

Diversified Gas & Oil PLC
("DGO" or the "Company")
Final Results for the year ended 31 December 2019

Diversified Gas & Oil PLC (AIM: DGO), the US based owner and operator of natural gas, natural gas liquids, and oil wells and midstream assets is pleased to announce the publication of its annual results for the year ended 31 December 2019.

Key Highlights

- Exited 2019 producing 94.8 MBoepd from long-lived wells
 - ~0% net decline from the Company's legacy¹, largely conventional assets providing stable production
 - Reinvested just 6% of Adjusted EBITDA² (hedged) as recurring CapEx (generating a ~25% free cash flow yield)
- Final dividend of 3.50c/share making the total dividend for the full year 13.92c/share (2018: 11.225c) an increase of 24%
- Dividends protected by:
 - Hedging programme that protects cash flow with:
 - ~90% of 2020 production hedged at a floor of \$2.70/MMBtu
 - ~66% of 2021 production hedged at a floor of \$2.66/MMBtu
 - Current hedge book valued at ~\$61million at 31 December 2019
 - Adjusted EBITDA (cash operating) margins ~53% (48% unhedged) reflective of low unit operating costs including G&A of just \$1.29/Mcfe in FY19 (4Q19 exit rate \$1.18/Mcfe)
- Reduced debt with average monthly principal payments of ~\$13 million in 4Q19 in addition to \$23 million of dividend payments and \$5 million of share buybacks; gearing sits at 2.3x on a declining trajectory net of monthly payments
- Progressed proposed move to the Premium Segment of the Main Market with targeted move in 1H2020, subject to regulatory approvals

Other Operational Highlights

- **Record net production reflective of acquisitions and Smarter Well Management activities:**
 - Legacy assets continued to produce ~70 MBoepd, marking ~no declines for six consecutive quarters
 - Average daily production of 84.8 MBoepd up >2x over prior year (2018: 41 MBoepd)
 - December 2019 exit rate production of 94.8 MBoepd, up ~35% vs 2018 (2018: 70 MBoepd)
 - Smarter Well Management returned ~750 non-producing wells to production during 2019 including ~190 in 4Q19
- **Total 1P Proved-Developed-Producing ("PDP") reserves of 563 MMBoe up 19% from prior year-end (2018: 474 MMBoe)**
 - PV10 (pre-tax) reserve value of \$1.9 billion, 100% PDP
- **Upstream and midstream acquisitions total ~\$430 million (net)**
 - Upstream: HG Energy and EdgeMarc unconventional assets increased scale and reduced unit operating expenses
 - Monetised EdgeMarc PUDs and undeveloped acreage for \$10 million
 - Midstream: Dominion and Equitrans gas gathering assets enhance cash margins and add control, resource flow optionality and third-party revenue

Other Financial Highlights

- **Adjusted EBITDA² (hedged) of \$273 million funded significant dividends and share buyback**
 - Hedged margin of 53% unchanged from 2018 despite 15% lower NYMEX natural gas prices in 2019
 - Realised commodity price of \$2.36/Mcfe unhedged (\$2.09/MMBtu) and \$2.63/Mcfe hedged (\$2.33/MMBtu)
- **Distributions to shareholders in 2019 totalled \$135 million or ~49% of Adjusted EBITDA (hedged)**
 - Dividends paid in 2019: \$82 million (13.62c/share), up 71% (2018: 7.98c/share)
 - Share repurchases: \$53 million (~38.7 million shares) (2018: \$0)
- **Acquisitions and operational efficiencies continue to drive down unit operating costs:**
 - 4Q19 vs 4Q18
 - Base lease operating expense down 32%: \$0.45/Mcfe (\$2.67/Boe) (2018: \$0.66/Mcfe or \$3.97/Boe)
 - Total operating expense down 13%: \$1.05/Mcfe (\$6.27/Boe) (2018: \$1.20/Mcfe or \$7.19/Boe)
 - Adjusted G&A expense down 36%: \$0.14/Mcfe (\$0.82/Boe) (2018: \$0.22/Mcfe or \$1.32/Boe)
 - 2019 vs 2018
 - Base lease operating expense down 30%: \$0.55/Mcfe (\$3.31/Boe) (2018: \$0.79/Mcfe or \$4.73/Boe)
 - Total operating expense down 9%: \$1.09/Mcfe (\$6.54/Boe) (2018: \$1.20/Mcfe or \$7.21/Boe)
 - Adjusted G&A expense down 13%: \$0.20/Mcfe (\$1.17/Boe) (2018: \$0.22/Mcfe or \$1.34/Boe)
- **Net debt at year end of \$637 million (equivalent to 2.3x Net debt/Adjusted EBITDA)**
- **Currently liquidity of ~\$230 million**

¹ Legacy assets include those owned prior to the Company's most recent 2019 acquisition of unconventional assets from HG Energy and EdgeMarc Energy.

² Adjusted EBITDA represents earnings before interest, taxes, depletion, depreciation and amortisation and adjustments for non-recurring items such as gain on the sale of assets, acquisition related expenses and integration costs, mark-to-market adjustments related to the Company's hedge portfolio, non-cash equity compensation charges and items of a similar nature.

Commenting on the results, CEO and Founder Rusty Hutson said:

"The past year has been one of significance for the Company and has seen us achieve a number of key milestones as we build upon the strong growth platform that we have created. This year we achieved peak production of over 96 MBoepd, cementing ourselves as one of the largest independent producers on the London Stock Exchange. This level of production and our focus on operational efficiencies have allowed us to generate strong levels of free cash flow ensuring that, when combined with our strong hedge book and innovative financing instruments, we create significant shareholder value whilst continuing to maintain a healthy balance sheet. Our strategy remains focused on generating growth through acquisition, integration and efficient operations, whilst continuing to strengthen our foundations of business systems and corporate governance."

"In preparation for our proposed move to the Main Market, and as a matter of good business practice, we made tremendous progress in 2019 in expanding the composition, independence and experience of our Board. Further, we expanded the Committees of our Board to include a new Sustainability and Safety Committee that will prove invaluable to DGO as we continue our efforts of monitoring, enhancing and reporting our sustainability and stewardship efforts.

"We recognise that the environment in which we operate includes elements beyond our control, including weakness in natural gas prices due to excessive supply growth, a mild 2020 winter season and other macro-economic headwinds. However, as a company and to ensure we continue to deliver consistent and dependable shareholder value, DGO must and will remain focused on those aspects of our business that we can control - opportunistic hedging leveraging our long-life and low decline asset base, improved operational practises to reduce our unit cost expenses, and wise capital allocation to ensure that every dollar spent earns an appropriate return. We remain firm in our belief that our unique business model, built on low-cost, efficient operations, will allow us to sustain the current low U.S natural gas price environment. This business model, which clearly differentiates DGO from our peers, can support our ongoing ability to generate cash flow and strong margins, fund dividends, and create long-term value as we look forward to the year ahead."

Results presentation and audiocast

An analyst presentation will be held at 9.00am GMT today at the offices of Buchanan, 107 Cheapside, London, EC2V 6DN.

The presentation will be made available on the Company's website, www.dgoc.com.

An audiocast of the presentation can be accessed shortly after the live presentation concludes through the following link:

<https://www.dgoc.com/news-events/events>

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DGO Chairman's Statement

As my first statement to shareholders as Chairman, I am delighted to report the business' continued progress and development. Against a challenging industry backdrop the resilience of our business model is evident, and I am very proud of the way we maintain our focus on our strategy to deliver consistent profitable cashflow from our low-cost asset base. The primary objective this year was to build on the foundations of transformational growth delivered in the prior year by ensuring the Company is well structured to realise maximum value for the future.

During the year, we made various acquisitions that further diversified and strengthened our portfolio, and demonstrated our ability to identify low-cost, accretive assets that unlock further value from the existing portfolio by delivering synergies and optionality. Our Smarter Well Management programme remains effective in terms of maintaining steady production that offsets the natural declines and highlights the organic opportunities that remain within our large portfolio of assets.

In line with our ambition to continue to grow DGO by executing on, and staying disciplined to, our strategy, we set in motion the plan to obtain an admission of our ordinary shares for listing on the Premium Segment of the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange. To that end the Company has undertaken a thorough review of all aspects of the business to ensure the appropriate framework will be in place to support this goal. As part of this review, and desiring to align our accounting and legal oversight with the demands of the larger and more complex organisation which DGO has become, we appointed PricewaterhouseCoopers, LLP as our new registered public accounting firm and Latham & Watkins LLP as our new lead legal counsel.

Alongside the continued focus on our strategy, we achieved significant milestones in strengthening core areas of the business. Our stakeholders continue to place increasing focus on corporate governance, and we responded to these changes with rigour, engaging external consultants to advise on best practices including Board independence, composition, diversity and the effective rollout of our Environmental, Social and Governance ("ESG") programme. We made good headway on this during the year, with the appointment of three new Independent Non-Executive Directors to the Board as well as my new role as independent Non-executive Chairman. David Turner now chairs the Audit and Risk Committee, and Sandy Stash and Melanie Little bring significant operational knowledge to the Board with their appointments. All three new Directors have been excellent additions, strengthening and diversifying our governance structures, taking the Board to eight members with four being independent.

The appointments also bring essential experience in terms of sustainability and meeting the requirements and expectations of the ESG community. We will soon launch our inaugural 2019 Sustainability Report which provides insight into the economic, environmental and social impacts of our activities, as well as our plans to mitigate any impacts and risks. Our Sustainability Report will also show that our business model results in environmental stewardship as we invest in improving the operational integrity and safety of mature producing wells. These investments generate positive returns for the communities in which we operate and for our shareholders. Climate change is a complex global issue and a concern of many of our stakeholders, thus we want to ensure we conduct our business with transparency and responsibility. The exploration and production ("E&P") landscape is broad, and whilst, as an operator of mostly mature existing natural gas wells, we are not faced with the same risks associated with development companies or explorers, we wholly recognise the importance of transparent communications around our activities and the correlation with overall performance. We strive to adhere to quality operating standards, with a strong focus on health, safety and environment to provide for the safety of our people, local communities and the environment in which we operate. You can read more about our ESG efforts in the Sustainability Report included in our 2019 annual report.

Robert Post has decided to step down from the Board at the time of the Annual General Meeting in April this year. Mr. Post was instrumental in founding the Company, together with Rusty Hutson, and was my predecessor Chairman. His knowledge of the industry and wise guidance has been invaluable as the Company has grown, and I would like to thank him, on behalf of the Board, for his outstanding contribution to the success of the Company. Mr. Post remains a sizeable shareholder, and we welcome him continuing to take a keen interest in the Company.

Maintaining a healthy capital structure is fundamental to the success of any business, especially one that is committed to returning cash to shareholders through regular dividends. This year signified the introduction of our innovative first asset-backed securitisation, a unique financial instrument in the gas and oil market, and an additional stepping-stone towards an optimal capital structure that reinforces the longevity and financial well-being of the Company. We already stand out in the market due to our unique business model, and this financial instrument further demonstrates our pioneering approach within the sector.

