



DIVERSIFIED GAS & OIL
P L C



SUSTAINABLE,
FOCUSSED ASSETS

2018 ANNUAL REPORT

Diversified Gas & Oil (AIM: DGOC) owns and operates natural gas, natural gas liquids, and oil production and midstream assets across the Appalachian Basin, the oldest hydrocarbon producing region within the United States. The Company, established in 2001, has grown consistently through its unique business model and has become one of the largest conventional operators within the region.

DGO
LEGACY

APC

CNX

EQT

CORE

2017
& PRIOR

2018
ACQUISITIONS

Over the last 12 months, Diversified Gas & Oil has delivered a material step-change in its operational and financial profile through a number of transformative acquisitions that have cemented the Company's status as the largest producer on the AIM market.

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We continue to develop a track record of extracting value from neglected assets.

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2018 was a second year of remarkable & accretive growth since our IPO in 2017.

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DIVERSIFIED GAS AND OIL PLC

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MISSION

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

VISION

Diversified Gas & Oil's vision is to build upon its position as the consolidator of choice, utilising our position as an established operator and producer of Low-Risk, Low-Cost, Long-Life mature natural gas and oil assets. We look to progress our large undeveloped acreage through our unique business model to achieve economies of scale that further improve the Company's strong operating margins. We aim to maintain our committed approach to long term sustainability which, alongside our strict fiscal discipline and stewardship, maximises the returns to our shareholders.

STRATEGY

Our strategy is to acquire, manage and develop gas and oil properties that enable us to generate strong cash flows - sustaining our dividend policy - with operational margins that position us to weather commodity volatility from a position of strength. Throughout our existence we have consistently demonstrated our ability to create maximum shareholder value from long-life, mature producing assets by enhancing existing production, and reducing operational and administrative costs. The Company has recently diversified its operations further through the addition of a sizeable midstream operation that provides additional revenue streams and enhances operating efficiencies across the overall portfolio.

KEY FACTS

PRODUCTION



~70,000 boepd
NET PRODUCTION AT YEAR END

RESERVES



~474 mmbob
1P PDP RESERVES

CURRENT LEASEHOLD



7.8 million
ACRES

PDP COMMODITY MIX



86% 12% 2%
GAS NGL OIL

FOOTPRINT

4

PRIMARY STATES OF OPERATION

PEOPLE

~950

HUMAN CAPITAL

MIDSTREAM INFRASTRUCTURE

~10,500

MILES OF PIPELINE
ACROSS KENTUCKY, WEST
VIRGINIA & VIRGINIA

PRODUCTION GROWTH

6X

YEAR ON YEAR

INVESTMENT HIGHLIGHTS

STABLE, LONG-LIFE ASSET BASE

Low-decline rates across a mature portfolio that will produce steadily for multiple decades

STRONG BALANCE SHEET

Strong asset base and a healthy ratio of no more than ~2.0 to 2.5x financially levered

HIGHLY PROFITABLE & PROTECTED

Strong EBITDA margins driven by reliable free cash flows, properly hedged to reduce downside risk

SYNERGISTICALLY DIVERSIFIED

Strategic mix of upstream and midstream activities across multiple states in Appalachia drive higher cash margins

SIGNIFICANT LEASEHOLDER

Large conventional operator, with 474MMBOE of 1P PDP reserves across a vast land bank of 7.8 million acres of largely undeveloped acreage

DISCIPLINED CONSOLIDATOR

Adheres to a strict criteria to capitalise on unique acquisition opportunities that are immediately accretive to revenue, cash flow & dividends

PROVEN & REPUTABLE OPERATOR

History of proven growth and value creation, using economies of scale and our Smarter Well Management Programme to lower cost and increase profit margins

LOW-RISK

Stable, on-shore U.S. operator with low political risk and a healthy corporate governance policy

SUSTAINABLE DIVIDEND

Committed to returning cash to shareholders in form of reliable quarterly dividends

DIFFERENTIATED

Unique exposure to US natural gas and compelling dividend yield sets DGO apart from its UK listed peers

OPERATIONAL OVERVIEW

Diversified Gas & Oil plc ("DGO") has accelerated its growth momentum since admission to AIM, continuing to build its substantial acreage position across the established Appalachian Basin in the northeast US. With the industry focus continuing to shift towards unconventional shale operations, DGO has taken advantage of a unique acquisition window to consolidate its position as the leading operator of mature, long life conventional wells across the region, and in doing so, it has further strengthened its position as the leading producer on AIM.

