DIVERSIFIED GAS & OIL PLC

2015 ANNUAL REPORT & ACCOUNTS

FOR THE PERIOD ENDED 31 DECEMBER 2015

DIVERSIFIED GAS & OIL

PLC

COMPANY REGISTRATION NO. 09156132

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Officers and Professional Advisors

DIRECTORS	Robert Marshall Post (Chairman) Robert Russell Hutson, Jr. (Chief Executive Officer) Martin Keith Thomas (Non-Executive Director)
REGISTERED NUMBER	09156132 (England and Wales)
REGISTERED OFFICE	15 Appold Street London EC2A 2HB(UK)
INDEPENDENT AUDITOR	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH (UK)
LEGAL ADVISOR, UK	Watson Farley & Williams LLP 15 Appold Street London EC2A 2HB(UK)
LEGAL ADVISOR, US	Balch and Bingham, LLP 1901 Sixth Avenue North, Suite 1500 Birmingham, Alabama 35203 (US)
REGISTRAR	Share Registrars Limited Suite E 1st Floor 9 Lion and Lamb Yard Farnham, Surrey GU9 7LL (UK)
BROKER	Alexander David Securities 49 Queen Victoria Street London EC4N 4SA (UK)

We are delighted to be able to report on a successful year for Diversified Gas & Oil, PLC, one in which we believe will prove significant in the Group's future development.

The directors present their strategic report and the audited financial statements of Diversified Gas & Oil PLC for the period ended 31 December 2015. The Company was initially incorporated on 31 July 2014 in England and Wales as a public limited company by its founders, Robert Hutson Jr. and Robert Post.

Results

Although natural gas and crude oil prices remained depressed in 2015, the Group maintained revenues of $6.3m (2014: $7.4m), fueled by the growth of natural gas and crude oil production through two significant acquisitions. Operating profit saw an increase to $4.6m (2014: $2.7m), credited to obtaining natural gas and crude oil production at bargain prices over its fair market value of $6.6m (2014: $914k). The Group's net loss was $396k (2014: $235k loss), after including the one-off, non-cash accrued interest charge of $925k, which was subsequently eliminated in 2016.

Business Model

The Group continues to operate conventional natural gas and crude oil properties in the footprint of the Appalachian Basin of the United States. During 2015, in order to maintain a constant revenue stream in a time of commodity price decline, we focused on acquiring an additional 2,100 natural gas and crude oil wells at bargain prices. Because we currently operate properties in the same geographical footprint, we were able to roll the newly acquired wells into operations seamlessly, while adding minimal additional overhead cost. The acquisitions added 7,500 MCF/day of natural gas, 35 BBL/day of crude oil, and 1,200 BBL/day of water to current productions.

Listing on ISDX

One of the key developments of the year was the Group's admission to trading bonds on the ISDX Growth Market in June 2015. During 2015, the Group raised £4.2m through the bond listing (approximately $6.4m). At the time of the listing, we stated that the funds would be used to acquire additional natural gas and crude oil production. We are pleased to report that we have put the funds to use by increasing our natural gas and crude oil production fair market value to $42.4m (2014: $31.1m), growth of 36%.

Principal activities

The principal activity of the Group is that of conventional natural gas and crude oil production in the Appalachian Basin of the US.

Review of business and future developments

Details of the Group's progress during the year and its future prospects are provided in the Directors Statements on page 7.

Key performance indicators (KPI's)

1. Obtain growth in operating cash flow

   The Directors aim to achieve steady sustainable growth in operating cash flow. Operating cash flow provided by operating activities, as reported on the cash flow statement, are the principal revenue-generating activities of the Group and other activities that are not investing or financing activities. In 2015, the Group generated a net cash outflow from operations of $3.9m (2014: inflow $1.5m). Such decline was largely impacted by the lower natural gas and crude oil price environment. Trade receivables from external joint interest owners are generally with other oil and natural gas companies that own a working interest in the properties operated by the Group. As the pricing environment increases, the Group has the ability to withhold future revenue payments to recover any non-payment of joint interest trade receivables. If pricing remains flat, management will approach external working interest owners to settle the deficit in return for their ownership percentage.

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

   Useful for companies with significant depreciation and depletion of fixed assets and significant debt financing charges, adjusted EBITDA is of particular interest to the Directors, as it is essentially the cash generated from current year income the Group has free for interest payments and capital investment. To calculate the adjusted EBITDA, management adjusts the operating profit for any gains on bargain purchase, gains or losses on derivative financial instruments, and any one-time acquisition costs. In 2015, the Group's adjusted EBITDA decreased to $2.6m, from $3.3m in 2014 (see note 17), mainly from the depressed commodity price environment. This was partially offset by the Directors' successful derivative arrangements and the focus on acquiring bargain natural gas and crude oil production. The Directors' anticipate an increased adjusted EBITDA for 2016 based on the exponential growth in production credited to acquisitions and a mild improvement in commodity prices.

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

Principal risks and uncertainties

The Group's activities expose it to a number of financial risks including credit risk, liquidity risk and commodity. The Group does not use derivative financial instruments for speculative purposes. See note 25 to the financial statements for details of how the board manage risk. Set out below are the key risk factors which could have an impact on the Group's long term performance. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Group.

1. Risks relating to the business and operations of the group

The Group may not successfully manage its growth

Expansion of the business of the Group may place additional demands on the Group's management and administrative and technological resources, and may require additional capital expenditure. If the Group is unable to manage any such expansion effectively, then this may adversely impact the business, development, financial condition, results of operations, prospects, profits, cash flow and reputation of the Group.

The Group's growth and future success will be dependent to some extent on the successful completion of such expansion strategies proposed to be undertaken by the Group. The execution of the Group's expansion strategies may also place a strain on its managerial, operational and financial reserves. Should the Group fail to implement such expansion strategies, the Group's business operations, financial performance and prospects may be adversely affected.

Potential requirement for further investment

The Group may require additional capital in the future for expansion, its activities and/or business development or to renew current funding arrangements. There can be no guarantee that the necessary funds will be available on a timely basis, on favorable terms, or at all, or that such funds if raised, would be sufficient. The level and timing of future expenditure will depend on a number of factors, many of which are outside of the Group's control. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon such expansion, activities and/or business development which could adversely impact upon the Group, its business, development, financial condition, operating results or prospects.

2. Risks relating to the market in which the group operates

Changes in natural gas and crude oil commodity pricing environment

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

Best regards,

Robert M. Post	Robert R. Hutson, Jr.
Chairman of the Board	Director and Chief Executive Officer

The Directors present their report on the Group, together with the audited Consolidated Financial Statements for the year ended 31 December 2015.

Outlook

Continuing into 2016, we have and will continue to remain acquisition focused – acquiring 1,300 additional wells which add production of 3,000 MCF/day of natural gas and 250 BBL/day of crude oil. Management will evaluate opportunities to add producing wells, allowing cash flow to increase while continuing to maintain a low operating cost.

Financial instruments

Details of the Group's principal risks and uncertainties relating to financial instruments are detailed in the Strategic Report and note 25 to the financial statements.

Directors

The directors who served during the year are set out on page 3. The directors' beneficial interests in the share capital of the Group were as follows at 31 December 2015:

	Ordinary shares of 1p	% of issued share capital
Robert M. Post (appointed 31/07/2014)	20,000,000	49%
Robert R. Hutson, Jr. (appointed 31/07/2014)	20,000,000	49%
Martin K. Thomas (appointed 01/01/2015)	1,200,000	2%

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

Directors' remuneration

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

For the year ended 31 December 2015:

	Robert M. Post	Robert R. Hutson, Jr.	Martin K. Thomas	Total
	$'000	$'000	$'000	$'000
Salaries and benefits	26	31	-	57
Director remuneration pay	-	-	48	48
	26	31	48	105

For the year ended 31 December 2014:

	Robert M. Post	Robert R. Hutson, Jr.	Total
	$'000	$'000	$'000
Salaries and benefits	31	38	69
	31	38	69

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the group financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare group financial statements for each financial year. Under that law, they are required to prepare the group financial statements in accordance with International Reporting Standards (IFRSs) as adopted by the European Union (EU) and prepare company financial statements under United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102.
Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of their profit or loss for that period. In preparing the group and financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Provision of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the Group's auditors are unaware; and

- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information need by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of the information.