The Board is recommending a final dividend of 3.50 cents per share making the total dividend attributable to the full-year 13.92 cents per share (2018: 11.225 cents per share). If approved, the final dividend will be paid on 26 June 2020 to those shareholders on the register on 5 June 2020.

This year was another successful year for DGO, and I would like to thank our employees for the hard work and dedication that continues to drive our performance. I also wish to thank our shareholders, debt holders and other stakeholders for their support, which underpins our strategy and objectives. Looking ahead, we will continue to do what we do best as we work towards moving to the Main Market of the LSE, a milestone we believe reflects the progress and ambition of the business, and explore more ways in which to deliver sustainable value to our shareholders.

David E Johnson
Chairman of the Board

Chief Executive's Statement

Introduction

The year ended 31 December 2019 was defined as one in which the Company continued its strategic development and enhanced its overall structure to ensure its ability to deliver sustainable, long-term growth and returns for our shareholders.

The prior year had been truly transformational, with a series of material acquisitions that delivered a step-change in production and the financial profile of the Company. During 2019, the Company's focus was on optimisation and value realisation from the enlarged portfolio, whilst also delivering further material value-accretive and strategically synergistic acquisitions in line with our growth strategy.

The Company continued its unwavering strategic focus on operating efficiencies and financial discipline, ensuring the Company delivered growth and value for shareholders, despite the challenging environment that impacted the US natural gas market through the second half of the year. It is the Company's unique business model that sets DGO apart from its regional and quoted peers and provides the resilience to deliver these robust operational and financial results set out within this report. Consistent with the message delivered since coming to market in 2017, DGO is not a traditional E&P, and it is the "DGO Difference", defined as its focus on low-risk cash flow and shareholder returns, that underpins its investment proposition.

As alluded to in the Chairman's Statement, the Company also delivered considerable progress in enhancing our governance structures and responding to the requirement for more transparent communications with regard to the sustainability of our operations. DGO's long-term growth ambitions will be better supported by the initiatives delivered in the year, and the Company remains well-positioned to mark the next notable milestone in its development by moving onto the Premium Segment of the Main Market in the months ahead.

A Top Tier Producer with a Sustainable Strategy

DGO's exit rate for 2019 was 94.8 MBoepd, representing an increase of 35% from the prior year. At these volumes, DGO has established itself as a prominent independent producer on the London market. Such has been the rate of growth since our admission to AIM in 2017, that the original portfolio of assets with which we came to market now represents just 3% of the current portfolio.

The Company's focus has been, and will continue to be, on natural gas, whether it be from conventional or unconventional wells. DGO's business model is based on a portfolio of assets with a consistent profile, being producing gas wells that have either reached or nearing a production plateau, thereby providing long-term visibility on production and associated cash flow. Currently, all of DGO's production comes from an asset base spanning the Appalachian Basin, where the geographic proximity of the wells, supported by a sizeable midstream operation, helps protect and enhance margins, even in the low-price environment currently being experienced in our market. This unique model is proven, supported through consistent profitability and significant shareholder returns, and the effectiveness of the model improves with scale. While the current focus is solely in Appalachia, a region that continues to provide running room for further inorganic growth, we believe the model can be replicated in similar producing basins in the US and we regularly screen opportunities outside of Appalachia.

DGO's acquisition strategy is effective in any pricing environment. In a high price environment, vendors may divest of non-core assets as they seek to accelerate drilling. In the low commodity price environment, as we are currently experiencing, opportunities arise as sellers seek to divest in order to provide an essential source of capital in an otherwise capital-constrained market. Having completed some \$1.5 billion of acquisitions since 2017, DGO has proven its ability to identify, execute and integrate corporate and asset type transactions that fit with our growth strategy, and has subsequently established itself as one of the leading consolidators in this market. The Company will continue to adopt our disciplined approach to inorganic growth, acquiring assets that meet the strict criteria of being value accretive, margin-enhancing and strategically complementary. Furthermore, the Company is committed to maintaining balance sheet leverage below 2.5x Net Debt/Adjusted EBITDA and will continue to fund inorganic growth through a prudent mix of debt and equity.

Delivering on our Strategic Objectives

DGO has demonstrated that it is a top tier producer with a sustainable strategy that continued to deliver results for shareholders through its clearly stated objectives, underpinned by its exceptional assets. It has long been a part of DGO's business model to return to shareholders approximately 40% of its free cash flow in the form of dividends. During 2019 we paid some \$82 million in dividends to our shareholders. These dividends totaled 13.62 cents/share, an increase of more than 70% as compared to the dividends paid in 2018 of 7.98 cents/share. In addition, as a complement to our dividend policy, our one-year share buyback programme which

commenced in April 2019 represented another \$53 million in funds directed back to shareholders in 2019. Together, the dividend and share repurchase programmes returned approximately \$135 million to shareholders, representing nearly 50% of our 2019 hedged Adjusted EBITDA of \$273 million.

Our proactive approach to hedging also provided indirect tangible benefits for our shareholders, as hedge gains during the year added nearly \$50 million in revenues. Our hedge strategy of opportunistically layering on appropriately structured hedge contracts at advantageous prices and tenors allows DGO to capitalise on beneficial price movements in a constantly changing forward gas price market. Heading into 2020, for example, approximately 90% of our gas production is hedged at a NYMEX floor price of \$2.70/MMBtu, a strong premium to the current gas price curve.

The following table highlights summary financial metrics for the Group:

Stated Objective	Unit	FY2018	FY2019	% Change vs 2018FY
Grow through accretive acquisitions	\$m	\$ 938	\$ 430	(54)%
Increase production	MBOEPD	41.0	84.8	107 %
Increase proved-developed-producing reserves	MMBOE	474	563	19 %
Increase PV-10 reserves	\$b	\$ 1.6	\$ 1.9	19 %
Increase revenue (Hedged) (a)	\$m	\$ 274.0	\$ 511.7	87 %
Increase revenue (Un-hedged)	\$m	\$ 289.8	\$ 462.3	60 %
Reduce operating costs (b)	\$ per BOE	\$ 7.21	\$ 6.54	9%
Reduce unit recurring G&A (c)	\$ per BOE	\$ 1.34	\$ 1.17	13%
Adjusted EBITDA (Hedged)	\$m	\$ 146.2	\$ 273.3	87 %
Adjusted EBITDA Margin (Hedged)	%	53 %	53 %	0 points
Adjusted EBITDA (Un-hedged)	\$m	\$ 161.9	\$ 223.8	38 %
Adjusted EBITDA Margin (Un-hedged)	%	56 %	48 %	-8 points
Dividends paid	c/share	\$ 0.0798	\$ 0.1362	71 %

(a) Includes the impact of settled hedges.

(b) Includes base lease operating expenses (such as maintenance, repairs, insurance, employee and benefits and automobile expenses), owned gathering and compression expense, third-party gathering and transportation expense and production taxes.

(c) See Note 4 below for more information regarding recurring G&A.

Climate Consciousness

The theme of climate change is generating more momentum globally, and DGO is wholly committed to environmental stewardship. At DGO, we have a robust approach to sustainability, underpinned by our commitment to high standards of corporate behaviour, social responsibility, and environmental stewardship. Consistent with our growth strategy, one of our fundamental operational objectives and differentiating factors is our disciplined emphasis on managing later-life producing wells fully to their natural end of life potential before safely and responsibly retiring those wells.

With approximately 99% of total production being from existing natural gas and natural gas liquids ("NGLs"), DGO is supporting the US' drive to reduce carbon dioxide emissions. Approximately 37% of total US natural gas supply comes from Appalachia, and that production continues to be a major contributor to the consistent and substantial reductions in US carbon dioxide emissions.

Environmental Stewardship

Our commitment to environmental stewardship is unwavering and is a foundational aspect of our business model, and we recognise and embrace our responsibility as an operator of approximately 60,000 producing wells across the Appalachian Basin. We have always made provisions for our well asset retirement obligations, and we continue to enhance and, in some cases, extend our multi-year arrangements with the various state environmental regulatory agencies to strengthen our commitments.

In March 2019, we were pleased to complete a 15-year agreement with the Pennsylvania Department of Environmental Protection ("DEP") setting out the Company's asset retirement obligations. This agreement was a significant event for DGO given the Company operates approximately 23,000 wells within Pennsylvania. The visibility afforded by this agreement was further supplemented by a five-year agreement in Kentucky announced in February 2019, that was subsequently extended in October 2019 by an additional five years.

These new agreements followed DGO's demonstration of its ability, and commitment, to successfully return to production wells acquired from previous operators, thereby having a positive environmental and economic impact in these states through job creation, taxation and other economic stimuli around these wells.

DGO now has agreements of ten years or longer with Kentucky (10 years), Pennsylvania (15 years; extendable to 20 years) and West Virginia (15 years) covering more than 75% of our total gas and oil wells with related bonding arrangements in these states approximating \$12.5 million in aggregate. Including the Company's existing 5-year agreement with Ohio, DGO has agreements in place that cover more than 98% of our total gas and oil wells.

These agreements provide certainty for each of the states of our commitment to fulfil our obligations as an operator of gas and oil wells, whilst providing all parties with clear long-term and transparent visibility into our asset retirement activities, the related liabilities and our ability to fund retirement from free cash flow. During 2019, DGO plugged ~100 wells at an average cost of approximately \$24,200 per well throughout Kentucky, Pennsylvania, Ohio, and West Virginia meeting our obligation for each state and demonstrating our commitment to environmental stewardship. Furthermore, we continue to look for innovative ways to reduce the impact on the environment during our retirement activities.

More Strategic Growth

The Company's rapid growth trajectory has been predicated on M&A, as we took advantage of a compelling divestment window in the Appalachian Basin to achieve scale through a targeted acquisition strategy. While the scale of acquisitions in 2019 did not match the transformational growth achieved in the prior year, DGO delivered a number of material and bolt-on transactions with the same strategic focus and entrepreneurial spirit. The acquisitions of assets from HG Energy and EdgeMarc Energy enhanced and diversified production whilst two natural gas gathering system bolt-ons helped expand our midstream capabilities and enhance the financial synergies and operational efficiencies of the overall portfolio. The successful integration of these assets is largely complete, and the producing wells are performing in line with our expectations.

The \$400 million (gross) acquisition of assets from HG Energy in April 2019 added combined net daily production of over 20 MBoepd from 107 unconventional producing wells. These unconventional assets represented the first wholly unconventional asset package DGO has acquired yet further demonstrated our stated objective of acquiring producing assets which offer synergistic opportunities for operational efficiencies due to their similar productive profile and geographic proximity. The proximity of the HG assets in Pennsylvania and West Virginia did exactly this and took net production to over 90 MBoepd. The acquisition was funded through a combination of a placing of new shares with existing and new shareholders that raised \$234 million (gross) and a drawdown from the Company's existing credit facility.