2018 has seen a continuation of DGO's significant activity within the region with four material acquisitions that have substantially increased the scale of the Company's operational footprint and establish complementary midstream operations. The acquisition of Alliance Petroleum and Core Appalachia, paired with the acquisition of assets from CNX and EQT have created a portfolio that is underpinned by 474 million barrels of oil equivalent in 1P PDP reserves across 7.8 million acres of mostly undeveloped leasehold, producing approximately 70,000 barrels of oil equivalent per day.

The Southern Appalachian acquisitions have further allowed for the diversification of DGO's portfolio through procurement of 10,500 miles of wholly owned midstream infrastructure that provides the Company significant takeaway capacity to multiple

end markets. This addition has provided the next step in the development of the DGO portfolio and will allow the creation of additional operational efficiencies and increased fiscal margins through third party gathering contracts and pricing optionality. DGO's unique business model is reinforced by its low declining large portfolio of assets that are set to produce on average for the next 40-50+ years, whilst requiring low on-going operational capital expenditure.

DGO has an established and proactive approach to the long-term sustainability of its wells through its deployment of experience, knowledge & resources throughout its entire portfolio, executed through its 'Smarter Well Management Programme' and its 'Safe & Systematic Asset Retirement Programme'. The Company is committed to industry leading operating procedures and holds the safety and sustainability of the local communities and environment in which it works in the highest regards.

DGO's business model is based around the acquisition, management and development of gas and oil properties that allow the company to leverage operating efficiencies through economies of scale and Company-driven initiatives. The Company's proven growth strategy and unique business model has allowed it to build a track record as a quality operator delivering sustainable value creation.

STRATEGIC REPORT

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CHAIRMAN'S STATEMENT



ROBERT M. POST *Chairman of the Board*

"We have undergone a process of transformational and structural change and the Company is firmly positioned for continued execution of our disciplined strategy."

A YEAR OF TREMENDOUS GROWTH

Since its admission to AIM in February 2017, DGO has delivered consistent and significant achievements that have been appropriately labelled as transformative. The Company concluded so many material and company-changing events in just a year that we have emerged as a wholly different company with a structurally different financial and production profile compared to only twelve months ago. As of today, we are proud to be the largest producer on AIM by a comfortable margin and one of the largest conventional producers across the Appalachian Basin within the United States.

STRUCTURALLY TRANSFORMING THE BUSINESS

Whilst we undoubtedly accelerated the momentum of our growth in 2018, the strategy to grow the Company around stable cashflow while maintaining a commitment to keep leverage low has remained consistent. The Company has achieved impressive growth through a measured execution of our strategy in terms of acquiring value-accretive and complementary assets within the Appalachian Basin, all of which help to optimise DGO's overall portfolio to deliver impressive cash margins, earnings and return value to our shareholders. Each acquisition completed since listing has delivered larger scale opportunities, allowing us to cement our position and reputation as the consolidator of choice in the region. Our success in selecting the right opportunities for growth has led to the emergence of an environment in which sellers of the types of assets that meet our investment profile now approach the Company for discussions, further enhancing our ability to source value-accretive opportunities for the future.