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

Robert M. Post
Chairman of the Board
31 May 2016

Corporate governance statement

The Board of Diversified Gas & Oil PLC appreciate the value of good corporate governance and intend to respect the requirements of the UK Corporate Governance Code (the "Code") on corporate governance, as far as applicable to the Group given its current size and stage of development.

The Board is responsible for the direction and overall performance of the Group with emphasis on policy and strategy, financial results and major operational issues.

The Code recommends that at least one-third of Board members should be non-executive Directors.

Board structure

The Board consists of three directors of which two are executive and one non-executive.

The Board meets as and when required and is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties.

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

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

Internal controls

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

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

Independent Auditor's Report to the Members of Diversified Gas & Oil PLC

We have audited the financial statements of Diversified Gas & Oil PLC for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes numbered 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report and any other surround information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Diversified Gas & Oil PLC for the period ended 31 December 2015.

Leo Malkin
Senior Statutory Auditor
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
St Bride's House
10 Salisbury Square
London EC4Y 8EH, UK

31 May 2016

DIVERSIFIED GAS AND OIL PLC
Consolidated Statements of Comprehensive Income
For the year ended 31 December 2015

	Note	Year ended 31 December 2015 $'000	Year ended 31 December 2014 $'000
Revenue	6	6,304	7,358
Cost of sales	7	(4,251)	(3,559)
Depreciation, depletion and amortization		(3,388)	(2,160)
Gross (loss)/profit		(1,335)	1,639
Administrative expenses	7	(1,016)	(971)
Loss on disposal of property and equipment		(2)	(7)
(Loss)/Gain on derivative financial instruments		402	1,091
Gain on bargain purchase	12	6,582	914
Operating profit		4,631	2,666
Finance costs		(3,177)	(2,734)
Finance costs, accrued	21	(925)	-
Accretion of decommissioning provision	20	(366)	(170)
Potential initial public offering charges	9	(576)	-
Loss before taxation		(413)	(238)
Taxation on loss	8	-	-
Loss after taxation		(413)	(238)
Other comprehensive income attributable to the equity holders of the parent Gain on foreign currency conversion		17	3
Total comprehensive loss for the year attributable to the equity holders of the parent		(396)	(235)
Earnings per share – basic and diluted (US$)	16	(0.01)	(0.01)

DIVERSIFIED GAS AND OIL PLC
Consolidated Statements of Financial Position
As at 31 December 2015

	Note	2015	2014
		$'000	$'000
ASSETS			
Non-current assets			
Oil and gas properties	10	42,353	31,056
Property and equipment	11	2,110	1,211
Restricted cash	13	115	90
		44,578	32,357
Current assets			
Trade receivables	14	1,759	1,151
Derivative financial instruments	15	17	876
Other current assets		43	22
Cash and cash equivalents		90	34
		1,909	2,083
Total Assets		46,487	34,440
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	630	611
Merger reserve		(478)	(478)
Accumulated losses		(8,969)	(7,470)
Total equity attributable to the owners of the parent		(8,817)	(7,337)
Non-current liabilities			
Decommissioning provision	20	8,869	3,466
Capital lease	22	58	-
Borrowings	21	20,115	13,559
Other liabilities		277	302
		29,319	17,327
Current liabilities			
Trade and other payables	23	2,869	3,352
Borrowings	21	22,821	20,806
Capital lease	22	115	-
Other liabilities		180	292
		25,985	24,450
Total Liabilities		55,304	41,777
Total Liabilities and Equity		46,487	34,440

The Notes on pages 16 to 48 form an integral part of these Consolidated Financial Statements.

The Financial Statements were approved by the Board of Directors on 31 May 2016 and signed on its behalf by

Robert M. Post
Chairman of the Board

DIVERSIFIED GAS AND OIL PLC
Consolidated Statements of Changes in Equity
For the period ended 31 December 2015

	Note	Share capital	Merger reserve	Retained earnings	Total equity
		$'000	$'000	$'000	$'000
Balance as of 1 January 2014		611	(478)	(5,189)	(5,056)
Loss after taxation		-	-	(238)	(238)
Gain on foreign currency conversion		-	-	3	3
Total comprehensive loss for the period		-	-	*(235)*	*(235)*
Stockholder contributions pre group reconstruction	19	-	-	554	554
Stockholder distributions pre group reconstruction	19	-	-	(2,600)	(2,600)
Transactions with owners		-	-	*(2,046)*	*(2,046)*
Balance as of 31 December 2014		611	(478)	(7,470)	(7,337)
Loss after taxation		-	-	(413)	(413)
Gain on foreign currency conversion		-	-	17	17
Total comprehensive loss for the period		-	-	*(396)*	*(396)*
Stockholder contributions pre group reconstruction	19	-	-	1,296	1,296
Stockholder distributions pre group reconstruction	19	-	-	(2,399)	(2,399)
Issuance of share capital		19	-	-	19
Transactions with owners		*19*	-	*(1,103)*	*(1,084)*
Balance as of 31 December 2015		630	(478)	(8,969)	(8,817)

DIVERSIFIED GAS AND OIL PLC
Consolidated Statements of Cash Flows
For the period ended 31 December 2015

	2015	2014
	$'000	$'000
Cash flows from operating activities		
Loss after taxes and comprehensive income	(396)	(235)
Adjustments to add (deduct) non-cash items:		
Depreciation, depletion and amortization	3,388	2,531
Accretion of decommissioning provision	366	169
Loss/(Gain) on derivative financial instruments	859	(1,440)
Gain on oil and gas program	(344)	(529)
Gain on bargain purchase	(6,582)	-
Loss on disposal of property and equipment	2	7
Working capital adjustments:		
Change in trade receivables	(589)	288
Change in other current assets	(26)	(4)
Change in trade and other payables	(427)	874
Change in other liabilities	(182)	(123)
Net cash (used in)/provided by operating activities	(3,931)	1,538
Cash flows from investing activities		
Expenditures on oil and gas properties	(2,513)	(159)
Expenditures on property and equipment	(1,216)	(256)
Increase in restricted cash	(25)	-
Proceeds on disposal of oil and gas properties	105	610
Proceeds on disposal of property and equipment	-	2
Net cash (used in)/provided by investing activities	(3,649)	197
Cash flows from financing activities		
Proceeds from borrowings	10,090	2,540
Repayment of borrowings	(844)	(348)
Financing expense	(680)	(744)
Proceeds from capital lease	192	-
Repayment of capital lease	(19)	-
Contributions from stockholders	1,296	54
Dividends to stockholders pre group reconstruction	(2,399)	(3,515)
Net cash provided by/(used in) financing activities	7,636	(2,013)
Net increase/(decrease) in cash and cash equivalents	56	(278)
Cash and cash equivalents - beginning of period	34	312
Cash and cash equivalents - end of period	90	34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Diversified Gas and Oil PLC (DGO) is an Appalachian focused natural gas and crude oil operations company with headquarters in Birmingham, Alabama, USA. The Company was incorporated on 31 July 2014 in England and Wales as a private limited company under company number 09156132. DGO's registered office is located at 15 Appold Street, London EC2A 2HB, United Kingdom.

2. BUSINESS CONSOLIDATION

Effective 1 June 2015, Robert R. Hutson, Jr. and Robert M. Post collectively assigned their capital stock or membership interest in the following companies to Diversified Gas & Oil Corporation (DGOC):

1. Diversified Resources, Inc.;
2. M & R Investments, LLC;
3. M & R Investments Ohio, LLC;
4. Marshall Gas and Oil Corporation;
5. R&K Oil and Gas, Inc.;
6. Fund 1 DR, LLC

In exchange for the equity of the Subsidiary Companies, Hutson and Post, were issued 4,000 shares of common stock, par value $0.01 in DGOC.