In July 2019, we announced that DGO had entered into a "stalking-horse" Asset Purchase Agreement with EdgeMarc Energy Holdings, debtors-in-possession under title 11 of the United States Code, pursuant to voluntary petitions for relief filed under chapter 11 of the United States Bankruptcy Code. In August 2019, we confirmed that our bid of \$50 million (or approximately \$48 million in cash after customary purchase price adjustments) had been successful and the transaction was funded through existing debt. The assets acquired included 12 producing unconventional Utica natural gas wells with associated production (~99% gas) of approximately 46 MMcfe per day (~7.7 MBoepd) and related facilities in Monroe and Washington counties within the State of Ohio, three drilled but uncompleted wells ("DUCs"), and undeveloped land containing deep Utica rights. DGO also paid approximately \$1.6 million (net of hedge cash settlements from the 1 August 2019 effective date) for EdgeMarc's natural gas financial hedge portfolio.

This highly accretive acquisition exemplified DGO's entrepreneurial nature and ability to identify unique opportunities and execute transactions on compelling valuation multiples that are in line with our stated strategy. This point was further supported by the update in November 2019 in which we announced the sale of the non-producing assets - including the three drilled but uncompleted wells ("DUCs") - for a total of \$10 million. This transaction successfully monetised assets that were not in line with our core strategy and reduced the net cost of the 12 producing wells by some 20% to only \$38 million. Furthermore, it demonstrated commitment to efficiently operate producing assets, reduce debt and enhance liquidity in order to consider other assets that fit our stated strategy.

As well as expanding upstream production to approximately 94.8 MBoepd, DGO also completed the purchase of two separate natural gas gathering systems in Pennsylvania and West Virginia in September. The assets, purchased from Dominion Gathering and Processing, Inc. and Equitrans, L.P. for total cash consideration of \$7.7 million including purchase price adjustments, comprise approximately 1,700 miles of low-pressure wet and dry gas gathering pipelines together with compressors, measurement stations and related facilities and equipment. Combined with our existing southern midstream system, DGO now owns and operates approximately 12,000 miles of natural gas gathering and transporting pipelines across the Appalachian Basin.

The ability to control the flow of our gas while simultaneously increasing our market optionality and net cash margins is a core aspect of DGO's strategy and business model.

DGO's expanding midstream provides multiple operating and financial efficiencies including:

- Increases third-party midstream revenues from tariffs charged and production volumes retained and sold that together partially offset costs to operate the systems
- Allows control of gas production flow through these systems, thereby increasing optionality to re-route gas to sales points with higher realised prices that would expand cash margins
- Eliminates the risk of future rate increases to move gas on the systems, which further insulates DGO's low operating cost structure
- Advances synergies with our existing midstream network, allowing for operating and staffing optimisation to reduce the assets' operating costs
- Provides visible opportunities to deploy DGO's expertise to enhance the systems' efficiency with incremental, low-cost and short pay-back maintenance initiatives

The DGO Difference

A core aspect of DGO's business model is our ability to extract maximum value from acquired assets by deploying rigorous field management programmes that optimise production, extend well life and create efficiencies that reduce unit operating costs and improve margins. We refer to this as the DGO Difference, and it's our disciplined growth and focused execution based on operating efficiencies that create value.

Our Smarter Well Management programme is the principal component of our operating mantra, as we offset natural declines by improving production on active, producing wells and return to production previously inactive wells. Through 2019, the Company returned approximately 750 non-producing wells back into production. This programme continues to yield results and highlights the efficiency of our operations and the low-risk organic opportunity within the portfolio. To put this important factor into context, we have managed to arrest an otherwise average 5% annual declining production from our legacy assets (those wells owned prior to the acquisition of HG Energy and EdgeMarc assets) and instead maintain production from the legacy portfolio at a steady rate of 70 MBoepd for six consecutive quarters through year end 2019.

The remaining production of 24 MBoepd is generated from our high quality, unconventional Marcellus and Utica wells acquired from HG Energy and EdgeMarc Energy. While these wells are currently displaying higher natural decline rates, due to the type and age of the wells compared with the legacy portfolio, the decline curve will normalise to a steady, exponential decline over an anticipated well life exceeding 50 years. The management of the wells is similar, and in some cases more efficient, to the conventional wells and they therefore represent a consistent asset profile to the conventional assets.

Operating Efficiencies

As referenced previously, DGO's ability to drive operating efficiencies is a fundamental aspect of its business model and investment thesis. The management team maintains a relentless focus to enhance margins and drive down costs.

Through 2019, the Company enacted several operational initiatives that delivered annual cost savings and positive EBITDA impacts of circa \$8 million, including payroll synergies (\$3.5 million); water initiatives to eliminate third-party costs (\$1 million); marketing and transportation initiatives to leverage the expanded midstream system optimise resource flow and firm transportation costs (\$2.2 million); and early termination of two firm transportation contracts (\$1 million).

Further initiatives that are currently underway include a rerouting opportunity through our expanded gas gathering system to realise price arbitrage opportunities in the basin and electricity initiatives to reduce compression station electricity expenses by converting to natural gas. Collectively, these initiatives are expected to result in annual savings in the range of \$3-5 million, the impact of which will be realised through 2020 and beyond.

Digitalisation and Data Management

With the scale of our operations DGO has become a "big data" company, necessitating that we have the proper systems in place to effectively manage diverse and expansive data. During 2019, DGO successfully planned, designed, tested, and implemented a network of accounting, production, land and measurement systems into a single data platform. With these systems in place, we will have streamlined data analysis and reporting for improved business intelligence, and strategic decision-making; improved data consistency, accuracy, and integrity; and standardised workflow processes - all in an enhanced, secure environment.

Market Conditions

Currently, DGO has a pure focus on the Appalachian Basin, a region transformed over the last decade by the technological revolution in horizontal drilling, which has unlocked vast shale resources with E&Ps achieving robust well-level returns resulting from significant production levels. This revolution created the divestment opportunity that DGO has capitalised on by acquiring non-core assets from vendors whose primary focus is on unconventional drilling and development. It has also led to a huge increase in supply in the US, outpacing demand, and helped to establish the United States as the world's largest producer of natural gas.

The resulting low commodity price environment highlights the importance of DGO's focus on operating efficiencies, low-cost assets and prudent risk mitigation, specifically with regards to responsible hedging.

Consistent with past performance, but with a renewed focus on tenors and structures that best align with DGO's producing assets, the Company is executing hedges when NYMEX prices rise or adding basis protection when NYMEX prices decline, which often leads to basis compression. Longer-tenor hedges add durability to the Company's cash flows, insulating them from commodity price volatility. To that end, longer-tenor hedges enhance near-term cash flow by normalising a price curve in contango, effectively pulling value from the back end of the price curve into the current periods.

Through DGO's hedging strategy, the Company has locked in its cash flow for a significant portion of its production over the next 12-24 months, ensuring the company maintains strong visibility on cash flows. Due to the unpredictable nature and volatility of natural gas pricing, representing circa 99% of DGO's revenue, it is not possible to accurately predict short-term pricing, however the Company remains quite confident on the long-term demand for natural gas and is well positioned to upside pricing, whilst simultaneously mitigating the downside through hedging.

Interactions with the Financial Reporting Council (FRC)

In August 2019, the Company engaged in a comment letter review process with the Conduct Committee of the Financial Reporting Council. As a part of its regular review of periodic reports produced by UK reporting companies, the Company received a letter requesting further information in relation to the Company's 2018 Annual Report and Accounts⁽¹⁾. The letter primarily focused on:

- Accounting for business combinations in respect of gains on bargain purchases and valuation of property, plant and equipment;
- Asset retirement obligations in respect of the discount rate applied; and
- Reconciliation of derivative movements in the balance of derivatives.

We responded to the FRC's questions, providing clarifying information and proposing additional disclosures to DGO's 2019 Annual Report and Accounts. On this basis, the FRC subsequently confirmed it had closed its enquiries with a satisfactory conclusion. All disclosures that we proposed to the FRC are reflected in the 2019 Annual Report and Accounts. The FRC noted that their review did not provide assurance that the 2018 Annual Report and Accounts is materially correct as their role is not to verify the information included therein but rather to consider compliance with reporting requirements and stimulate improvements in the quality of corporate reporting.

(1) When reviewing the Company's 2018 Annual Report and Accounts, the FRC noted the limitations of its review as follows:

- Its review is based on the 2018 Annual Report and Accounts only and does not benefit from a detailed knowledge of the Company's business or an understanding of the underlying transactions entered into.
- Communication from the FRC provides no assurance that the Company's 2018 Annual Report and Accounts is correct in all material respects and are made on the basis that the FRC (and its officers, employees and agents) accept no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.
- The FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Governance Overview

Following a period of transformational growth since its admission to AIM in 2017, the Company has made significant progress in building a more rigid, fit-for-purpose governance framework that is appropriately suited to support our sustainable growth aspirations.

During the period, the Board was enhanced and strengthened through the appointment of three additional experienced independent non-executive directors who bring a wealth of industry and financial experience and broaden the range of skillsets from which the Company can benefit going forward. We were pleased to have David Turner, Sandy Stash and Melanie Little join our Board in 2019. Our Board also created a new Sustainability and Safety Committee and realigned all Board Committees to strengthen DGO's oversight and position the Company to execute on our long-term, sustainable growth objectives.

Outlook

This 2019 year marked another period of significant progress as we continued to grow, integrate and optimise the business. The US gas market continues to be a challenging environment based on the exceptionally low gas prices and abundant supply. Fortunately, DGO is built to ensure resilience in this kind of environment, and due to our low-cost operations and approach to risk mitigation through an opportunistic hedging strategy, we remain well placed to consider new opportunities that arise as a result of the market backdrop. Our continued focus on operating efficiencies will remain the key priority this year as we seek to protect and enhance margins across the business.

The Company's Smarter Well Management Programme will continue to yield positive results as we work hard to continue our success in maintaining legacy production levels stable, while seeking to minimise the declines from the unconventional assets that make up the difference in our overall portfolio.

The Company will maintain its commitment to returning value to shareholders while maintaining a comfortable gearing ratio. In that regard, the business' focus on low-risk, long visibility cash flow and unwavering financial discipline provide confidence in our ability to deliver on both of these fronts.

We look forward to completing our move to the Main Market in the first half of 2020, a symbolic move that reflects our proven business model and future growth aspirations. DGO has established itself as a top-tier producer on the London Market, and we believe the move enhances the visibility of our investment case and showcases the strength of our Governance framework.

In summary, despite the challenging market backdrop, we remain well positioned to maintain our steady growth, with an exceptionally robust business underpinned by a diverse and low-cost asset base, strong cash flow, a healthy balance sheet, a proven business model and an entrepreneurial leadership team whose primary considerations are value creation and operational excellence.

