills and experience to the board, as is demonstrated by the biographies set out on the Company's website <https://www.dgoc.com/governance/board>.

As DGO grows, the Directors and Executive Management continue to review and adjust its 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 composition of the board is kept under review to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Group and is actively engaged in developing key members of the management team.

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary. It is the responsibility of the Company Secretary to ensure that all board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Prior to the publication of our 2018 annual report and accounts we intend to carry out a structured review and evaluation of the performance of the directors as a unit in order to maximize the effective and productive operations of the board. The board has not yet determined the extent to which the evaluation will bring in external contributions. However, the board expects to repeat a form of evaluation exercise in each year and anticipates an element of external facilitation within the first two years.

The following areas will be covered by the review:

- Assess how well the board is addressing the key business risks and adhering to internal controls;
- Assess the progress made in realising the assets and returning the net proceeds to shareholders;
- Understanding of the viewpoint of the Company's shareholders;
- Reduction of ongoing operating costs where possible;

- Compliance with current and prospective legislation and regulations;
- Sufficient succession planning;
- Performance of roles of committees;
- Directors' self-assessment of awareness of current issues faced by the Company;
- Personal development requirements and ensuring they are satisfied;
- Level and quality of information provided by service providers; and
- Additional relevant areas.

All board members will be asked to complete questionnaires providing a rating across a variety of criteria. Completed questionnaires will then be submitted to the Company Secretary who, where necessary, will seek clarification on any responses given. The responses will be collated and consolidated so that the board can have an open follow-up discussion, potentially involving third parties. Conclusions reached will result in an agreed set of actions, with timescales.

8. Promote a corporate culture that is based on ethical values and behaviours.

The board seeks to maintain the highest standards of integrity and probity in the conduct of the Group's operations seeking to lead by example and to act at all times in the best interests of the Company.

These values are enshrined in the written policies and working practices adopted by all Group employees. An open culture is encouraged across the Group, with regular communications to staff regarding progress. The senior management team regularly monitors the Group's cultural environment and seeks to address any concerns that may arise, escalating these to board level as necessary.

The Group is committed to providing a safe and supportive environment for its staff and all other persons for whom the Group has a legal or moral responsibility. The Group has an environmental, health and safety team (the "EHS team") which combines the skills of members of the senior management team with operational specialist who regularly attend our assets. This EHS team is responsible for environmental, health and safety policies and issues and meets regularly to monitor, review and make decisions concerning health and safety matters. The Group's health and safety policies and procedures are enshrined in the Group's documented quality systems, which encompass all aspects of the Group's day-to-day operations. The EHS team reports to the Audit Committee and the board, as appropriate and contributes to the work of each.

The Company operates in a clear and transparent manner, whether dealing with its employees, its supply chain partners or its investors.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

The board has overall responsibility for promoting the success of the Group. The Executive Directors have day-to-day responsibility for the operational management of the Group's activities. The Non-executive Directors are responsible for bringing independent and objective judgment to board decisions.

There is a clear separation of the roles of Chief Executive Officer and Non-executive Chairman.

The Chief Executive Officer has the responsibility for implementing the strategy of the board and managing the day-to-day business activities of the Group.

The Chairman is responsible for overseeing the running of the board, ensuring that no individual or group dominates the board's decision-making and ensuring the Non-executive Directors are properly briefed on matters. The Chairman has overall responsibility for corporate governance matters in the Group, including the preparation of a corporate governance statement to explain the way in which the Company has applied the QCA Code, to identify any areas in which the Company's governance structures and practices differ from the expectations set by the QCA Code and identifies key governance related matters that have occurred during the year.

The board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with formally delegated duties and responsibilities.

The Audit Committee

The Company has established an Audit Committee, which comprises (as its Chairman) Bradley Gray (Finance Director), David Johnson and Martin Thomas. The Audit Committee's main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant, considering annual and interim accounts and audit reports, making recommendations to the board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications. As previously mentioned, the Company is particularly seeking to strengthen this committee by appointing an additional non-executive director who has relevant financial experience and qualification.

The Remuneration Committee

The Company has established a Remuneration Committee, which comprises David Johnson (Chairman), Robert Post and Martin Thomas, and meets as often as required to enable the Remuneration Committee to fulfil its obligations to the Company. The Remuneration Committee is 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 the Group. The Remuneration Committee also approves the design of and determines targets for any performance-related pay schemes operated by the Company.

The Directors believe that the above disclosures combined with the other statements and disclosures contained within the Group's 2017 Annual Report constitute sufficient disclosure to meet the QCA Code's requirement for a Remuneration Committee Report. Consequently, a separate Remuneration Committee Report was not presented in the Group's 2017 Annual Report¹.

The Nomination Committee

The Company has established a nomination committee, which comprises Robert Post (Chairman), David Johnson and Martin Thomas, and will meet as often as required to enable the nomination committee to fulfil its obligations to the Company. The nomination committee has responsibility for reviewing the structure, size and composition of the board and recommending to the board any changes required for succession planning and for identifying and nominating for approval of the board candidates to fill vacancies as and when they arise. The committee will also be responsible for reviewing the results of the board performance evaluation process and making recommendations to the board concerning suitable

candidates for the role of senior independent director and the membership of the board's committees and the re-election of directors at each annual general meeting.

In addition, the Company has attracted and appointed a very skilled and talented team of executives and managers to support the operations of the executive and the functions of the board. The Company believes that it has in place a resilient and effective set of governance structures and processes which are fit for purpose and which support good decision making throughout the Group.

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Group considers the provision of regular high-quality information to be vital. The Group seeks to engage with each of its various stakeholder groups in a manner which is appropriate to that group, whilst also ensuring that all communications concerning the Group's activities are clear, fair and accurate. The Group's website is regularly updated and users can register to be alerted when announcements or details of presentations and events are posted onto the website.

The Group's financial reports, announcement and investment presentations can be found here <https://ir.dgoc.com/document-downloads> .

The 2017 Annual Report and Accounts can be found at **2017 Annual Report** <https://ir.dgoc.com/document-downloads> .

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If you should have any questions related to the contents of this policy statement, please inquire via email to Adrian Williams, Investor Relations Manager at ir@dgoc.com.

Last Reviewed: 27 September 2018