Effective 10 June 2015, Robert R. Hutson, Jr. and Robert M. Post collectively transferred their 4,000 shares of common stock in DGOC to DGO. In exchange for their common stock of DGOC, Hutson and Post were collectively issued 35,000,000 shares of common stock, par value £0.01 in DGO.

No impairment has been recognised in the financial statements. On the stand-alone DGO PLC the carrying value at 31 December 2015 of investments held was $535,000 (approximately £350,000); however this balance is eliminated on consolidation.

3. BASIS OF PREPARATION AND CHANGE OF ACCOUNTING POLICY

(a) Basis of Preparation and Measurement

The Consolidated Financial Statements of Diversified Gas & Oil PLC have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), issued by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for any financial assets which are stated at fair value through profit or loss.

3. BASIS OF PREPARATION AND CHANGE OF ACCOUNTING POLICY (Continued)

(a) Basis of Preparation and Measurement (Continued)

As a result of the stock exchange transaction between DGO and stockholders Hutson and Post and in accordance with IFRS 3 – Business Combinations (Revised 2008), the financial statements represent consolidated financial information of the Group (DGO Group). Therefore, although the DGO Group reconstruction did not become unconditional until 10 June 2015, these consolidated financial statements are presented as if the DGO Group structure has always been in place, including the activity from incorporation of DGO Group's subsidiary companies. All entities had the same management as well as majority shareholders.

In accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, in developing an appropriate accounting policy, the Directors have considered the pronouncements of other standard setting bodies and specifically looked to accounting principles generally accepted in the United Kingdom ("UK GAAP") for guidance (Section 19 of FRS102) which does not conflict with IFRS and reflects the economic substance of the transaction.

Under UK GAAP, the assets and liabilities of both entities are recorded at book value, not fair value. Intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the legal acquirer in accordance within applicable IFRS, no goodwill is recognized, any expenses of the combination are written off immediately to the income statement and comparative amounts, if applicable, are restated as if the combination had taken place at the beginning of the earliest accounting period presented.

Unless otherwise stated, the financial statements are presented in US Dollar, which is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand dollars except where otherwise indicated. They have been prepared under the historical cost convention, except for acquisitions and derivative financial instruments that have been measured at fair value through profit and loss.

The financial statements have been prepared on the going concern basis, which assumes that DGO Group will be able to meet its liabilities as they fall due for the foreseeable future.

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

(b) New Standards and Interpretations Not Yet Adopted

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Directors of DGO Group have made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the consolidated audited financial information:

(a) Valuation of intangible oil and gas assets on acquisition

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. An assessment of the value of these proved reserves on acquisition is produced, taking into account the discounted cash flows of production to a present value ("PV"). The group uses a discount ranging between 10% and 30% for such acquisition, depending on the market conditions at the time of the transaction as well any additional risk factors arising in the particular transaction, in order to obtain a fair value estimate of oil and gas properties.

(b) Impairment indicators for oil and gas properties

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the commodity price assumption may change, which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of natural gas and crude oil property. DGO Group monitors internal and external indicators of impairment relating to its long-lived assets.

Following a review by the Directors of ongoing operational performance of DGO Group's natural gas and crude oil properties for the period ending 31 December 2015, the Directors are of the opinion that no impairment indicators are apparent for these assets.

(c) Reserve estimates

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

(c) Reserve estimates (continued)

Changes in reported reserves may affect DGO Group's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected by possible impairment due to adverse changes in estimates future cash flows; and
- depreciation, depletion and amortization charged in the statement of comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

(d) Decommissioning costs

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

(e) Income taxes

As a result of the share transfer after 31 December 2015, all subsidiaries will lose their pass-through tax status, will be subject to U.S. federal and state income tax, and will begin filing a consolidated U.S. federal income tax return and separate company state tax returns. The Subsidiaries have identified its federal tax return and its state tax returns in West Virginia, Ohio and Pennsylvania as "major" tax jurisdictions, as defined. As of 31 December 2015, no deferred tax asset or liability existed. At this time, it is unknown the financial effect and tax rates of this change. As the group is currently loss making these changes are not expected to have a material impact when they take effect.

(f) Functional and presentation currency

The individual financial information of DGO and subsidiaries is measured in the currency of the primary economic environment in which the entity operates (its functional currency). The financial statements of the subsidiaries are presented in US Dollars, which is the presentation currency of DGO.

(g) Going Concern

The Directors have considered financial resources together with their forecast financial information of the entity and the group. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current downturn in global oil and gas prices. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Preparation of the Consolidated Financial Statements in compliance with IFRS as adopted by the EU requires the Directors to exercise judgment in applying DGO Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Notes 3 and 4 to this Consolidated Financial Statements.

(a) Cash

Cash on the balance sheet comprises cash at banks. Balances held at banks, at times, exceed federally insured amounts. The DGO Group has not experienced any losses in such accounts and the Directors believe the DGO Group is not exposed to any significant credit risk on its cash.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(b) Trade receivables

Trade receivables are stated at the historical carrying amount, net of any provisions required. Trade receivables from joint interest owners are generally with other oil and natural gas companies that own a working interest in the properties operated by the DGO Group. The DGO Group has the ability to withhold future revenue payments to recover any non-payment of joint interest trade receivables.

Trade receivables are due from customers throughout the oil and natural gas industry. Although diversified among many companies, collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. The Directors review the financial condition of customers prior to extending credit and generally do not require collateral in support of the DGO Group's trade receivables. Any changes in the Directors' provision for un-collectability of trade receivables during the period is recognized in the statement of comprehensive income.

(c) Derivative financial instruments

Derivatives are used as part of the Directors' overall strategy to mitigate risk associated with the unpredictability of cash flows due to volatility in commodity prices and interest rates, further details of the Groups exposure to these risks are detailed in note 25. The DGO Group has entered into two types of contracts which are considered derivatives: 1) financial instruments such as swaps and collars which result in net cash settlement each month and do not result in physical deliveries and 2) non-financial instruments considered normal purchases and normal sales, with physical delivery or receipt of commodities in the ordinary course of business. The derivative contracts are initially recognised at fair value at the date contract is entered into and remeasured to fair value every balance sheet date. The resulting gain or loss is recognized in the statement of comprehensive income in period incurred.

(d) Restricted cash

Cash held for bonding purposes is classified as restricted cash and recorded within non-current assets.

(e) Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Exploration and evaluation costs

The DGO Group follows IFRS 6 in accounting for oil and gas assets. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the statement of comprehensive income. Only material expenditure incurred after the acquisition of a license interest is capitalized. Historically, the expenditure has not been deemed material, as the DGO Group drills in active areas where there are minimal and immaterial exploration and evaluation costs and therefore the cost has been expensed.

(g) Development costs

Expenditure on the construction, installation or completion of infrastructure facilities, such as platforms and pipelines, and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties.

(h) Oil and gas properties and property and equipment

Oil and gas properties and property and equipment are stated at cost, less accumulated depletion/depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, for qualifying assets, and borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property and equipment.

(i) Depreciation and depletion

Oil and gas properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for the depreciation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Drilling costs and equipment:	7 - 15 years
Buildings and leasehold improvements:	10 - 39 years
Motor vehicles:	5 - 7 years
Other property and equipment:	3 - 5 years

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Development and production asset swaps

Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the amount given up. Any gain or loss on de-recognition of the asset given up is recognized in profit or loss.

(k) Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the DGO Group, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

(l) Impairment of non-financial assets

The Directors assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Directors base impairment calculations on detailed budgets and forecast calculations which are prepared separately for each of the DGO Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

(m) Leases

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions for decommission

A decommissioning liability is recognized when the DGO Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as accretion of decommissioning provision.