Financial Review

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>Change</u>	<u>% Change</u>
Net production				
Natural gas (MMcf)	166,377	79,051	87,326	110.5 %
NGL (MBbls)	2,807	1,467	1,340	91.3 %
Oil (MBbls)	407	308	99	32.1 %
Total (MBOE)	30,944	14,950	15,993	107.0 %
Average daily production (BOE/d)	84,778	40,959	43,819	107.0 %
% gas (BOE basis)	89.6 %	88.1 %		
Average realised sales price (excluding impact of cash settled derivatives)				
Natural gas (Mcf)	\$ 2.31	\$ 2.77	\$ (0.46)	(16.6)%
NGL (Bbl)	12.00	28.53	(16.53)	(57.9)%
Oil (Bbl)	50.30	62.07	(11.77)	(19.0)%
Total (BOE)	\$ 14.16	\$ 18.74	\$ (4.58)	(24.4)%
Average realised sales price (including impact of cash settled derivatives)				
Natural gas (Mcf)	\$ 2.47	\$ 2.62	\$ (0.15)	(5.7)%
NGL (Bbl)	19.91	27.53	(7.62)	(27.7)%
Oil (Bbl)	49.74	54.88	(5.14)	(9.4)%
Total (BOE)	\$ 15.76	\$ 17.69	\$ (1.93)	(10.9)%
Natural gas, NGL and oil revenue (Financial amounts reported in thousands except per unit and per share amounts)				
Natural gas	\$ 384,121	\$ 219,189	\$ 164,932	75.2 %
NGL	33,685	41,854	\$ (8,169)	(19.5)%
Oil	20,474	19,117	\$ 1,357	7.1 %
Total natural gas, NGL and oil revenue	438,280	280,160	158,120	56.4 %
Other revenue	1,810	2,294	(484)	(21.1)%
Gathering and compression revenue	22,166	7,315	14,851	203.0 %
Total revenue	<u>\$ 462,256</u>	<u>\$ 289,769</u>	<u>\$ 172,487</u>	<u>59.5 %</u>
Gains (losses) on derivative settlements				
Natural gas	\$ 27,483	\$ (11,979)	\$ 39,462	(329.4)%
NGL	22,214	(1,462)	23,676	(1,619.4)%
Oil	(230)	(2,214)	1,984	(89.6)%
Net gains (losses) on derivative settlements	<u>\$ 49,467</u>	<u>\$ (15,655)</u>	<u>\$ 65,122</u>	<u>(416.0)%</u>
Per BOE metrics				
Realised Price				
Realised price (including impact of cash settled derivatives)	\$ 15.76	\$ 17.69	\$ (1.93)	(10.9)%
Other revenue	0.77	0.64	0.13	20.3 %
Base lease operating expense	3.31	4.73	(1.42)	(30.0)%
Gathering and compression, owned	1.42	1.00	0.42	42.0 %
Recurring administrative expenses	1.17	1.34	(0.17)	(12.7)%
Production taxes	0.53	0.80	(0.27)	(33.8)%
Gathering and transportation, third party	1.28	0.68	0.60	88.2 %
Operating margin	\$ 8.82	\$ 9.78	\$ (0.96)	(9.8)%
% Operating margin	53.4 %	53.4 %		

Production, Revenue and Hedging

Total revenue in 2019 of \$462.3 million increased 59.5% from the \$289.8 million reported for the year ended 31 December 2018 primarily due to 107.0% higher production and an increase in midstream revenue, both of which were positively impacted by our acquisitive growth strategy. DGO ended 2019 with net MBoe sales of approximately 30,944 vs. 14,950 of prior year sales. The increase in production was driven by the full integration of the previously acquired EQT and Core assets in 2H18 and the HG Energy and EdgeMarc assets in 2019. See Note 2 below for additional information regarding DGO's acquisitions.

The following table is intended to reconcile the change in natural gas, NGL and oil revenue (excluding the impact of cash settled hedges) for 1H19 by reflecting the effect of changes in volume and in the underlying prices. All numbers are presented in \$000's.

	<u>Natural gas</u>	<u>NGL</u>	<u>Oil</u>	<u>Total</u>
Revenue for the year ended 31 December 2018	\$ 219,189	\$ 41,854	\$ 19,117	\$ 280,160
Volume increase	242,134	38,231	6,143	286,508
Price increase (decrease)	(77,202)	(46,400)	(4,786)	(128,388)
Net increase	164,932	(8,169)	1,357	158,120
Revenue for the year ended 31 December 2019	\$ 384,121	\$ 33,685	\$ 20,474	\$ 438,280

Expenses

	Presented in 000's (except per unit information)							
	Year ended				Total Change		BOE Change	
	31 December 2019	Per BOE	31 December 2018	Per BOE	\$	%	\$	%
Base lease operating expense (a)	\$ 102,302	\$ 3.31	\$ 70,643	\$ 4.73	\$ 31,659	45 %	\$(1.42)	(30)%
Production taxes (b)	16,427	0.53	11,978	0.80	\$ 4,449	37 %	(0.27)	(34)%
Gathering & compression (c)	44,060	1.42	14,951	1.00	\$ 29,109	195 %	0.42	42 %
Gathering & transportation (d)	39,596	1.28	10,221	0.68	\$ 29,375	287 %	0.60	88 %
Total operating expense	\$ 202,385	\$ 6.54	\$ 107,793	\$ 7.21	\$ 94,592	88 %	\$(0.67)	(9)%
General & administrative (e)	56,619	1.83	40,524	2.71	\$ 16,095	40 %	(0.88)	(32)%
Total cash operating expense	\$ 259,004	\$ 8.37	148,317	9.92	\$110,687	75 %	\$(1.55)	(16)%
Depreciation and depletion (non-cash)	98,139	3.17	41,988	2.81	\$ 56,151	134 %	0.36	13 %
Total expenses	\$ 357,143	\$11.54	\$ 190,305	\$12.73	\$166,838	88 %	\$(1.19)	(9)%

- a) Lease operating expenses are daily costs incurred to extract oil and natural gas and maintain our producing properties. Such costs generally include maintenance, repairs, insurance, employee and benefits and automobile expenses.
- b) Production taxes include severance and property taxes. Severance taxes are paid generally on produced natural gas, natural gas liquids and oil production at fixed rates established by federal, state, or local taxing authorities. Property taxes are generally based on the taxing jurisdictions' valuation of our oil and gas properties and midstream assets.
- c) Gathering & compression expenses are daily costs incurred to operate the Company's owned midstream assets.
- d) Gathering & transportation expenses are daily costs incurred to gather, process and transport the Company's natural gas, natural gas liquids and oil.
- e) General & administrative expenses include payroll and benefits for our corporate staff, costs of maintaining corporate offices, costs of managing our production operations, franchise taxes, public company costs, non-cash equity issuance, fees for audit and other professional services, legal compliance, and non-recurring costs related to acquisitions or one-time projects.

As a result of DGO's significant, value-focused growth, unit operating expenses decreased 9% or \$1.19 per BOE. These reductions are a result of:

- Lower per BOE lease operating expenses, which declined 30% or \$1.42 per BOE through a mixture of disciplined cost reductions and economies of scale whereby fixed operating costs were spread across a larger base of producing assets.
- Lower per BOE production taxes, which decreased 34% or \$0.27 per BOE primarily due to taxes on our midstream assets that are generally fixed and are spread across a larger base of producing assets.
- Lower per BOE administrative expenses, which decreased 32% or \$0.88 per BOE primarily due to the significant growth in our production base. Administrative expenses increased by \$16.1 million due to costs related to the Company's acquisition efforts and the investment made in staff and systems to support the Company's growth.

Partially offsetting these significant per BOE declines were increases to depreciation and depletion caused by the increase in production associated with the EQT, Core and HG Energy acquisitions and an increase in gathering, compression and transportation expense as result of a full year of expenses related to its midstream assets, a full year of transportation expenses for its EQT and Core assets and a partial year of transportation expense for its HG assets.

Refer to Note 2 for additional information regarding DGO's acquisitions.

Finance costs

	Presented in \$000's			
	Year ended		Change	% Change
	31 December 2019	31 December 2018		
Interest	\$ 32,662	\$ 15,433	\$ 17,229	111.6 %
Amortisation of deferred finance cost	3,875	2,230	1,645	73.8 %
Other	130	80	50	62.5 %
Total finance costs	\$ 36,667	\$ 17,743	\$ 18,924	106.7 %
Loss on early retirement of debt	\$ -	\$ 8,358	\$ (8,358)	(100.0)%

DGO's finance costs include interest expense on borrowings and non-cash amortisation of deferred financing costs. Interest expense on borrowings of \$32.7 million in 2019 increased \$17.2 million compared to \$15.4 million in 2018 primarily due to the increase in borrowings used to fund the Company's previously mentioned acquisitions.

In April 2019, the Company increased its borrowing base on the \$1,500,000, five-year senior secured credit facility from \$725,000 to \$950,000. The April 2019 acquisition of certain producing assets of HG Energy, discussed in Note 2, was funded partially by a \$152,000 draw on the upsized credit facility. The facility has an initial interest rate of 2.50% plus the one-month LIBOR and is subject to a pricing grid that fluctuates from 2.00% to 3.00% plus LIBOR based on utilisation.

On November 13, 2019, the Company formed Diversified ABS LLC ("ABS"), a limited-purpose, bankruptcy-remote, wholly-owned subsidiary of the Company to enter into a securitised financing agreement for \$200 million which was issued through a BBB- rated bond (the "Securitised Note"). The Company used the net proceeds of \$191 million to pay down its revolving credit facility.

The Securitised Note is secured by 21.6% of the Company's producing upstream assets excluding the acquired EdgeMarc assets discussed in Note 2. Natural gas production associated with the 21.6% working interest was hedged at 85% at the close of the agreement using a 10-year swap and rolling two-year basis hedge.

Interest and principal payments on the Securitised Note are payable on a monthly basis beginning 28 February 2020. During 2019, the Company accrued \$1.6 million of interest related to the Securitised Notes. The legal final maturity date is January 2037 with an amortising maturity of December 2029. The Securitised Note accrues interest at a stated 5% rate. In the event that ABS has cash flow in excess of the required payments, 25%-100% of the excess cash, contingent on certain performance metrics, is required to pay down additional principal with the remaining proceeds remaining with the Company.

EPS and Adjusted EBITDA

DGO reported statutory earnings for 2019 per diluted ordinary share of \$0.15 compared to \$0.52 per diluted ordinary share in 2018. However, when adjusted for certain non-cash items, DGO reported adjusted EBITDA (hedged) per diluted ordinary share of \$0.42, a 10.5% increase over the prior year's \$0.38. DGO's adjusted EBITDA (hedged) for 2019 was \$273.3 million, an 86.9% increase over \$146.2 million in 2018. Refer to Note 5 for additional information regarding DGO's adjusted EBITDA.

Conclusion

DGO enjoyed a successful 2019, and we look forward to continued progress as we focus our attention on 2020. I would like to thank the growing Diversified family for its commitment to safe and efficient operations, the Board for its diligent oversight and guidance, and our shareholders and stakeholders who entrust to us the capital to fuel our growth.

Robert "Rusty" Hutson, Jr.
Chief Executive Officer

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), 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 DGO's functional currency and 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.

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. This is most applicable for transactions of the holding company which has a different functional currency where the resulting gain or loss is reflected in the Consolidated Statements of Profit or Loss and Other Comprehensive Income within Other Comprehensive Income - gain on foreign currency conversion.

The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. Management has 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.

New Standards and Interpretations

Adopted

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 recognised 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 became effective on 1 January 2019. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoption.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not assessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into on or after 1 January 2019.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Company now assesses whether a contract contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company adopted IFRS 16 on 1 January 2019 which did not have a material impact on its consolidated financial statements.