The market dynamics, upon which DGO's inorganic growth strategy is based, remained favourable throughout the year. Large packages of assets were available at valuations that allowed us to deliver debt-adjusted and per-share accretion to our shareholders. We capitalised on the opportunities to achieve considerable scale, add additional liquids reserves to our portfolio including both crude oil and natural gas liquids and establish a more balanced and diversified business, including the strategic decision to acquire a sizeable midstream footprint. Importantly, the midstream assets not only provide an

additional revenue stream as we move gas for other producers in the region, but also affords us the ability to flow our own production to processing facilities that optimise the realised price we receive for our production. Therefore, we not only delivered a six-fold increase in production, but significantly increased the cash margins earned by our business. Through our strategic and structural changes to the business underpinned by scale, midstream assets, higher liquids production and access to processing, we materially enhanced the economics of our business by widening our control of the value stream within the Appalachian Basin and providing cost efficiencies and economies of scale. Additionally, we multiplied our PDP Reserves by 8x from a largely undeveloped acreage position across the Appalachian Basin, which further positions us to unlock incremental value in the years to come.

INVESTMENT IN ACCRETIVE GROWTH

A key strategic focus throughout the year has been to invest in our company to ensure it can meet current and future growth expectations. We recognised the requirement to have the appropriate people, systems, processes and controls to effectively and responsibly manage our rapidly growing business. The high quality personnel joining the company through acquisition, their detailed and valuable institutional knowledge of the assets and their commitment to safe and efficient operations have helped ensure smooth integration. We benefit from the overarching professional culture that permeates the Basin and allows us to near seamlessly integrate diverse teams of professionals into one, unified company. While being careful to maintain the institutional knowledge at the well-level, we have streamlined the management oversight of the assets to reduce administrative costs while empowering the individual charged with the wells' performance. To that end, we have invested time and resources into the development of our Company-driven programmes to smartly oversee the efficient operating of a vast landbank and sizeable portfolio of production wells.

WELL MANAGEMENT AND ASSET RETIREMENT

With a portfolio consisting of thousands of wells across multiple states, safety remains our top priority as we demonstrate our commitment to be a good corporate citizen within each community. We remain focused on acquiring mature producing wells with a low-decline profile, on which we then deploy innovative, optimising programs that set a new standard for efficient well-management and the eventual responsible retirement of non-productive wells. One of DGO's core differentiators, and a central component to our overall investment thesis, is our ability to manage assets more

efficiently and profitably than the vendors for whom the assets had become non-core. We accomplish this Smarter Well Management by leveraging our portfolio's scale, diverse institutional knowledge from a growing body of professionals with unique experience and geographical proximity to extract maximum value, and by implementing our internally developed Smarter Well Management Program. This program, tailored for each asset, focuses on optimising production from active wells and, where economically possible through a variety of means, returning inactive wells to production.

Of course, with a large base of producing assets, asset retirement is an obligation we understand. We take a proactive approach to long-term environmental and economic sustainability and we are fully committed to fulfilling our duties as an operator of mature assets. The vast majority of our portfolio is long-life and will produce sustainably for many decades to come and we will safely retire non-productive wells in line with the regulatory needs of the states in which we operate.

MANAGING RISK THROUGH LONG-TERM AGREEMENTS AND HEDGING

DGO's overall strategy is grounded in the types of assets we acquire and a low-risk approach to how we manage our business and balance sheet. With a strict focus on free cash flow, we ensure a tight handle on all expenditures so that we can budget accordingly and maintain visibility on our earnings and cash flow. Managing our liabilities, particularly those related to asset retirement, is an important element of this approach, and we were delighted to complement our long-term agreement with Ohio by finalising additional long-term agreements with the appropriate regulatory bodies in West Virginia, prior to year-end, and most recently in Kentucky. Collectively, these three agreements provide clear visibility on future asset retirement activities that cover approximately 60% of our assets. We continue to work diligently with regulators in Pennsylvania to finalize a similar, long-term agreement covering our wells in that State and we intend to have the entire DGO portfolio covered by long-term agreements in the near term.*

Producing stable cash flow for investors is another of our stated strategic objectives. The Company's liquidity position as at 28 February 2019 is approximately \$270 million providing ample liquidity for additional non-dilutive cash flow and earnings accretive growth. To assist in this objective, we seek to mitigate risk in the business through our hedging strategies. The spike in US natural gas prices to nearly \$5.00 per MMBtu in November 2018 and subsequent fall back to approximately \$3.00