(o) Income taxes

During 2015, Diversified Gas and Oil Corp was a C-corporation which had no income tax activity. M&R Investments, LLC, M&R Investments Ohio, LLC, Fund 1 DR, LLC were single-member limited liability companies, Diversified Oil & Gas, LLC was a limited liability company, whilst Diversified Resources, Inc., Marshall Gas & Oil Corporation and R&K Oil and Gas, Inc. were S-corporations which were formed under state statutes and taxed for federal and state purposes as a partnership. Therefore, each subsidiary reports their proportionate share of the DGO Group's taxable income or loss on their respective income tax return.

The provision for income taxes relates to state income taxes, for those states that do not recognize the pass-through of income to individual members. Due to its pass-through status (or tax-exempt status), DGO Corp. is not subject to U.S. federal income tax. The DGO Group has identified its federal tax return and its state tax returns in West Virginia, Ohio, and Pennsylvania as "major" tax jurisdictions, as defined.

As a result of the stock exchange after 31 December 2015, all subsidiaries will lose their pass-through tax status, will be subject to U.S. federal and state income tax, and will begin filing a consolidated U.S. federal income tax return and separate company state tax returns.

DGO PLC is taxed as a public limited company in England.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue recognition

Natural gas and crude oil

Revenue from sale of oil and petroleum products is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. Revenues associated with the sale of petroleum products are recognized when the title passes to the customer.

Revenue from the production of oil in which the DGO Group has an interest with other producers is recognized based on the DGO Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the DGO Group's share of production are not significant.

Oil and gas program revenue

Revenue from the operation of 3rd party wells is recognized as earned in the month work is performed and in line with the DGO Group's contractual obligations.

Water disposal revenue

Revenue from the 3rd party's disposal of water into the Group's disposal well is recognized as earned in the month water was physically disposed.

Operator revenue

Revenue from sale of working interest ownership in the Group's operated wells is recognized as earned in the month the ownership transfers to or from the 3rd party working interest investor.
Revenue is stated after deducting sales taxes, production taxes, excise duties and similar levies.

(q) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction, until such time the assets are substantially ready for their intended use, i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available from short-term borrowings, and where such borrowings are directly applied to finance a project, the income generated from such short-term investments is also capitalized and reduces the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the DGO Group during the period. All other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

(r) Segmental reporting

The Group operates as one reportable segment, that of the production of natural gas and crude oil in the Appalachian Basin of the United States of America. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

6. Revenue and other income

	2015	2014
	$'000	$'000
Natural gas and crude oil revenue	4,738	5,860
Operator revenue	825	969
Oil and gas program revenue	344	529
Water disposal revenue	397	-
Total revenue	6,304	7,358

The DGO Group extracts and sells natural gas and crude oil to various customers. The DGO Group also operates oil and natural gas wells for customers. A significant portion of the DGO Group's trade receivables represent receivables related to either sales of oil and natural gas or operational services. The DGO Group has the right to offset future revenue due to customers against unpaid charges related to operation of above mentioned wells. Oil and natural gas trade receivables are generally uncollateralized. There provision for un-collectability of trade receivables was $515 as at 31 December 2015 (2014: $26,000). No other debts were past due or impaired as at each of these dates.

During the year ended 31 December 2015, two customers accounted for 23% and 17% of total revenues (2014: three customers, 26%, 20% and 13%). All revenues were generated in the United States of America.

7. Expenses by nature

	2015	2014
	$'000	$'000
Automobile	389	316
Employees and benefits	2,047	1,305
Insurance	240	135
Well operating expenses	1,575	1,803
Total cost of sales	4,251	3,559
Acquisition costs	293	-
Charitable contributions	-	5
Employees and benefits	169	169
Other administrative	124	143
Professional fees	205	341
Auditors' remuneration	69	40
Other fees payable to auditors	9	151
Rent	81	79
Travel	65	17
Uncollectible accounts	1	26
Total administrative expenses	1,016	971
Total expenses	5,267	4,530

Staff costs

	2015	2014
The average monthly number of employees was	39	32

	2015	2014
Aggregate remuneration (including Directors):	$'000	$'000
Wages and salaries	1,723	1,120
Payroll taxes	150	103

8. Taxation

	2015
	$'000
Corporate tax	-
Current tax on profits for the year	-
Total current tax	-
Taxation on profit on ordinary activities	-

For 2015 and 2014, taxes would only be assessed in the US on Diversified Gas & Oil Corporation (DGOC) at a rate of 35% and in the UK on Diversified Gas & Oil PLC (DGO PLC) at a rate of 20.3%. The factors affecting the tax charges for the years are as follows:

	2015
	$'000
Loss on ordinary activities before tax	(413)
Loss on ordinary activities multiplied by hybrid standard rate of corporation tax (27.6%)	(114)
Effects of tax losses carried forward	114
Total tax charge for the year	-

	2014
	$'000
Corporate tax	-
Current tax on profits for the year	-
Total current tax	-
Taxation on profit on ordinary activities	-

	2014
	$'000
Loss on ordinary activities before tax	(238)
Loss on ordinary activities multiplied by hybrid standard rate of corporation tax (27.6%)	(66)
Effects of tax losses carried forward	66
Total tax charge for the year	-

9. Potential initial public offering charges

Beginning in 2014, DGO Group explored the potential of an initial public offering (IPO). Costs associated with the potential IPO included professional fees paid to legal counsel, accountants, and financial advisers, totaling $576,000. During year ended 31 December 2015, Directors concluded that due to a low commodity pricing environment it was more favorable to pursue debt financing through a bond market resulting in all accumulated costs being expensed. These costs have been included as other expenses.

10. Oil and gas properties

	$'000
Cost as at 1 January 2014	36,734
Additions	5,946
Disposals	(153)
Cost as at 31 December 2014	42,527
Additions	14,472
Disposals	(340)
Cost as at 31 December 2015	**56,659**
Depletion and impairment as at 1 January 2014	(9,711)
Charge for the year	(1,846)
Disposals	86
Depletion and impairment as at 31 December 2014	(11,471)
Charge for the year	(3,079)
Disposals	244
Depletion and impairment as at 31 December 2015	**(14,306)**
Net book value as at 31 December 2014	**31,056**
Net book value as at 31 December 2015	**42,353**

Producing property depletion, drilling cost depreciation and the amortization of intangible drilling costs have been charged to depreciation for the year ended 31 December 2015 in the amount of $3,079,000 (2014: $1,846,000).

As at each of 31 December 2015 and 2014, the net book value of oil and gas properties includes immaterial amounts of development assets under construction which are not being depleted.

11. Property and equipment

	Land, buildings, leasehold improvements	Automobiles	Other property and equipment	Total
	$'000	$'000	$'000	$'000
Cost as at 1 January 2014	384	718	697	1,799
Additions	-	240	276	516
Disposals	-	-	(9)	(9)
Cost as at 31 December 2014	384	958	964	2,306
Additions	428	347	441	1,216
Disposals	-	(10)	(7)	(17)
Cost as at 31 December 2015	812	1,295	1,398	3,505
Depreciation as at 1 January 2014	(23)	(349)	(497)	(869)
Charge for the year	(6)	(140)	(80)	(226)
Disposals	-	-	-	-
Depreciation as at 31 December 2014	(29)	(489)	(577)	(1,095)
Charge for the year	(10)	(170)	(129)	(309)
Disposals	-	8	1	9
Depreciation as at 31 December 2015	(39)	(651)	(705)	(1,395)
Net book value as at 31 December 2014	355	469	387	1,211
Net book value as at 31 December 2015	773	644	693	2,110

12. Business acquisitions

In July 2015, DGO Group acquired 732 conventional natural gas and oil wells in Ohio from Broadstreet Energy. The purchase consideration totaling $2,600,000, comprised of cash of $600,000 and a short-term note payable of $2,000,000. Management considered the fair value of the reserves held in the assets acquired to be $3,252,571, which was the 10% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The acquisition has been accounted for as a business acquisition under IFRS 3. The estimated fair values of the assets and liabilities assumed were as follows:

	$'000
Oil and gas properties	3,253
Gain on bargain purchase	(653)
Purchase price	2,600

Since acquisition the assets acquired have generated $749,000 to the group's revenues.