Consolidated Statements of Profit or Loss and Other Comprehensive Income (Amounts in thousands, except per-share amounts)

	Note	Audited Year ended 31 December 2019	Audited Year ended 31 December 2018
Revenue	3	\$ 462,256	\$ 289,769
Operating expense	4	(202,385)	(107,793)
Depreciation and depletion	4	(98,139)	(41,988)
Gross profit		\$ 161,732	\$ 139,988
Administrative expenses	4	\$ (56,619)	\$ (40,524)
Gain (loss) on oil and gas programme and equipment		-	4,079
Gain (loss) on derivative financial instruments	12	73,854	17,981
Gain on bargain purchase	2	1,540	173,473
Operating profit		\$ 180,507	\$ 294,997

Finance costs	11	\$	(36,667)	\$	(17,743)
Loss on early retirement of debt			-		(8,358)
Accretion of asset retirement obligation	10		(12,349)		(7,101)
Income before taxation		\$	131,491	\$	261,795
Taxation on income	6		(32,091)		(60,676)
Income after taxation available to ordinary shareholders		\$	99,400	\$	201,119
Other comprehensive income - gain on foreign currency conversion			-		1
Total comprehensive income for the year		\$	99,400	\$	201,120
Earnings per ordinary share - basic & diluted	7	\$	0.15	\$	0.52
Weighted average ordinary shares outstanding - basic	7		641,666		386,559
Weighted average ordinary shares outstanding - diluted	7		644,782		387,925

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

Consolidated Statements of Financial Position
(Amounts in thousands)

	Note	Audited 31 December 2019	Audited 31 December 2018
ASSETS			
Non-current assets			
Oil and gas properties, net		\$ 1,490,905	\$ 1,092,951
Property and equipment, net		341,846	327,749
Restricted cash		6,505	-
Other non-current assets		4,191	22,543
Indemnification receivable		2,133	2,133
Total non-current assets		\$ 1,845,580	\$ 1,445,376
Current assets			
Trade receivables		\$ 73,924	\$ 78,451
Other current assets		83,568	30,043
Cash and cash equivalents		1,661	1,372
Restricted cash		1,207	1,730
Total current assets		\$ 160,360	\$ 111,596
Total Assets		\$ 2,005,940	\$ 1,556,972
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		\$ 8,800	\$ 7,346
Share premium		760,543	540,655
Merger reserve		(478)	(478)
Capital redemption reserve		518	-
Share based payment reserve		3,907	842
Retained earnings		164,845	200,498
Total Equity		\$ 938,135	\$ 748,863
Non-current liabilities			
Asset retirement obligation	10	\$ 196,871	\$ 140,190
Lease		1,015	2,694
Borrowings	11	598,778	482,528
Deferred tax liability	6	124,112	95,033
Other non-current liabilities		18,041	21,219
Uncertain tax position		2,133	2,133
Total non-current liabilities		\$ 940,950	\$ 743,797
Current liabilities			
Trade and other payables		\$ 17,053	\$ 9,383
Borrowings	11	23,723	286
Lease		798	842
Other current liabilities		85,281	53,801
Total current liabilities		\$ 126,855	\$ 64,312
Total Liabilities		\$ 1,067,805	\$ 808,109
Total Equity and Liabilities		\$ 2,005,940	\$ 1,556,972

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

Consolidated Statements of Changes in Equity
(Amounts in thousands)

Note	Share Capital	Share Premium	Merger Reserve	Capital redemption reserve	Share-Based Payment Reserve	Retained Earnings	Total Equity
Balance at 1 January 2019	\$ 7,346	\$ 540,655	\$ (478)	\$ -	\$ 842	\$ 200,498	\$ 748,863
Income after taxation	-	-	-	-	-	99,400	99,400
Gain on foreign currency conversion	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	99,400	99,400

Issuance of share capital	1,972	219,888	-	-	-	-	221,860
Equity compensation	-	-	-	-	3,065	-	3,065
Repurchase of shares	(518)	-	-	518	-	(52,902)	(52,902)
Dividends	8	-	-	-	-	(82,151)	(82,151)
Transactions with shareholders	1,454	219,888	-	518	3,065	(135,053)	89,872
Balance at 31 December 2019	\$ 8,800	\$ 760,543	\$ (478)	\$ 518	\$ 3,907	\$ 164,845	\$ 938,135
	Share Capital	Share Premium	Merger Reserve	Capital redemption reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
Balance at 1 January 2018	\$ 1,940	\$ 76,026	\$ (478)	\$ -	\$ 59	\$ 30,691	\$ 108,238
Income after taxation	-	-	-	-	-	201,119	201,119
Gain on foreign currency conversion	-	-	-	-	-	1	1
Total comprehensive income	-	-	-	-	-	201,120	201,120
Issuance of share capital	5,406	464,629	-	-	-	-	470,035
Equity compensation	-	-	-	-	783	-	783
Dividends	-	-	-	-	-	(31,313)	(31,313)
Transactions with shareholders	5,406	464,629	-	-	783	(31,313)	439,505
Balance at 31 December 2018	\$ 7,346	\$ 540,655	\$ (478)	\$ -	\$ 842	\$ 200,498	\$ 748,863

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

Consolidated Statements of Cash Flow (Amounts in thousands)

	Note	Audited Year ended 31 December 2019	Audited Year ended 31 December 2018
Cash flows from operating activities			
Income after taxation		\$ 99,400	\$ 201,119
Cash flow from operations reconciliation:			
Depreciation and depletion		98,139	41,988
Accretion of asset retirement obligation	10	12,349	7,101
Income tax charge (credit)	6	32,091	60,676
(Gain)/loss on derivative financial instruments	12	(20,270)	(32,768)
Asset retirement (plugging)		(2,541)	(1,171)
Gain on oil and gas program and equipment		-	(4,079)
Gain on bargain purchase	2	(1,540)	(173,473)
Finance costs	11	36,677	17,743
Loss on early retirement of debt		-	8,358
Non-cash equity compensation		3,065	783
Working capital adjustments:			
Change in trade receivables		4,528	(41,225)
Change in other current assets		2,606	(6,286)
Change in other assets		409	(1,732)
Change in trade and other payables		7,669	1,134
Change in other current and non-current liabilities		6,574	8,396
Net cash provided by operating activities		\$ 279,156	\$ 86,564
Cash flows from investing activities			
Acquisitions	2	\$ (439,272)	\$ (750,256)
Expenditures on oil and gas properties and equipment		(32,313)	(18,515)
Decrease (increase) in restricted cash		(5,302)	(986)
Proceeds on disposals of oil and gas properties		10,000	4,079
Net cash used in investing activities		\$ (466,887)	\$ (765,678)

Cash flows from financing activities		
Repayment of borrowings	\$ (618,010)	\$ (280,890)
Proceeds from borrowings	765,236	581,221
Financing expense	(32,715)	(15,433)
Cost incurred to secure financing	(11,574)	(17,176)
Proceeds from equity issuance, net	221,860	425,601
Proceeds from lease	-	4,401
Repayment of lease	(1,724)	(1,093)
Dividends to shareholders	8 (82,151)	(31,313)
Repurchase of shares	(52,902)	-
Net cash provided by financing activities	\$ 188,020	\$ 665,318
Net increase (decrease) in cash and cash equivalents	289	(13,796)
Cash and cash equivalents - beginning of the period	1,372	15,168
Cash and cash equivalents - end of the period	\$ 1,661	\$ 1,372

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands, except per share and per unit data)

Note 1 - Significant Accounting Judgments, Estimates and Assumptions

Estimating the fair value of oil and gas properties

The Company determines the fair value of oil and gas assets using the income approach based on expected discounted future cash flows from estimated reserve quantities, costs to produce and develop reserves, and oil and natural gas forward prices. The future net cash flows are discounted using a weighted average cost of capital as well as any additional risk factors. 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. Changes in assumptions related to the Company's asset retirement obligation could result in a material change in the carrying value within the next financial year. Sensitivity analysis on the significant inputs to the fair value to assessment is included in Note 2.

Impairment of oil and gas properties

In preparing the financial statements Management considers that a key judgment is whether there is any evidence that the oil and gas properties are impaired. Having identified an impairment indicator relating to the market capitalisation of the Group, management undertook an impairment test in line with its accounting policy. Management engaged an expert to prepare a value in use calculation of the Company's oil and gas properties. Having performed this assessment no impairment was recognised.

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 analysing geological data, such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

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.

Asset retirement obligation costs

The ultimate asset retirement obligation 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 asset retirement. These assumptions include cost to plug the wells, the economic life of the wells and the discount rate. Changes in assumptions related to the Company's asset retirement obligation could result in a material change in the carrying value within the next financial year. See Note 10 for more information and sensitivity analysis.

Note 2 - Acquisitions

The assets acquired in all acquisitions include the necessary permits, rights to production, royalties, assignments, contracts and agreements that support the production from wells and operations of pipelines. The Company accounts for business acquisitions under IFRS 3. Where practical to do so the contribution arising from acquisitions up to the reporting date is disclosed.

2019 Acquisitions

Acquisition of HG Energy Appalachia II, LLC

In April 2019, DGO acquired 107 non-conventional wells in the states of Pennsylvania and West Virginia from HG Energy. The Company paid purchase consideration of \$384,020, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the proceeds from its equity placing of

stock in April 2019 and a draw from the credit facility.

The acquisition of HG increased the Group's total well count to 60,285 wells and its total production to 90,940 Boepd. In the period from its acquisition to 31 December 2019 the HG assets contributed revenue of approximately \$34,400. The properties associated with the acquisition have been comingled with our existing properties and it is impractical to provide stand-alone operational results related to these acquired properties.

As stated in Note 1, changes in the Company's assumptions used as inputs for acquisitions could result in a material change of the fair value of the acquired reserves. The Company considers the discount rate, commodity pricing, production and operating expense assumptions to be the inputs most sensitive to the fair value and operating expense would have on the fair value of the acquired reserves.

Discount rate	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 414,044	\$ 358,509
Pricing	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties (a)	\$ 389,477	\$ 378,429
Production	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 389,352	\$ 378,553
Operating expense	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 385,637	\$ 382,269
(a) The Company used a projected base realised price of \$2.34 using Henry Hub strip prices adjusted for differentials.		

As a result of the valuation, the fair value of the reserves held in the assets acquired was \$385,651, which was derived using a cumulative discount rate of 8%. The provisional estimated fair values of the assets and liabilities assumed were as follows:

Total consideration	\$ 384,020
Oil and gas properties	385,651
Oil and gas properties (asset retirement obligation, asset portion)	236
Suspense (a)	(1,651)
Asset retirement obligation	(216)
Net assets acquired	\$ 384,020

(a) Suspense represents the amounts payable to minority working interest owners.

Acquisition of EdgeMarc Energy Holdings, LLC

In September 2019, DGO acquired 12 non-conventional wells and 3 drilled but uncompleted wells in Ohio from EdgeMarc. The Company paid purchase consideration of \$48,107, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase from a draw on the credit facility.

The acquisition of the EdgeMarc assets increased the Group's total well count to 60,297 wells and its total production to 95,940 Boepd. In the period from its acquisition to 31 December 2019 the EdgeMarc assets contributed revenue of approximately \$6,600. The properties associated with the acquisition have been comingled with our existing properties and it is impractical to provide stand-alone operational results related to these acquired properties.