*Information regarding the long-term agreement with the State of Pennsylvania at the time of the release of the Company's 2018 Final Results on 28 Feb 2019 has since been updated. DGO now has agreements in place to cover collectively 100% of its primary states of operation. Please visit RNS releases in News & Events at www.DGOC.com for more information.

per MMBtu in December 2018 highlight the volatile nature of commodity prices. Our hedging strategies are designed to ensure we maintain clear visibility of our cash flow while minimising any exposure to downside risk. Not only does our high degree of vertical integration complement our hedging strategy by insulating us from cost movements within the services sector, but our balance sheet, liquidity, low leverage and exceptional cash margins of approximately 60% in a sub-\$3.00 per MMBtu commodity price environment place us in a position of strength to not only to deliver strong results during periods of volatility, but to opportunistically acquire assets that volatility may drive to market. Overall, the long-term fundamentals for US natural gas pricing and regional differentials remain attractive, and with solid execution of our hedging strategies, we are well positioned to lock in upside value.

A GAS BUSINESS WITH GROWING EXPOSURE TO ECONOMIC-ENHANCING NATURAL GAS LIQUIDS

DGO is a gas business with increasing exposure to natural gas liquids which provides us with protection from the uncertain outlook and economic challenges presented by volatile global crude pricing. As demonstrated by our financial results, DGO is highly profitable even at current gas prices, and our growth opportunities remain protected from wider market concerns such as pricing, industry capex and geopolitics. It is our measured approach and uniqueness of our business model that resonates with investors and helps us stand out in a crowded market.

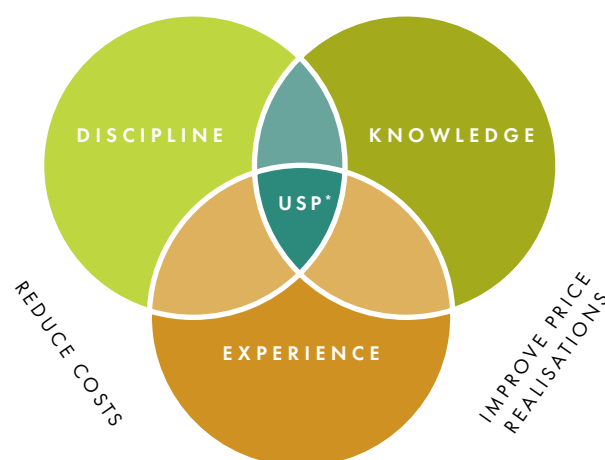
CONCLUSION

2018 was a second year of remarkable growth for DGO in which we capitalised on favourable market conditions, remained deeply committed to a well-defined strategy and further leveraged our early-mover advantage to develop a robust business model with a niche focus. We have undergone a process of transformational and structural change and the Company is firmly positioned for continued execution of our disciplined strategy. Additionally, we have invested in talented and committed employees that will drive our future growth. I must congratulate my colleagues on the successful execution of such an ambitious yet well-defined growth strategy. I also wish to thank our shareholders, debtholders and other stakeholders for the support that has enabled us to deliver this level of growth in such a short period of time. Our focus for the coming year will be on extracting maximum value from our enlarged portfolio for the benefit of our shareholders.



ROBERT M. POST *Chairman of the Board*

EXTRACTING MAXIMUM VALUE



* USP: Unique Selling Proposition

CHIEF EXECUTIVE'S STATEMENT

INTRODUCTION

2018 marks another tremendous year for DGO, during which we once more demonstrated that our business model, supported by a well-defined strategy, delivers sustainable and material value to our shareholders.