In November 2015, DGO Group acquired 1,709 conventional natural gas and oil wells and 2 buildings in Pennsylvania and West Virginia, equipment and automobiles from Texas Keystone, Inc. The purchase consideration comprised of a short-term payable of $725,000. Management consider the value of the reserves held in the assets acquired was $5,727,546 which was the 30% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. The estimated fair values of the assets and liabilities assumed were as follows:

	$'000
Oil and gas properties	5,728
Buildings	428
Equipment	380
Automobiles	282
Capital lease obligation	(164)
Gain on bargain purchase	(5,929)
Purchase price	725

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

Since acquisition the assets acquired have generated $1,124,000 to the group's revenues.

13. Restricted cash

Restricted cash is cash held on deposit and restricted in use by the state governmental agencies to be utilized and drawn upon by those state agencies if the operator should abandon any wells. These deposit requirements are different by state.

	2015	2014
	$'000	$'000
Restricted cash	115	90
Total	115	90

14. Trade receivables

	2015	2014
	$'000	$'000
Trade receivables	1,759	1,151
Not due	1,759	1,151
Past due less than 30 days	-	-
Past due 31-120 days	-	-
Past due more than 120 days	-	-
	1,759	1,151
Trade receivables past due but not impaired	-	-

15. Derivative financial instruments

a. Natural gas put option agreements

On 9 December 2014, DGO Group entered into a call option with a counterparty to sell approximately 72,000 MMBTUs of natural gas during the period 29 December 2014 to 27 August 2015. The counterparty paid DGO Group a strike price of $3.00 per MMBTU.

On 15 January 2015, DGO Group entered into a call option with a counterparty to sell approximately 501,000 MMBTUs of natural gas during the period 1 February 2015 to 31 December 2015. The counterparty paid DGO Group a strike price of $3.13 per MMBTU.

On 15 December 2015, DGO Group entered into a call option with a counterparty to sell approximately 364,000 MMBTUs of natural gas during the period 1 January 2016 to 30 June 2016 at a strike price of $2.39 per MMBTU to be paid by the counterparty. The calculated fair value of this derivative agreement was $(88,279) at 31 December 2015.

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

15. Derivative financial instruments (Continued)

b. Natural gas basis swap agreements

On 20 January 2015, DGO Group entered into a natural gas basis swap agreement to exchange 835,000 MMBTUs of natural gas during the period 1 February 2015 to 31 December 2015 at a fixed price of $1.22 per MMBTU, paid by the counterparty and the Dominion Transmission Appalachian monthly settlement price to be paid by DGO Group.

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

c. Oil swap agreements

On 18 February 2014, DGO Group entered into an oil swap agreement to exchange 6,000 barrels of WTI Crude Oil during the period of 1 January 2015 to 31 March 2015 at a fixed price of $91.70 per barrel paid by the counterparty.

On 20 February 2014, DGO Group entered into an oil swap agreement to exchange 6,000 barrel of WTI Crude Oil during the period of 1 April 2015 to 30 June 2015 at a fixed price of $89.60 per barrel paid by the counterparty.

On 22 May 2014, DGO Group entered into an oil swap agreement to exchange 6,000 barrels of WTI Crude Oil during the period of 1 July 2015 to 30 September 2015 at a fixed price of $91.40 per barrel paid by the counterparty.

On 22 May 2014, DGO Group entered into an oil swap agreement to exchange 6,000 barrel of WTI Crude Oil during the period of 1 October 2015 to 31 December 2015 at a fixed price of $90.07 per barrel paid by the counterparty. The calculated fair value of this derivative agreement was $105,486 at 31 December 2015.

DGO Group agreed to the variable price per barrel equal to the arithmetic average of the daily settlement prices for the WTI first traded contract month on the New York Mercantile Exchange. Effects of the oil swap agreements were recorded in the statement of comprehensive income.

d. Oil put option agreements

On 10 December 2014, the DGO Group entered into an oil put option agreement to exchange 5,400 barrels of WTI Crude Oil during the period of 2 January 2015 to 30 September 2015 at a fixed price of $55.00 per barrel paid by the counterparty. The DGO Group also executed an oil call agreement on 10 December 2014 to exchange 5,400 barrel of WTI Crude Oil during the period of 2 January 2015 to 30 September 2015 at a fixed price of $70.75 per barrel paid by the counterparty. The DGO Group agreed to the variable price per barrel equal to the arithmetic average of the daily settlement prices for the WTI first traded contract month on the New York Mercantile Exchange.

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

15. Derivative financial instruments (Continued)

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

	2015	2014
	$'000	$'000
Natural gas put option agreements	(88)	(4)
Natural gas basis swap agreements	-	-
Oil swap agreements	105	861
Oil put option agreements	-	19
	17	876

16. Earnings per share

The calculation for earnings per share (basic and diluted) for the relevant period is based on the profit/(loss) after income tax attributable to equity holders for the period from incorporation on 31 December 2015 and 2014 as follows:

	2015	2014
Profit/(Loss) attributable to equity holders	(396,000)	(235,000)
Weighted average number of Ordinary Shares	40,100,000	40,000,000
Earnings per ordinary share	(0.01)	(0.01)

The 31 December 2014 calculation uses the Proforma number of shares, both basic and diluted, to reflect the number of shares following the stock reorganization transaction which occurred in 2015 (see note 2).

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

17. Adjusted EBITDA

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

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

	2015	2014
	$'000	$'000
Operating profit	4,631	2,666
Gain on bargain purchase	(6,582)	(914)
Loss on disposal of property and equipment`	2	7
Fair value movement on open derivatives	859	(582)
Depreciation, depletion and amortisation	3,388	2,160
Acquisition costs	293	-
Adjusted EBITDA	2,591	3,337

18. Share capital

	Note	Number of shares	Share capital	Total
			$'000	$'000
Balance as of 1 January 2014		. 40,000,000	611	611
Balance as of 31 December 2014		40,000,000	611	611
Issuance – Martin Thomas	(a)	1,200,000	19	19
Balance as of 31 December 2015		41,200,000	630	630

(a) Effective 2 December 2015, DGO PLC issued 1,200,000 shares of DGO PLC common stock par value £0.01 to Martin K. Thomas for cash.

19. Stockholder contributions and distributions

	Note	2015	2014
		$'000	$'000
Stockholder contributions			
Cash from Robert R. Hutson, Jr. and Robert M. Post	(a)	1,296	554
Stockholder distributions			
Cash to Robert R. Hutson, Jr. and Robert M. Post		2,399	851
Cash to former M&R Investments Ohio, LLC member	(b)	-	608
Related party receivable write off to equity	(c)	-	1,141
		2,399	2,600

(a) Stockholder contributions are injections of working capital provided by stockholders. These contributions have no conditions and are distributable, therefore they have been recognized directly to the retained profits reserve.

(b) Brian Cooper owned 6% of M&R Investments Ohio, LLC and was bought out during year ended 31 December 2014.

(c) As a part of the tax basis of accounting to IFRS basis of accounting conversion, the Directors of DGO Group chose to write off an accumulation of unreconciled related party balances as a distribution to stockholders during year ended 31 December 2014. The balances had accumulated since inception and the stockholders had no repayment terms.

20. Decommissioning provision

The DGO Group makes a full provision for future cost of decommissioning oil production facilities and pipelines on a discounted basis.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2036, which is when the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Directors' internal estimates. Assumptions based on the current economic environment have been made, which the Directors believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The discount rate used in the calculation of the decommissioning provision as at each of 31 December 2015 and 2014 was 8.0%.