As stated in Note 1, changes in the Company's assumptions used as inputs for acquisitions could result in a material change of the fair value of the acquired reserves. The Company considers the discount rate, commodity pricing, production and operating expense assumptions to be the inputs most sensitive to the fair value of the acquired reserves. The table below represents the impact a 100-basis point adjustment in the discount rate, commodity price, production and operating expense would have on the fair value of the acquired reserves.

Discount rate	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 42,394	\$ 38,838
Pricing (a)	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 41,293	\$ 39,720
Production	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 41,192	\$ 39,822
Operating expense	+100 basis points	-100 basis points
Adjusted fair value of oil and gas properties	\$ 40,854	\$ 40,159
(a) The Company used a projected base realised price of \$2.27 using Henry Hub strip prices adjusted for differentials.		

As a result of the valuation the fair value of the reserves held in the assets acquired was \$40,507, which was derived using a cumulative discount rate of 8.5%. The provisional estimated fair values of the assets and liabilities assumed were as follows:

Total consideration	\$ 48,107
Oil and gas properties	40,507
Oil and gas properties (asset retirement obligation, asset portion)	15
Drilled but uncompleted	10,000
Fair value of derivatives	2,213
Asset retirement obligation	(15)
Suspense (a)	(2,744)
Taxes payable	(329)
Net assets acquired	49,647
Gain on bargain purchase	(1,540)
Purchase price	<u>\$ 48,107</u>

(a) Suspense represents the amounts payable to minority working interest owners.

The Company recorded a \$1,540 gain on the acquisition which it believes is reasonable given the facts and circumstances of acquisition. The Company entered into a "stalking-horse" Asset Purchase Agreement with EdgeMarc, debtors-in-possession under title 11 of the United States Code, pursuant to voluntary petitions for relief filed under chapter 11 of the United States Bankruptcy Code. Given the circumstances of EdgeMarc, the Company believes that EdgeMarc was in a distressed position to sell the assets under fair market value.

Acquisition of Natural Gas Gathering Systems

In September 2019, DGO acquired certain natural gas gathering systems from Dominion and Equitrans, for total cash consideration of \$7,700, excluding customary purchase price adjustments. The Company funded the cash consideration of the purchase from a draw on the credit facility discussed in Note 11. DGO accounted for this acquisition as an asset acquisition under IFRS 3.

2018 Acquisitions

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 \$80,743, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the net proceeds from its equity placing of DGO's stock in February 2018.

Management determined the fair value of the reserves held in the assets acquired to be \$129,125, which was approximately 9% cumulative discount reserve valuation derived from a third-party engineer at the time of purchase. The fair values of the assets and liabilities assumed were as follows:

Total cash consideration	<u>\$ 80,743</u>
Less cash received	<u>(8,638)</u>
Cash consideration, net of cash received	<u>72,105</u>

Net Assets Acquired:	
Current assets	13,403
Oil and gas properties, net	129,125
Property and equipment, net	2,444
Other assets	2,133
Current liabilities	(7,576)
Deferred tax liability	(19,852)
Uncertain tax position	(2,133)
Debt	(25,000)
Other liabilities	(119)
Decommissioning liability	(20,153)
Net assets acquired	72,272
Gain on bargain purchase	(167)
Purchase price	\$ 72,105

(a) At the date of acquisition DGO determined the Alliance Petroleum Corporation had taken uncertain tax positions, and as a result, an indemnification agreement was executed. DGO recorded an indemnification receivable in the amount of \$2,133. In accordance with IFRS 3, DGO assigned acquisition date fair value to the indemnification asset using the same valuation techniques used to determine the acquisition date fair value of the related liability.

(b) On the date of acquisition DGO repaid the debt in full using proceeds from the February 2018 equity placing.

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 \$89,296, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the proceeds from its equity placing of DGO's stock in February 2018. 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 totalled \$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.

Management determined the fair value of the reserves held in the assets acquired to be \$130,500, which was approximately 9% cumulative cash flow discount reserve derived from a third-party engineer at the time of purchase. The fair values of the assets and liabilities assumed were as follows:

Oil and gas properties	\$ 130,500
Oil and gas properties (Decommissioning provision, asset portion)	14,332
Decommissioning liability	(14,332)
Other liabilities	(4,790)
Gain on bargain purchase	(36,414)
Purchase price	\$ 89,296

Acquisition of assets from EQT Production Company

In July 2018, DGO acquired approximately 11,250 conventional natural gas wells and a wholly-owned midstream gathering and a compression system with approximately 6,400 miles of pipeline and 59 compressor stations in the states of Kentucky, West Virginia and Virginia and other equipment from EQT Production Company ("EQT"). The Company paid purchase consideration of \$527,158, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the proceeds from its equity placing of stock in July 2018 and a draw of \$336,200 from the debt facility. At the time of acquisition DGO engaged a third-party valuation firm to further substantiate management's valuation assumptions. As a result of this valuation, the fair value of the reserves held in the assets acquired was \$363,300, which was derived using a cumulative discount rate of 10.5%. The tangible assets acquired were determined to have a fair value of \$237,894, which was derived using a cumulative discount rate of 9.5%. The fair values of the assets and liabilities assumed were as follows:

Oil and gas properties	\$ 363,300
Oil and gas properties (Decommissioning provision, asset portion)	26,257
Pipelines	205,810
Compressors	46,634
Mobile Equipment	8,562
Rights of Way	3,250
Buildings	620
Land	2,420
Inventory	5,047
Decommissioning liability	(26,257)
Suspense	(4,764)
Other	(3,428)
Gain on bargain purchase	(100,293)
Purchase price	\$ 527,158

Acquisition of the stock of Core Appalachia Holding Co, LLC

In October 2018, DGO acquired Core Appalachia Holding Co, LLC ("Core"), which included approximately 5,000 conventional natural gas wells and a wholly-owned midstream gathering and compression system with approximately 4,100 miles of pipeline and 47,000 horsepower of compression in the states of Kentucky, West Virginia and Virginia. The Company funded the acquisition with approximately \$46,000 of cash and 35,000 shares of common stock (at an assumed offering price of \$1.41 per share (1.07 pence), which was the last reported sale price of our common stock on the acquisition date). At the time of acquisition DGO engaged a third-party valuation firm to further substantiate management's valuation assumptions. As a result of this valuation, the fair value of the reserves held in the assets acquired was \$176,860, which was derived using a cumulative discount rate of 10.5%. The tangible assets acquired were determined to have a fair value of \$48,812 which was derived using a cumulative discount rate of 9%. The fair values of the assets and liabilities assumed were as follows:

Cash consideration	\$ 45,938
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Less cash received	(4,454)
Fair value of stock consideration	49,159
Total consideration	<u>90,643</u>
Oil and gas properties	176,860
Oil and gas properties (Decommissioning provision, asset portion)	19,214
Pipelines	27,797
Compressors	6,401
Mobile Equipment	4,206
Buildings	3,880
Land	6,440
Other	88
Accounts receivable	11,506
Other current assets	3,754
Other long-term assets	6,617
Decommissioning liability	(19,214)
Accounts payable	(5,586)
Taxes payable	(7,020)
Notes payable assumed	(93,246)
Other current liabilities	(12,259)
Other long-term liabilities	<u>(1,898)</u>
	127,540
Gain on bargain purchase	<u>(36,897)</u>
Purchase price	<u>\$ 90,643</u>

Other Acquisitions

In July 2018, DGO purchased for \$20,212 additional working interest in certain wells it already operated. These assets were previously held in seven limited partnerships with working interest ranges from 54% to 82% to which the Company served as the managing general partner. The Company funded the cash consideration for the purchase with a draw on its debt facility.

Note 3 - 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. In addition, DGO provides gathering and transportation services to third parties. All revenue was generated in the United States of America. The following table reconciles the Company's revenue for the periods presented:

	Year ended	Year ended
	<u>31 December 2019</u>	<u>31 December 2018</u>
Natural gas	\$ 384,121	\$ 219,189
NGL	33,685	41,854
Oil	<u>20,474</u>	<u>19,117</u>
Total natural gas, NGL and oil	\$ 438,280	\$ 280,160
Gathering and compression	22,166	7,315
Other	<u>1,810</u>	<u>2,294</u>
Total revenue	<u>\$ 462,256</u>	<u>\$ 289,769</u>

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

During the year ended 31 December 2019, one customer individually totalled more than 10% of total revenues, totalling 13%. For the year ended 31 December 2018, two customers individually totalled more than 10% of revenues, totalling 24% and 18%, respectively.

Note 4 - Expenses by Nature

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

Explanation	Audited	Audited
	Year ended 31 December 2019	Year ended 31 December 2018
Employees and benefits (operations)	\$ 55,947	\$ 35,061
Well operating expenses, net	29,643	26,915
Automobile	10,504	5,569
Insurance	6,208	4,698
Production taxes (severance, property and other)	16,427	11,978
Gathering, compression and transportation	83,656	23,572
Total operating expense (a)	\$ 202,385	\$ 107,793
Depreciation	\$ 23,568	\$ 10,272
Depletion	74,571	31,716
Total depreciation and depletion	\$ 98,139	\$ 41,988
Employees and benefits (administrative)	\$ 20,914	\$ 12,653
Other administrative (b)	7,384	1,834
Professional fees (c)	5,212	5,070
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the group and Company's annual accounts	350	95
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	1,092	310
Other assurance services	225	142
Total auditors' remuneration	\$ 1,667	\$ 547
Rent	896	-
Recurring administrative expenses	\$ 36,073	\$ 20,104
Non-recurring costs associated with acquisitions (d)	9,210	19,637
Other non-recurring costs (e)	7,542	-
Provision for working interest owners receivable (f)	730	-
Non-cash equity compensation (g)	3,064	783
Non-recurring administrative expenses	\$ 20,546	\$ 20,420
Total administrative expenses	\$ 56,619	\$ 40,524
Total expenses	\$ 357,143	\$ 190,305
Aggregate remuneration (including Directors):		
Wages and salaries	\$ 68,226	\$ 30,238
Payroll taxes	2,869	1,972
Benefits	5,766	4,323
Total employees and benefits expense	\$ 76,861	\$ 36,533

- a) Total operating expense increased due to a full year of operating expenses related to the EQT and Core acquisitions. In addition, 2019 includes eight months of costs related to the HG assets acquired and three months of costs related to the EdgeMarc assets acquired. See Note 2 for additional information on acquisitions.
- b) Other administrative expense includes general liability insurance, information technology services, other office expenses and travel.
- c) Professional fees include legal fees, marketing fees, payroll fees, consultation fees and costs associated with being a public company.
- d) Non-recurring costs associated with acquisitions primarily relate to legal and consulting costs directly related to the acquisitions.
- e) Other non-recurring costs include costs associated with early buyouts of long-term firm transportation agreements, severance packages, temporary service agreements for onboarding of acquired assets and consolidation of the Company's corporate structure.
- f) Provision for working interest owners receivable reflects a portion of receivables from working interest owners that the Company considers uncollectable.
- g) Non-cash equity issuances in 2019 and 2018 reflect the expense recognition related to stock compensation provided to certain key managers.