We completed four significant acquisitions during the year with an aggregate purchase price of \$938 million before customary adjustments, and collectively the acquisitions increased DGO's net daily exit-rate production 7x from ~10,000 boe/d to ~70,000 boe/d and PV-10 from \$259 million to \$1.6 billion. To fund our transformation and consistent with our commitment to never place the balance sheet at risk for the sake of growth, we raised \$492 million of equity financing including \$439 million in two significantly oversubscribed public equity offerings and \$53 million issued as acquisition consideration through a private placement with the sellers of certain assets.

Moreover, to reduce our borrowing costs, we moved quickly to replace 10% largely term-loan financing with a low-cost facility (currently 5.2%) that began with a syndicate of seven

banks and, after two upsizes during the year following acquisitions, ended the year with an expanded syndicate of twelve high-quality banks. Importantly, the facility provides the complementary debt capital needed to continue executing on our growth strategy in the most cost-effective way whilst remaining comfortably within our guided leverage ratio.

Throughout 2018 we reinforced our foundations, and enter 2019 with a stronger, broader platform from which to generate long-term value by capitalising on the benefits of scale and high visibility as the capable consolidator of long-life, stable cash-generative assets.

DELIVERING ON OUR STRATEGIC OBJECTIVES

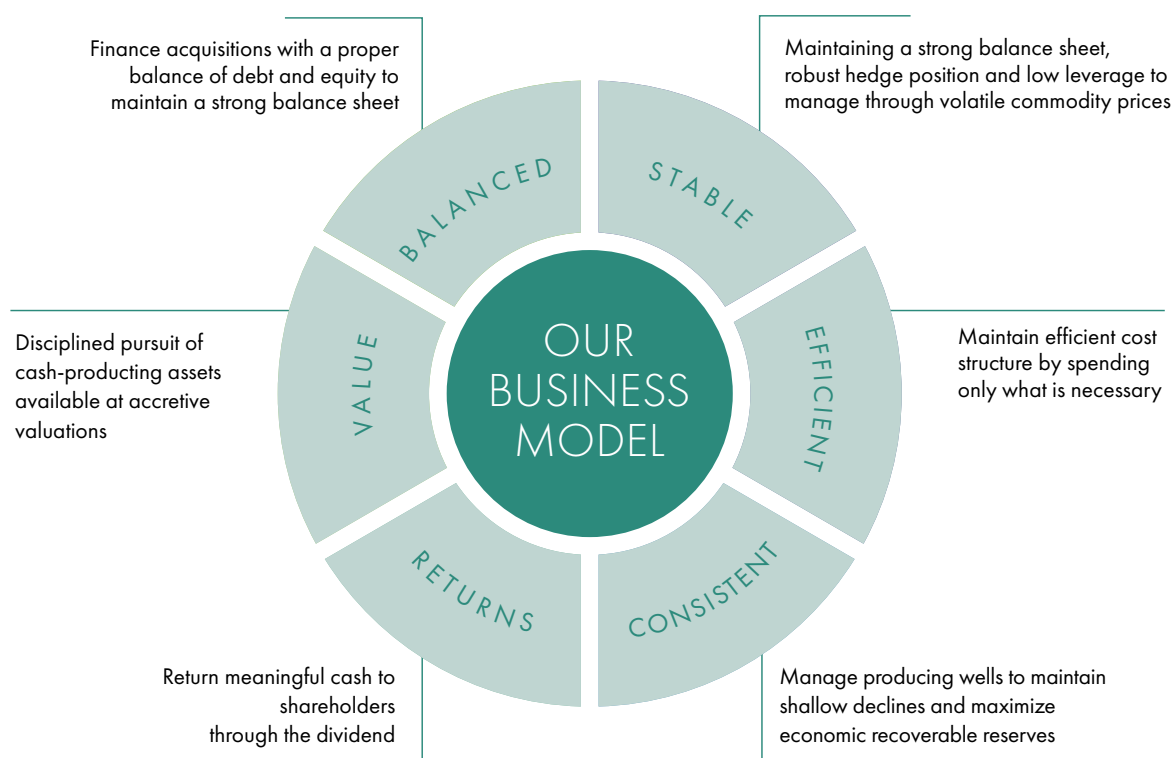
Building upon what was already a transformational year in 2017, we continued to deliver results for shareholders that were directly tied to our clearly stated objectives, underpinned by exceptional assets. We emerged from 2018 as the largest producer on AIM, clearly differentiated as a low-risk, cash flow positive, dividend paying E&P. The following table highlights progress in KPIs:

STATED OBJECTIVE	UNIT	FY2017	FY2018	% CHANGE VS 2017FY	4Q17	4Q18	% CHANGE VS 4Q17
Grow through accretive acquisitions	\$m	\$88.7	\$938	957%	\$ -	\$183	100 %
Increase production	MBOEPD	6.6	41.0	521%	10.4	70.0	573 %
Increase proved-developed-producing reserves	MMBOE	55	474	762%	n/a	n/a	n/a
Increase PV-10 reserves	\$b	\$0.3	\$1.6	433%	n/a	n/a	n/a
Increase acres held by production	MM Acres	1.6	7.8	388%	n/a	n/a	n/a
Increase revenue (Hedged) ¹	\$m	\$43.3	\$274.0	533%	16.7	128.4	669%
Increase revenue (Un-hedged)	\$m	\$41.8	\$289.8	593%	16.41	139.7	751%
Reduce unit lease operating costs ²	\$ per BOE	\$7.02	\$4.83	(31)%	\$6.77	\$4.22	(38)%
Reduce unit recurring G&A	\$ per BOE	\$2.03	\$1.34	(34)%	\$1.76	\$1.32	(25)%
Adjusted EBITDA (Hedged)	\$m	\$17.5	\$146.2	735%	\$6.8	\$73.6	982%
Adjusted EBITDA Margin (Hedged)	%	40%	53%	13 points	41%	57%	16 points
Adjusted EBITDA (Un-hedged)	\$m	\$16.0	\$161.9	912%	\$6.6	\$84.9	1,186 %
Adjusted EBITDA Margin (Un-hedged)	%	38%	56%	18 points	40%	61%	21 points

1. Includes the impact of settled hedges. See Note 19 for more information on hedges.

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

Effective business model that provides significant downside protection against volatile commodity price cycles with a focus on stable, producing wells and prudent hedging.



"Our growth is centered on creating the most value for our shareholders."

THE CONSOLIDATOR OF CHOICE

Before expanding upon each of our completed acquisitions, and in turn how we have successfully integrated them into our business, it is important to re-emphasise the strict criteria each acquisition target must meet before we consider it a potential fit for the DGO portfolio. Our disciplined approach to evaluating opportunities ensures that we only pursue those that possess a consistent asset profile, compelling upside and drive positive debt-adjusted cash flow per share that supports our dividend policy. Our refusal to compromise on these investment criteria is demonstrated by all of our acquisitions being immediately accretive due to the incremental contribution obtained from synergistically derived lower unit operating costs compounded by driving our realised prices higher through deliberate and sustainable structural changes in our revenue stream. Indeed, when comparing our realised unhedged price in the fourth quarter of 2018 compared to the same quarter last year, approximately two-thirds of our unhedged realised price increase of \$4.57 per Boe is attributable to the structural changes including a higher liquids content and the addition of our midstream capabilities, with the remaining one-third of the unhedged realised price increase attributable to the underlying increase in natural gas spot prices and lower basin differentials. Key strategic considerations supporting the rationale for our completed 2018 acquisitions included:

Drive sustainable increases in realised prices:

- Increase liquids production
- Create value by controlling the value chain
- Protect cash flows by diversifying gas marketing

Drive well productivity enhancements through DGO's Smarter Well Management:

- Optimise production from neglected wells
- Reduce costs and expand margins with operational efficiencies

During the first quarter, we announced the acquisitions of Alliance Petroleum Corporation ("Alliance") and assets from CNX Gas Corporation ("CNX") for a total consideration of \$180 million, \$95 million and \$85 million respectively. The acquired wells are geographically situated within our operating footprint in the Appalachian Basin, and concentrated in Ohio, Pennsylvania and West Virginia. In combination, our then total net daily production increased by nearly 175 percent to approximately 170,000 Mcfe or 28,000 Boe. Similarly, the combined acquisitions increased Diversified's total proved developed producing reserves by nearly 220 percent to 173 million Boe.