The cost inflation rate used in the calculation of the decommissioning provision as at each of 31 December 2015 and 2014 was 3.0%.

	$'000
Provision as at 1 January 2014	2,651
Additions	645
Accretion	170
Provision as at 31 December 2014	3,466
Additions	5,377
Accretion	366
Disposals	(340)
Provision as at 31 December 2015	8,869

21. Borrowings

Borrowings payable as at each of 31 December 2015 and 2014 consist of the following:

	2015	2014
	$'000	$'000
Financing companies and institution, with interest rates ranging from 4.19% to 9.39%, maturing March 2015 through to October 2019, secured by automobiles.	305	359
Financial institution, with interest rate of 3.25%, maturing December 2016, secured by oil and gas assets.	16,218	16,218
Note payable – unsecured revolving line of credit of up to $50,000, with a rate of 10.25%, with an annual renewal term.	33	46
Note payable, Mezzanine lender, with interest rate of 12%, maturing 31 January 2018, secured by a mezzanine lien on oil and gas assets.	14,771	14,771
Financial institution, with interest rates ranging from 5%-6.90%, maturing July 2017 through to December 2020, secured by buildings.	113	137
Note payable – financial institution, with interest rate of 4%, maturing August 2016, secured by oil and gas properties.	3,285	3,800
Note payable - individual, with interest of 6.0%, maturing March 2016, unsecured.	420	500
Notes payable - individuals, with interest of 8.0%, maturing September 2017, unsecured.	116	143
Note payable – unsecured revolving line of credit of up to $125,000, with a rate of Wall Street Journal Prime Rate plus 2% rounded to the nearest 0.125%, having a floor of 6% and a ceiling of 18%, with an annual renewal term.	17	104
Note payable - business institution, no interest rate, matured, remaining balance owed on building properties acquired, unsecured	725	-
Note payable – financial institution, with interest rate of Wall Street Journal Prime Rate plus 0.50%, maturing June 2016, secured by oil and gas properties.	2,000	-
Bonds payable - individuals and institutional investors, with interest of 8.5%, maturing June 2020, unsecured	6,375	-
Total Borrowings	44,378	36,078

21. Borrowings (Continued)

Borrowings payable as at each of 31 December 2015 and 2014 consist of the following:

	2015	2014
	$'000	$'000
Total Borrowings	44,378	36,078
Less current portion of long-term debt	(22,821)	(20,806)
Less deferred financing costs (see below)	(2,367)	(1,713)
Plus accrued finance costs (see below)	925	-
	20,115	13,559

Deferred financing costs as at each of 31 December 2015 and 2014 consist of the following:

	$'000
Deferred financing costs as at 1 January 2014	1,440
Additions	738
Charge	(465)
Deferred financing costs as at 31 December 2014	1,713
Additions	1,439
Charge	(402)
Potential initial public offering cost expensed (see note 8)	(392)
Foreign currency translation adjustment	9
Deferred financing costs as at 31 December 2015	2,367

Future maturities of the long-term notes payable as at 31 December 2015 are as follows:

	$'000
Not later than one year	22,821
Later than one year and not later than five years	21,557
Later than five years	-
	44,378

During year ended 2015, the financial institution with a mezzanine lien on oil and gas assets accepted reduced interest payments and accrue the difference between 12% and the amount paid as an additional payment at maturity. The accrued finance cost totaled $925,000 as at 31 December 2015. Subsequent to year end, such balance was settled (see note 28).

21. Borrowings (Continued)

Future maturities of the long-term notes payable as at 31 December 2014 are as follows:

	$'000
Not later than one year	20,806
Later than one year and not later than five years	15,272
Later than five years	-
	36,078

22. Leases

DGO Group leased automobiles, equipment and real estate under both operating and capital leases as at 31 December 2015 and 2014. A summary of this activity is as follows:

(a) Capital leases

Through an acquisition in 2015, DGO group has acquired existing finance lease obligations for automobiles. The net book value of these assets financed with these leases as at 31 December 2015 was $254,162. The interest rate is 5.16%, maturing 2016 May through to 2018 March.

Future minimum lease payments associated with capital leases at 31 December 2015 were as follows:

	$'000
Not later than one year	115
Later than one year and not later than five years	58
Later than five years	-
Total minimum lease payments	173
Less amount representing interest	(15)
Present value of minimum lease payments	158
Less current portion of obligations under capital leases	(100)
Long-term obligations under capital leases	58

22. Leases (Continued)

(b) Operating leases

DGO Group leases both equipment and real estate under leases classified as operating, under multi-year agreements. During the year ended 31 December 2015, total expense under operating leases was $85,000 (2014: $82,000).

Future minimum lease payments associated with operating leases with original terms of greater than one year at 31 December 2015 were as follows:

	$'000
Not later than one year	91
Later than one year and not later than five years	24
Later than five years	-
Total future minimum lease payments	115

23. Trade and other payables

	2015 $'000	2014 $'000
Trade payables	2,068	2,498
Other payables and accruals	801	854
	2,869	3,352

24. Fair Value

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

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

Level 2: Inputs (other than quoted prices included in Level 1) can include the following:
- (a) observable prices in active markets for similar assets;
- (b) prices for identical assets in markets that are not active;
- (c) directly observable market inputs for substantially the full term of the asset; and
- (d) market inputs that are not directly observable but are derived from or corroborated by observable market data.

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

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

Netting the fair values of derivative assets and liabilities for financial reporting purposes is permitted if such assets and liabilities are with the same counterparty and a legal right of set-off exists, subject to a master netting arrangement. The Directors have elected to present derivative assets and liabilities net when these conditions are met. When derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. As at each of 31 December 2015 and 2014, there were no collateral assets or liabilities associated with derivative assets and liabilities.

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

Possible actions would be to transfer the DGO Group’s positions to another counterparty or request a voluntary termination of the derivative contracts, resulting in a cash settlement in the event of non-performance by the counterparty. For each of the fiscal years ended 31 December 2015 and 2014, the counterparties for all of the DGO Group’s derivative financial instruments were lenders under formal credit agreements.

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

24. Fair Value (Continued)

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

All financial instruments measured at fair value use Level 2 valuation techniques for the each of the years ended 31 December 2015 and 2014.

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

There have been no transfers between fair value levels during the reporting period.

Classification of financial instruments	2015	2014
	$'000	$'000
Financial assets		
Loans and receivable financial assets	1,759	1,151
Fair value through profit or loss	17	876
Financial liabilities at amortised cost		
Borrowings	42,936	34,365
Trade and other payables	2,869	3,352
	45,805	37,717

25. Financial Risk Management

DGO Group's principal financial liabilities, other than derivatives, comprise of borrowings and trade and other payables. The main purpose of these financial liabilities is to finance DGO Group's operations and to provide guarantees to support its operations. DGO Group's principal financial assets include trade and other receivables and cash and cash equivalents that derive directly from its operations. DGO Group also enters into derivative transactions.

DGO Group is exposed to market risk, credit risk and liquidity risk. The DGO Group's management oversees the management of these risks. All derivative activities for risk management purposes are carried out by a contracted specialist company that has the appropriate skills and experience.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of two types of risk: interest rate risk and commodity price risk. Financial instruments affected by market risk include borrowings and derivative financial instruments.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DGO Group's exposure to the risk of changes in market interest rates relates primarily to the DGO Group's borrowings with its Senior Credit Facility, Huntington Bank, with floating interest rates. All other material borrowings have fixed rates of interest.

An interest rate swap, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount is a way to mitigate interest rate risk. At 31 December 2015, the Directors have elected not to enter an interest rate swap because federal borrowing rates have remained low.

(c) Commodity price risk

DGO Group is affected by the price volatility of the natural gas and oil commodities. A material part of the DGO Group's revenue is derived from the sale of natural gas and crude oil. The DGO Group's gas sales revenues in 2014 and 2015 have been affected by the expiration of a fixed rate purchase contract.