For the year ended 31 December 2019 and 31 December 2018, DGO's average workforce was comprised of approximately 918 and 600 employees, respectively. For the year ended 31 December 2019, DGO employed an average of 128 employees in administrative, which is inclusive of management, and an average of 790 employees in field operations. For the year ended 31 December 2018, DGO employed an average of 112 employees in administrative, including management, and an average of 488 employees in field operations.

Note 5 - Adjusted EBITDA

Adjusted EBITDA (hedged) and Adjusted EBITDA (unhedged) are a non-IFRS financial measure, that is defined as operating profit plus or minus items detailed in the table below, which is of particular interest to the industry and Management, as it is essentially the cash generated from operations that DGO has free for interest payments capital investments, and dividend payments. Adjusted EBITDA (hedged) and Adjusted EBITDA (unhedged) 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.

The Company believes Adjusted EBITDA (hedged) and Adjusted EBITDA (unhedged) are 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 (hedged) and Adjusted EBITDA (unhedged) for the following reasons:

- certain amounts are non-recurring from the operation of the business such as 1) the gain on foreign currency hedge; 2) costs associated with acquisitions or other one-time events; or 3) costs associated with gains on oil & gas properties or equipment
- certain amounts are non-cash such as 1) depreciation and depletion; 2) gains or losses on the valuation of derivative instruments and 3) equity issuance cost included in administrative expenses.

The following table reconciles operating profit to Adjusted EBITDA (hedged) and Adjusted EBITDA (unhedged):

	Year ended 31 December 2019	Year ended 31 December 2018
Operating profit	\$ 180,507	\$ 294,997
Depreciation and depletion	98,139	41,988
Gain on bargain purchase	(1,540)	(173,473)
(Gain) on oil and gas programme and equipment	-	(4,079)
(Gain) on derivative financial instruments	(20,270)	(33,636)
Non-recurring costs associated with acquisitions	17,482	19,637
Non-cash equity issuance included in administrative expense	3,065	783
Gain on foreign currency hedge	(4,117)	-
Total adjustments	<u>92,759</u>	<u>(148,780)</u>
Adjusted EBITDA (hedged)	\$ 273,266	\$ 146,217
Less: cash portion of settled hedges	53,584	(15,655)
Adjusted EBITDA (Unhedged)	<u>\$ 219,682</u>	<u>\$ 161,872</u>
Weighted average ordinary shares outstanding - basic	641,666	386,559
Weighted average ordinary shares outstanding - diluted	644,782	387,925
Adjusted EBITDA per share - basic	<u>\$ 0.43</u>	<u>\$ 0.38</u>
Adjusted EBITDA per share - diluted	<u>\$ 0.42</u>	<u>\$ 0.38</u>

Note 6 - Taxation

DGO files a consolidated US federal tax return, multiple state tax returns, and a separate UK tax return for the PLC parent entity. 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 taxable year ending 31 December 2019 and 2018, DGO had tax expense of \$32,091 and \$60,676, respectively. The Company's effective tax rate was 24.4% and 23.2%, respectively, for the same periods. The effective tax rate is primarily impacted by recognition of federal tax credits, capital loss carryovers for which no deferred tax asset was recognised, state taxes, other deferred tax, and recurring permanent differences, such as meals and entertainment.

The provision for income taxes for the years ended 31 December 2019 and 31 December 2018 in the Statements of Comprehensive Income are summarised below:

	<u>Year ended</u> <u>31 December 2019</u>	<u>Year ended</u> <u>31 December 2018</u>
Current income tax expense		
Federal	\$ 654	\$ -
State	2,217	2,894
Foreign - UK	142	-
Total current income tax expense	<u>\$ 3,013</u>	<u>\$ 2,894</u>
Deferred income tax (benefit) expense		
Federal	\$ 22,253	\$ 47,554
State	6,825	10,228
Total deferred income tax (benefit) expense	<u>\$ 29,078</u>	<u>\$ 57,782</u>
Total income tax (benefit)	<u><u>\$ 32,091</u></u>	<u><u>\$ 60,676</u></u>

The components of the differences between the statutory federal income tax rate and the effective tax rates are summarised as follows:

Expected tax at U.S. statutory income tax rate	\$ 27,613	21.0 %
Increase (decrease) in tax resulting from:		
State income taxes, net of federal tax benefit	7,946	6.0 %
Federal credits	(7,000)	(5.3)%
Other - net	3,532	2.7 %
Total taxation on income	<u>\$ 32,091</u>	<u>24.4 %</u>

The Company's effective tax rate was higher for the year ended 31 December 2019 compared to 31 December 2018 primarily due to the Company acquiring assets (through various 2019 asset acquisitions) in higher US state tax rate jurisdictions including Pennsylvania and for capital loss carryovers for which no deferred tax asset was recognised.

The Company had a net deferred tax liability of \$124,112 and \$95,033 as of 31 December 2019 and 31 December 2018, respectively. The deferred tax liability increased by \$29,079, primarily due to 2019 acquisitions whereby immediate expensing of the fair value of oil and gas properties acquired subsequent to purchase for federal tax purposes. Additionally, the net deferred tax liability increased due to unrealised gains for unsettled derivatives and due to an increase of US federal and state net operating losses utilised.

The components of the net deferred tax liability included in noncurrent liabilities are as follows:

	<u>Audited</u> <u>Year ended</u> <u>31 December 2019</u>	<u>Audited</u> <u>Year ended</u> <u>31 December 2018</u>
Deferred tax assets		
Decommissioning provision asset	\$ 52,254	\$ 46,893
Allowance for doubtful accounts	841	577
Federal net operating loss	41,199	53,904
State net operating loss	2,063	3,177
Federal tax credits carryover	19,502	14,365
Capital loss carryover	4,610	1,988
Valuation allowance	(4,610)	(1,988)
Other	2,344	1,334
Total deferred tax assets	<u>\$ 118,203</u>	<u>\$ 120,250</u>
Deferred tax liabilities		
Premises, equipment and oil and gas properties	\$ (228,004)	\$ (206,795)
Derivative adjustment	(14,311)	(8,488)
Total deferred tax liabilities	<u>(242,315)</u>	<u>(215,283)</u>
Net deferred tax liability	<u><u>\$ (124,112)</u></u>	<u><u>\$ (95,033)</u></u>

The Company reported the effects of deferred tax expense (benefit) as follows for the year ended 31 December 2019:

Deferred Tax Assets/(Liabilities)	Opening Balance	Income Statement	Closing Balance
Decommissioning provision, liability	\$ 46,893	\$ 5,361	\$ 52,254
Allowance for Doubtful Accounts	576	264	841
Federal Net Operating Loss	53,904	(12,704)	41,199
State Net Operating Loss	3,177	(1,114)	2,063
Federal Tax Credits Carryover	14,365	5,138	19,502
Premises, equipment and O&G properties	(206,795)	(21,210)	(228,004)
Derivative adjustment	(8,488)	(5,823)	(14,311)
Other Items	1,335	1,009	2,344
Total deferred tax assets/(liabilities)	\$ (95,033)	\$ (29,079)	\$ (124,112)

The Company's deferred tax assets and liabilities all arise in the US.

For US 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 year ended, 31 December 2018, PLC did not incur any income tax liability in the United Kingdom. For the year ended, 31 December 2019, PLC incurred \$100 in income tax liability in the United Kingdom.

On 22 December 2017, the President of the United States signed into law the TCJA tax reform legislation. This legislation makes significant change in US tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate AMT. The legislation reduced the US corporate tax rate from the current rate of 34% to 21% for the year ended 31 December 2018.

At 31 December 2019, the Company continued to maintain the \$2,100 uncertain tax position liability related to uncertain tax positions that Alliance Petroleum Corporation (APC) had taken in years prior to the Company acquiring APC. The Company recorded an indemnification receivable in the same amount of \$2,100 because the purchase agreement between the Company and APC's former owners provided a specific indemnification for these uncertain tax positions.

At 31 December 2019, the Company had US federal net operating loss carryforwards of approximately \$196,200. The remaining US federal net operating loss carryforwards of \$196,200 generated in the year ended 31 December 2018 does not have an expiration date. Additionally, the Company has US state net operating loss carryforwards of approximately \$40,600, which expire in the years 2036 through 2038.

At 31 December 2019, the Company had US federal marginal well tax credit carryforwards of approximately \$19,500, which expire in the years 2036 through 2039.

At 31 December 2019, the Company had US federal capital loss carryovers of \$17,600, which expire in the years 2020 through 2023. The Company does not expect to utilise these carryovers, and therefore, a deferred tax asset for these carryovers has not been recorded.

The Company completed a Section 382 study through 31 December 2019 in accordance with the Internal Revenue Code of 1986, as amended. The study concluded that the Company has experienced ownership changes as defined by Section 382 on 3 February 2017 and on 6 March 2018. This causes the Company's utilisation of its US federal and state net operating loss and US federal tax credit carryforwards to be subject to annual limitations. The Company expects its net operating loss carryforwards to be fully available for utilisation by 31 December 2019 and tax credit carryforwards to be fully available for utilisation by 2024. The Company's ability to utilise its US federal and state net operating loss and US federal tax credit carryforwards may be further limited as a result of subsequent ownership changes. All such limitations could result in the expiration of carryforwards before they are utilised.

Note 7 - 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 first day of the reporting period. Basic and diluted income/(loss) per ordinary share is calculated as follows:

	Calculation	Year ended 31 December 2019	Year ended 31 December 2018
Income after taxation available to ordinary shareholders	A	\$ 99,400	\$ 201,119
Weighted average ordinary shares outstanding - basic	B	641,666	386,559
Weighted average ordinary shares outstanding - diluted	C	644,782	387,925
Earnings per ordinary share - basic	= A/B	\$ 0.15	\$ 0.52
Earnings per ordinary share - diluted	= A/C	\$ 0.15	\$ 0.52
Adjusted EBITDA per share - basic	Note 5	\$ 0.43	\$ 0.38
Adjusted EBITDA per share - diluted	Note 5	\$ 0.42	\$ 0.38

Note 8 - Dividends

The following table summarises 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					
Dividend declared 30 April 2018	\$ 0.0345	£0.0251	11 May 2018	25 May 2018	311,476	\$	10,746
Dividend declared 29 June 2018	0.0173	0.0130	13 July 2018	24 September 2018	311,476		5,373
Dividend declared 11 September 2018	0.0280	0.0220	30 November 2018	19 December 2018	542,633		15,194
Dividends paid during the year ended 31 December 2018						\$	31,313
Dividend declared 14 December 2018	\$ 0.0330	£0.0253	8 March 2019	29 March 2019	542,654	\$	17,908
Dividend declared 28 February 2019	0.0340	0.0239	12 April 2019	28 June 2019	542,654		18,450
Dividend declared 13 June 2019	0.0342	0.0278	6 September 2019	27 September 2019	663,636		22,696
Dividend declared 8 August 2019	0.0350	0.0269	29 November 2019	20 December 2019	659,903		23,097
Dividends paid during the period ended 31 December 2019						\$	82,151

On 10 December 2019 the Company announced a dividend of \$0.035 per share. The dividend will be paid on 27 March 2020 to shareholders on the register on 6 March 2020. No liability is recorded in the financial statements in respect of this dividend as it was not approved by the shareholders at the balance sheet date.