In July, we completed what was the largest acquisition by any oil and gas company in the history of the AIM market - the \$575 million acquisition of EQT Corporation's ("EQT") southern Appalachian producing gas and oil and midstream assets. This acquisition delivered a major step change in our financial and operational profile not only by expanding our already strong cash margin generation but also by adding a significant midstream asset that not only enhanced the economics of the upstream assets but also diversified our revenue stream by providing additional revenues from third-parties moving their production on the midstream system. Ultimately, the acquisition increased DGO's daily production by approximately 115% to over 60,000 barrels of oil equivalent per day, firmly establishing DGO as the largest gas and oil producer on AIM.

Building upon an earlier point, the sizeable midstream asset represented a unique characteristic of the EQT acquisition and laid the foundation for complementary growth in the southern region of the Appalachian Basin. Spanning more than 6,400 miles of pipelines and including 59 compressor stations, this strategic operational diversification significantly enhanced the economics of not only the producing wells we acquired and those we previously owned in the region, but further provided DGO with a competitive advantage to acquire additional assets in the region by materially enhancing our cost structure. With respect to our existing wells, the midstream assets created additional value by eliminating third party transport costs while simultaneously providing greater market pricing optionality, which collectively fueled higher cash margins per unit of production. Furthermore, the midstream assets provide a meaningful additional revenue stream related to the handling of third-party production through owned pipelines and processing facilities.

Rounding out 2018, our acquisition of Core Appalachia Holding Co LLC ("Core") in October for \$183 million was a highly synergistic acquisition due to its geographical proximity to the assets we acquired from EQT. By expanding both our upstream and midstream assets in the southern region of the Basin, we unlocked additional value from both packages of assets. Specifically, we have been able to transition to more efficient field operations while using the enlarged midstream asset to flow a significant portion of Core's production to a process facility accessible using the midstream acquired from EQT that allowed DGO to realise the economic uplift of processing and selling the natural gas liquids included in Core's liquids-rich production stream.

We exited the year with a daily production of over 70,000 boepd, and over 10,500 miles of midstream pipeline and associated infrastructure, in a portfolio that establishes DGO as the largest conventional operator in the basin.



"We have a substantial leasehold of approximately 7.8 million acres, largely held-by-production that has been sparsely drilled and largely undeveloped."

CHIEF EXECUTIVE'S STATEMENT

CONTINUED

ENHANCING OUR CAPABILITIES

While additional opportunities for complementary growth exist within the Appalachian Basin, DGO has grown its scale in the region to afford it unique operational synergies. Not only have we exponentially grown our production and cash flow through the course of 2018, we also materially enhanced the composition of our production stream by adding a significant liquids portion while simultaneously expanding our operating capabilities. Over the last twelve months, we have grown our workforce six-fold to nearly 1,000 seasoned and talented employees across the multiple disciplines that support our expanded operations. Near seamlessly integrating our workforce has been a critical component to our success. The vast majority of those joining the Diversified team have done so from the organisation divesting of the acquired assets, which affords us the opportunity to retain the valuable institutional knowledge that perfectly complements our Smarter Well Management. We strive to leverage additional skills, experience and perspective across the enlarged operation seeking to apply best practices while always mindful that one-size does not fit all as we empower the professional at the well level to effect change that drives value.

Recognising that a skilled team requires the right tools to be successful, we look ahead to 2019 with plans to make strategic investments in the underlying technologies and data systems needed to most efficiently manage and optimise our growing base of assets. Specifically, we are taking steps to partner an expanding base of human intellectual capital with sophisticated systems to drive innovative initiatives.