Due to the volatility of the price of natural gas and oil, DGO Group has entered into various purchase contracts, a gas option with BP Energy Company and an oil swap agreement with BP Energy Company.

The DGO Group's normal policy is to sell its products under contract at priced determined by reference to prevailing market prices on petroleum exchanges and keep options and swaps in place for 24 months in advance to minimize commodity risk and create stabilized cash flow.

25. Financial Risk Management (Continued)

(d) Commodity price sensitivity

The following table shows the effect of price changes in natural gas net of hedge accounting impact:

	Price average, including fixed rate pricing and hedging	Henry Hub spot price average	Price effect
2014	$ 3.31	$ 4.37	$ (1.06)
2015	$ 2.31	$ 2.62	$ (0.31)

The following table shows the effect of price changes in crude oil net of hedge accounting impact:

	Price average, including hedging	NYMEX Crude spot price average	Price effect
2014	$ 93.07	$ 92.91	$ 0.16
2015	$ 49.24	$ 48.75	$ 0.49

If commodity prices increased by 10% (2014: 10%) then revenue would have increased by $63k (2014: $74k)

(e) Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a contract, leading to a financial loss. The credit risk from its liquid funds is limited because the counter parties are banks with high credit ratings and have not experienced any losses in such accounts. DGO Group is not exposed to credit risk from its derivative activities as the hedge provider has an intercompany agreement with DGO Group assuming all counter party risk. The DGO Group credit risk is primarily attributable to its operating activities and its trade receivables.

(f) Trade receivables

The amount of trade receivables presented in the statement of financial position is net of allowance for doubtful receivables. Trade receivables from joint interest owners are generally with other oil and natural gas companies that own a working interest in the properties operated by the DGO Group. The DGO Group has the ability to withhold future revenue payments to recover any non-payment of joint interest trade receivables. Trade receivables are due from customers throughout the oil and natural gas industry. Although diversified among many companies, collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. The DGO Group reviews the financial condition of customers prior to extending credit and generally does not require collateral in support of their trade receivables.

25. Financial Risk Management (Continued)

(f) Trade receivables (Continued)

As at 31 December, the aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired
	$'000	$'000
Trade receivables less than one month old at:		
31 December 2014	1,151	1,151
31 December 2015	1,759	1,759

There were eight customers that total 83% of total trade receivables at 31 December 2015 (2014: 5 customers, 86%).

(g) Liquidity risk

Liquidity risk arises from the DGO Group's management of working capital and the finance charges and principal repayments on its borrowings. It is the risk that the DGO Group will encounter difficulty in meetings its financial obligations as they fall due.

The DGO Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operational receivables and bank borrowings. The DGO Group's manages liquidity risk by continuously monitoring 90-day forecasts and actual cash flows. The DGO Group assesses debt maturing within 12 months and is able to access sources of funding with existing lenders.

For the year ended 31 December 2015:

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Trade and other payables	2,068	801	-	-	2,869
Borrowings	1,226	21,595	20,115	-	42,936
Capital Lease	29	86	58	-	173
Other liabilities	-	180	-	277	457
	3,323	22,662	20,173	277	46,435

25. Financial Risk Management (Continued)

(g) Liquidity risk (Continued)

For the year ended 31 December 2014:

	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Trade and other payables	2,540	812	-	-	3,352
Borrowings	16,883	3,923	13,536	23	34,365
Other liabilities	2	290	-	302	594
	19,425	5,025	13,536	325	38,311

(h) Capital risk

DGO Group's objectives when managing capital are to safeguard the ability to continue as a going concern while pursuing exploration and development and opportunities for growth through identifying and evaluating potential acquisitions and constructing new infrastructure on existing proved leaseholds. The DGO Group defines capital as DGO Corp's shareholders' equity excluding share capital and merger reserve, totaling $(8,969,000) at 31 December 2015 (2014: $(7,470,000). The DGO Group is not subject to any externally imposed capital requirements. DGO Group's management does not establish a quantitative return on capital criteria, but rather promotes year over year exploration and development growth. The DGO Group will be meetings its objectives of managing capital through its detailed review and preparation of both short-term and long-term cash flow analysis and monthly review of financial results.

(i) Collateral risk

The DGO Group has pledged its oil and gas properties to fulfill the collateral requirements for the borrowing credit facility with Huntington Bank, Bank of Oklahoma and CrossFirst Bank, collectively. The fair values of the oil and gas properties are $42,931,000 as at 31 December 2015 (2014: $35,036,000). The fair value is calculated based is the third-party engineering reserve values calculated at a 10% cumulative discount cash flow.

26. Contingencies and provisions

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

The DGO Group's operations are subject to environmental regulation in all the jurisdictions in which it operates. The Directors are unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect the DGO Group's operations. There can be no assurance that such new environmental legislation, once implemented, will not oblige the DGO Group to incur significant expenses and undertake significant investments.

27. Capital risk management

The directors' objectives when managing capital are to safeguard DGO Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. At the date of the Combined Financial Information, the DGO Group had been financed from borrowings. In the future, the capital structure of the DGO Group is expected to consist of borrowings and equity attributable to equity holders of DGO Corp., comprising issued share capital, share premium and reserves.

28. Events after the reporting period

The Directors have performed an analysis of the activities and transactions subsequent to 31 December 2015 to determine the need for any adjustments to and/or disclosure, within the Consolidated Financial Information.

(a) Mezzanine debt settlement

In March 2016, the mezzanine lender with borrowings outstanding of $14,771,000 and accrued finance charges of $925,000 at 31 December 2015, agreed to a settlement of all remaining balances in exchange for an immediate payment of $950,000. The remaining balance of $14,746,000 will be recognized as a gain on debt settlement during year ended 31 December 2016.

(b) Acquisitions

In April 2016, DGO Group acquired 1,300 conventional natural gas and crude oil wells in Ohio, equipment and automobiles from Eclipse Resources. The purchase consideration comprised of cash of $1,300,000 and long-term borrowings of $3,500,000, totaling $4,800,000. A provisional assessment of the value of these proved reserves on acquisition is produced, taking into account the discounted cash flows of production to a present value ("PV"). The group uses a discount ranging between 10% and 30% for such acquisition, depending on the market conditions at the time of the transaction as well any additional risk factors arising in the particular transaction, in order to obtain a fair value estimate of oil and gas properties. At the time of acquisition, the discount range between 10% and 30% was $20,158,000-$9,552,000, respectively.

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

(c) Increase in ISDX market cap

In April 2016, DGO Group Plc's bond issuance on the ISDX growth market was raised to £9,000,000.

We have audited the financial statements of DIVERSIFIED GAS & OIL PLC for the period ended 31 December 2015, set out on pages 51 to 60. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements:

- give a true and fair view of the state of the affairs of the company as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Other matter

We have reported separately on the group financial statements of Diversified Gas & Oil PLC for the year ended 31 December 2015.

Leo Malkin (Senior statutory auditor)

for and on behalf of
Crowe Clark Whitehill LLP

Statutory Auditor

St Bride's House
10 Salisbury Square
London
EC4Y 8EH

31 May 2016

DIVERSIFIED GAS AND OIL PLC
Statement of Financial Position
For the period ended 31 December 2015

	Note	As at 31 December 2015	As at 31 July 2015
		£'000	£'000
ASSETS			
Non-current assets			
Investments	8	350	350
		350	350
Current assets			
Other current assets		1	613
Trade receivables	9	2,720	-
Cash and cash equivalents		24	-
		2,745	613
Total Assets		3,095	963
EQUITY AND LIABILITIES			
Equity			
Share capital	4	412	400
Retained deficit		(595)	(424)
Total Equity		(183)	(24)
Non-current liabilities			
Borrowings	6	3,143	829
		3,143	829
Current liabilities			
Trade and other payables		135	158
		135	158
Total Liabilities		3,278	987
Total Liabilities and Equity		3,095	963

The notes on pages 54 to 60 form part of these financial statements.