Note 9 - Oil and Gas Properties

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

Period	Costs				Depletion and Impairment				Net Book Value
	Beginning Balance	Additions (a)	Disposals (b)	Ending Balance	Beginning Balance	Period Charges	Disposals	Ending Balance	
As at and for the Year ended 31 December 2019	\$1,148,235	482,525	(10,000)	\$1,620,760	\$(55,284)	(74,571)	-	\$(129,855)	\$1,490,905
As at and for the year ended 31 December 2018	\$ 239,814	908,514	(93)	\$1,148,235	\$(24,489)	(30,795)	-	\$(55,284)	\$1,092,951

- a) Of the \$482,525 in additions, \$385,651 and \$40,507 were related to the acquisitions of HG and EdgeMarc, respectively. See Note 2 for additional information regarding these acquisitions.
- b) In November 2019, DGO sold the DUCs that were acquired in the EdgeMarc acquisition discussed in Note 2. The carrying value of the DUCs at the time of sale was \$10,000.

The Company has reviewed the carrying value of the oil and gas properties for the year ended 31 December 2019. Based on this review, carrying value oil and gas properties is not impaired.

Note 10 - Asset Retirement Obligation

The asset retirement obligation 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 2093 when the Company expects its producing oil and gas properties to reach the end of their economic lives. As stated in Note 1, changes in the Company's assumptions used as inputs for the asset retirement obligation could result in a material change in the carrying value of the liability. A one hundred basis point increase in the discount rate could have an approximately \$74,000 impact on the Company's asset retirement obligation.

The discount rate used in the calculation of the asset retirement obligation was 8.0% less a 2.2% risk adjustment, resulting in a net discount rate of 5.8% for the year ended 31 December 2018. The discount rate used in the calculation of the asset retirement obligation was 7.3% less a 2.3% risk adjustment, resulting in a 5.0% net discount rate for the year ended 31 December 2019 (2018: 5.8%).

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at 1 January	\$ 142,725	\$ 35,448
Additions (a)	252	96,508
Accretion	12,349	7,101
Plugging costs	(2,541)	(1,161)
Revisions to estimate (b)	46,736	4,829
Balance	\$ 199,521	\$ 142,725
Less: Current decommissioning provision	(2,650)	(2,535)
Long-term decommissioning liability	\$ 196,871	\$ 140,190

- a) See Note 2 for more information about the Company's acquisitions.
- b) At 31 December 2019, the Company revised its asset retirement obligation to more closely align estimated plugging costs with historical cost incurred to plug and abandon wells which resulted in a \$4,086 increase to the liability. Additionally, in 2019, the Company revised its net discount rate from 5.8% at 31 December 2018 to 5.0% at 31 December 2019. This revision resulted in a \$46,736 increase to the liability.

Note 11 - Borrowings

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

	31 December 2019	31 December 2018
Individuals and institutional investor bonds, interest rate of 8.50%, maturing June 2020, unsecured	\$ -	\$ 86
Financial institution, interest rate of 2.00% plus LIBOR (2019) and 2.25% plus LIBOR (2018), secured by oil and gas properties	436,700	495,284
Securitised Note, interest rate of 5.00%, secured by 21.60% of Diversified Production LLC's working interest	200,000	-
Miscellaneous, primarily for real estate, vehicles and equipment	8,219 (a)	2,537
Total borrowings	\$ 644,919	\$ 497,907
Less: Current portion of long-term debt	(23,510)	(286)
Less: Deferred financing costs	(22,631)	(15,093)
Total non-current borrowings, net	\$ 598,778	\$ 482,528

(a) In June 2019 the Company entered into a fleet financing agreement for \$7,700 with an implied interest rate of 2%.

In March 2018, the Company closed a \$500,000 five-year credit facility, initially subject to a borrowing limit of \$140,000. Following the closing of the acquisition of certain assets of CNX Resources in March 2018, as discussed in Note 2, the borrowing limit increased to \$200,000. In July 2018, in conjunction with the acquisition of certain assets of EQT, the Company closed on an enlarged \$1 billion, five-year secured revolving credit facility with an initial borrowing base of \$600,000, which replaced the existing \$200,000 facility. In November 2018, following the October 2018 acquisition of Core, the Company closed on a further enlarged \$1.5 billion, five-year senior secured credit facility. The enlarged facility consolidates the Company's previous \$1 billion facility with Core Appalachia's facility and has an initial borrowing base of \$725,000. The facility maintains the maturity date of the previous \$1 billion facility of July 2023. In December 2018, DGO extinguished \$93m of debt assumed with the Core acquisition. The facility has an initial interest rate of 2.75% plus the one-month LIBOR and is subject to a grid that fluctuates from 2.25% to 3.25% plus LIBOR based on utilisation.

In April 2019, the Company increased its borrowing base on the \$1,500,000, five-year senior secured credit facility from \$725,000 to \$950,000. The April 2019 acquisition of certain producing assets of HG Energy, discussed in Note 2, was funded partially by a \$152,000 draw on the upsized credit facility. The facility has an initial interest rate of 2.50% plus the one-month LIBOR and is subject to a pricing grid that fluctuates from 2.00% to 3.00% plus LIBOR based on utilisation.

On November 13, 2019, the Company formed Diversified ABS LLC, a limited-purpose, bankruptcy-remote, wholly-owned subsidiary of the Company to enter into a securitised financing agreement for \$200,000 which was issued through a BBB-rated bond. The Company used the net proceeds of \$191,000 to pay down its revolving credit facility.

The Securitized Note is secured by 21.6% of the Company's producing assets excluding the acquired EdgeMarc assets discussed in Note 2. Natural gas production associated with the 21.6% working interest was hedged at 85% at the close of the agreement using a 10-year swap and rolling two-year basis hedge.

Interest and principal payments on the Securitized Note are payable on a monthly basis beginning 28 February 2020. During 2019, the Company accrued \$1,600 of interest related to the Securitized Note. The legal final maturity date is January 2037 with an amortizing maturity of December 2029. The Securitized Note accrues interest at a stated 5% rate. In the event that ABS has cash flow in excess of the required payments, 25-100% of the excess cash, contingent on certain performance metrics, is required to pay down additional principal with the remaining proceeds remaining with the Company.

The Securitised Note is subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Issuer maintains specified reserve accounts to be used to make required interest payments in respect of the Securitised Note, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments in the case of the Securitised Note under certain circumstances, (iii) certain indemnification payments in the event, among other things, that the assets pledged as collateral for the Securitised Note is used in stated ways defective or ineffective, and (iv) covenants related to recordkeeping, access to information and similar matters. The Note is also subject to customary rapid amortisation events provided for in the indenture, including events tied to failure to maintain stated debt service coverage ratios, failure to maintain certain production metrics, certain change of control and manager termination events, and event of default and the failure to repay or refinance the Securitised Note on the applicable scheduled maturity date. The Securitised Note is also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the Securitised Note, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective and certain judgments. As of 31 December 2019 the Company was in compliance with all financial covenants.

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Not later than one year	\$ 23,510	\$ 286
Later than one year and not later than five years	515,620	497,621
Later than five years	105,789	-
Total borrowings	<u><u>\$ 644,919</u></u>	<u><u>\$ 497,907</u></u>

The following table represents the Company's finance costs for each of the periods presented:

	<u>Year ended</u>	
	<u>31 December 2019</u>	<u>31 December 2018</u>
Interest	\$ 32,662	\$ 15,433
Amortisation of deferred finance cost	3,875	2,230
Other	130	80
Total finance costs	<u><u>\$ 36,667</u></u>	<u><u>\$ 17,743</u></u>
Loss on early retirement of debt	<u><u>\$ -</u></u>	<u><u>\$ 8,358</u></u>

Reconciliation of borrowings arising from financing activities:

	<u>31 December 2019</u>	<u>31 December 2018</u>
At the beginning of the period	\$ 482,814	\$ 70,992
Acquired as part of business combination	-	118,223
Proceeds from new borrowings	765,236	581,221
Repayments of borrowings	(618,010)	(275,115)
Financing fees paid	(11,574)	(17,176)
Amortisation of financing fees	3,875	4,812
Interest paid in cash	(32,715)	(15,433)
Interest charged	32,662	15,290
At the end of the period	<u>\$ 622,288</u>	<u>\$ 482,814</u>

Note 12 - Derivatives

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

<u>Assets/(Liabilities)</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Natural gas		
Swaps	\$ 69,242	\$ 4,053
Collars	3,882	131
Basis swaps	(2,455)	(1,720)
Put options	(24,783)	7,292
Total natural gas financial derivative contracts	<u>\$ 45,886</u>	<u>\$ 9,756</u>
Natural gas liquids		
Swaps	15,859	26,208
Total natural gas financial derivative contracts	<u>\$ 15,859</u>	<u>\$ 26,208</u>
Oil		
Swaps	\$ (323)	\$ 676
Collars	380	2,929
Total oil financial derivative contracts	<u>\$ 57</u>	<u>\$ 3,605</u>
Total financial derivative contracts	<u>\$ 61,802</u>	<u>\$ 39,569</u>

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. Management has elected to present derivative assets and liabilities net when these conditions are met. The following table outlines the Company's net derivatives.

<u>Derivative Financial Instruments</u>	<u>Statement of Financial Position line item</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Non-current assets		\$ 3,803	\$ 21,745
Current assets		73,705	17,573
Total assets		<u>\$ 77,508</u>	<u>\$ 39,318</u>
Non-current liability		15,706	-
Current liabilities		-	-
Total liabilities		<u>\$ 15,706</u>	<u>\$ -</u>
Net (liabilities) assets - non-current	Other non-current assets/(liabilities)	(11,903)	21,745
Net assets - current	Other current assets/(liabilities)	73,705	17,573
Net assets/(liabilities)		<u>\$ 61,802</u>	<u>\$ 39,318</u>

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	Year ended
	31 December 2019	31 December 2018
Net gain (loss) on settlements (a)	\$ 49,467	\$ (15,655)
Gain on foreign currency hedge	4,117	-
Total gain (loss) on settled derivative instruments	\$ 53,584	\$ (15,655)
Net gain (loss) on fair value adjustments on unsettled financial instruments (b)	20,270	33,636
Total gain (loss) on derivative financial instruments	\$ 73,854	\$ 17,981

a) Represents the cash settlement of hedges that settled during the period.

b) Represents the change in fair value of financial instruments net of removing the carrying value of hedges that settled during the period.

All derivatives are defined as Level 2 instruments as they are valued using inputs and outputs other than quoted prices that are observable for the assets and liabilities.

Note 13 - Report and Accounts and Presentation

Copies of the Annual Report will be available on the Company's website, www.dgoc.com and from the Company's registered office at 27/28 Eastcastle Street, London W1W 8DH shortly. A copy of the Company's results presentation will also be available on the Company's website in due course.

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