The financial statements were authorised for issue for the board on 31 May 2016 and signed on its behalf by:

Robert Marshall Post
Director

DIVERSIFIED GAS AND OIL PLC
Statement of Changes in Equity
For the period ended 31 December 2015

	Note	Share capital	Retained earnings	Total equity
		£'000	£'000	£'000
On incorporation		50	-	50
Issuance of share capital		350	-	350
Comprehensive loss for the period		-	(424)	(424)
At 31 July 2015		400	(424)	(24)
Issuance of share capital		12	-	12
Comprehensive loss for the period		-	(171)	(171)
At 31 December 2015		412	(595)	(183)

DIVERSIFIED GAS AND OIL PLC
Statement of Cash Flows
For the period ended 31 December 2015

	Period ended 31 December 2015	Period ended 31 July 2015
	£'000	£'000
Cash flows from operating activities		
Operating income/(loss)	36	(410)
Working capital adjustments:		
Change in trade and other receivables	(2,108)	44
Change in trade and other payables	(24)	(5)
Net cash used in operating activities	(2,096)	(371)
Cash flows from investing activities		
Net cash (used in)/provided by investing activities	-	-
Cash flows from financing activities		
Proceeds from issue of bonds (net of expenses)	2,314	
Financing expense	(206)	
Proceeds from intercompany borrowings	-	371
Proceeds from the issue of shares	12	
Net cash provided by financing activities	2,120	371
Net increase in cash and cash equivalents	24	-
Cash and cash equivalents - beginning of period	-	-
Cash and cash equivalents - end of period	24	-

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of Preparation of Financial Statements

Diversified Gas & Oil Plc is a public limited company incorporated in England on 1 July 2014. The registered office is 15 Appold Street, London, EC2A 2HB. The financial statements have been prepared in accordance with Financial Reporting Standard 102 and the Companies Act 2006 under the historical cost basis.

The entity has early adopted FRS102 (before 1 January 2015) for its first accounting period ending 31 July 2015.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

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

(b) New Standards and Interpretations Not Yet Adopted

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

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

(b) Borrowings

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

(c) Finance costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments

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

(e) Going concern

The Directors have considered financial resources together with their forecast financial information of the entity and the group. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current downturn in global oil and gas prices. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the Directors consider that the key judgment is the allocation of costs between the loan balance and the profit or loss account relating to expenses of the bond listing on the ISDX growth market. See note 6 for details.

4. SHARE CAPITAL

On 31 July 2014, the Company was incorporated and had issued share capital of 5,000,000 Ordinary Shares of £0.01 each.

On 1 June 2015, the Company issued additional share capital of 35,000,000 Ordinary Shares of £0.01 each. The total number of Ordinary Shares of £0.01 allotted issued and fully paid at 31 July 2015 was 40,000,000 with an aggregate nominal value of £400,000.

On 12 December 2015, the Company issued additional share capital of 1,200,000 Ordinary Shares of £0.01 each. The total number of Ordinary Shares of £0.01 allotted issued and fully paid at 31 December 2015 was 36,200,000.

5. OPERATING EXPENSES

	31 December 2015 £'000	31 July 2015 £'000
Insurance	5	5
Other administrative	3	2
Professional fees	11	365
Directors' fees	7	23
Audit remuneration:		
Audit of the financial statements	5	15
Corporate finance services	8	112

During the period ended 31 July 2015, the Company explored the potential of an initial public offering (IPO). Costs associated with the potential IPO included professional fees paid to legal counsel, accountants, and financial advisers, totaling £365k and are included in professional fees above. Management concluded that due to a low commodity pricing environment it was more favorable to pursue debt financing through a bond market.

6. BORROWINGS

Borrowings payable as at each of 31 December 2015 and 31 July 2015 consist of the following:

	31 December 2015	31 July 2015
	£'000	£'000
Note payable – individual and institutional investors, with an interest rate of 8.0%, maturing July 2017 through September 2017, unsecured.	75	85
Bonds payable - individual and institutional investors, with an interest rate of 8.5%, maturing June 2020, unsecured.	4,166	1,206
Total Borrowings	4,241	1,291
Less deferred financing costs (see below)	(1,098)	(462)
	3,143	829

Deferred financing costs as at each of 31 December 2015 and 31 July 2015 consist of the following:

	£'000
Deferred financing costs as at 31 July 2014	-
Additions	469
Charge	(7)
Deferred financing costs as at 31 July 2015	462
Additions	688
Charge	(52)
Deferred financing costs as at 31 December 2015	1,098

Future maturities of the long-term notes payable as at 31 December 2015 and 31 July 2015 are as follows:

	£'000	£'000
Not later than one year	-	-
Later than one year and not later than five years	4,241	1,291
Later than five years	-	-
	4,241	1,291

The above borrowings are recognized as a financial liability measured at amortized cost and the carrying value approximates to their fair value.

7. SUBSEQUENT EVENTS

Since 31 December 2015, the Company's has issued additional unsecured 8.5% bonds to the ISDX Growth market so that the total bonds in issue is £9.0m.

8. INVESTMENTS

On 1 June 2015, the Company issued additional share capital of 35,000,000 Ordinary Shares of £0.01 each being £350,000 as consideration for 100% with of the issued share capital of Diversified Gas & Oil Corporation, a company incorporated in Delaware, United States of America. The carrying value at both 31 December 2015 and 31 July 2015 of investments held was £350,000.

Diversified Gas & Oil Corporation owns 100% of the issued share capital of the following entities:

Diversified Resources, Inc (Country of incorporation – United States of America)
Marshall Gas & Oil Corporation (Country of incorporation – United States of America)
R&K Oil and Gas Corporation (Country of incorporation – United States of America)
M&R Investments LLC (Country of incorporation – United States of America)
M&R Investments Ohio LLC (Country of incorporation – United States of America)
Fund 1 DR LLC (Country of incorporation – United States of America)

9. RELATED PARTIES TRANSACTIONS

In the financial period to 31 July 2015 the company had no bank account facilities and therefore all cash transactions were performed by Diversified Gas & Oil Corporation its subsidiary undertaking. At 31 December 2015 £119,832 (31 July 2015: £114,000) was owed to Diversified Gas & Oil Corporation. For the period ended 31 December 2015, the Company had invested in its subsidiaries and a receivable balance of £2,720,000 was owed from Diversified Gas & Oil Corporation (31 July 2015: £nil). There is no ultimate controlling party.

10. TAXATION

	31 December 2015 £'000	31 July 2015 £'000
Corporation tax		
Current tax on profits for the year	-	-
Total current tax	-	-
Taxation on profit of ordinary activities	-	-

10. TAXATION (Continued)

Factors affecting tax charge for the year:

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 20.3%. The factors affecting the tax charge for the period ending 31 December 2015 and 31 July 2015 are as follows:

	31 December 2015 £'000	31 July 2015 £'000
Loss on ordinary activities before tax	(170)	(424)
Loss on ordinary activities multiplied by the standard rate of corporate tax in the UK of 20.3%	(35)	(86)
Effects of:		
Tax losses carried forward	35	86
Total tax charge for the year	-	-
	-	-

No deferred tax asset has been recognized on the losses due to the uncertainty of the availability of future profits.

11. DEBTORS

	31 December 2015 £'000	31 July 2015 £'000
Due within one year:		
Other debtors	-	608
Prepayments and accrued income	1	5
	1	613

The carrying amounts of the above financial assets that are debt instruments measured at amortized cost approximate to their fair values.

12. CREDITORS

	31 December 2015 £'000	31 July 2015 £'000
Amounts falling due within one year:		
Amounts owed to group undertakings	-	114
Trade and other creditors	120	29
Accruals and deferred income	15	15
	135	158

The carrying amounts of the above financial liabilities measured at amortized cost approximate to their fair values.