With our broad footprint across the Appalachian Basin, the aggregation of the collective resources including People, Processes and Systems emerges as a core focus to establish DGO as one large and collaborative knowledge base in the region. In this regard, our senior management team fosters a culture of excellence amongst our highly skilled workforce to ensure we achieve our growth objectives and operate the business as safely, efficiently and effectively as possible.

We recognise that with the scale of our operations, DGO has become a Big Data Company necessitating that we invest in the systems needed to effectively manage diverse and expansive data. To this end, we have tasked our Chief Information Officer to lead an effort to establish a network of systems that include a new ERP and managed resource system that encapsulates Supervisory Control and Data Acquisition (SCADA), field data

DGO is committed to act as a good steward of the environment within the states in which it operates.

and measurement systems. We expect that these systems will help identify further production enhancement opportunities from the portfolio going forward.

CREATING VALUE

In line with our organic growth strategy, one of our fundamental operational objectives is to return previously unproductive wells to production. Not only does doing so defer the need to retire the well, but simultaneously increases production and cash flow while economically benefiting the communities in which we operate by creating jobs, tax revenues and royalty income. Since 2017 DGO has returned more than 650 wells back into production, demonstrating that our approach to managing our assets differs from those divesting of these assets and creates additional value for stakeholders.

Given the average profile of our conventional wells, the process for regenerating production is often straightforward and generally low-cost with payback periods of days or months rather than years. Our Smarter Well Management programme constitutes well maintenance and workover activity to improve production from active wells and return inactive wells into production.

While by no means an exhaustive list, examples of our Smarter Well Management programme geared to lengthening the operational and economic life of our wells include:

- **Pumpjack Installation:** For wells with higher oil production potential, the team will manage the well to reduce casing pressure and install a pump jack set to run on an optimised cycle that maximises produced oil.
- **Setup Optimisation:** Reconfiguring wellhead setup (which is usually accomplished by relocating sensors closer to the well) to significantly increase well up-time.
- **Annulus / Top Management:** Plumbing the annulus into flow lines to establish a steady production rate from previously shut-in wells.
- **Plunger Lift Setup:** Installing plunger lifts on wells to decrease the fluid load on the well, allowing gas to flow more freely.
- **Water / Chemical Treatments:** Treating the casing and tubing with fresh water, salt and acid sticks, to improve the overall gas flow a well.
- **Wellhead Compression:** Compression can be costly and is utilised only after several other optimisation methods have been exhausted. In certain cases, the team has managed to link a single well-head compressor to multiple wells, increasing production across all.

Through these and similar initiatives, the Company is able to help offset the natural and already low-decline rate of production thereby creating additional value. An independent analysis of our portfolio of producing wells by Wright & Company, leading reserve engineers who specialise in this region of the United States and who acts as DGO's independent reserve auditor, indicates that the portfolio is declining by approximately 5% annually, consistent with mature assets of this nature in Appalachia. Wright & Company's work also supports the long-life production profile of the portfolio, affirming the Company's conclusion that the majority of our operated wells will continue to produce for multiple decades to come.

Capitalising on the unique window of opportunity for M&A in the region, our efforts to grow production have focused exclusively on the vast inorganic opportunity set before us, though we are acutely aware of the potential of our existing asset base. We have a substantial portfolio of approximately 7.8 million net and largely held-by-production acres that has been sparsely drilled and largely undeveloped. Present development sits at >100 acre spacing, whilst a fully developed production programme can constitute approximately 20 acre spacing (implying four additional well locations per producing well).

We are beginning to evaluate selective drilling opportunities across our portfolio to ensure we are well placed to initiate drilling activity at the appropriate time, defined as an environment in which we can generate better rates of return than we do currently do through inorganic growth.

SAFE AND SYSTEMATIC WELL RETIREMENT

In line with our reputation as a leading operator in the region, DGO is committed to act as a good steward of the environment within the states in which it operates. We have always made provisions for our well asset retirement obligations and during the year, embarked on enhancing and formalising our arrangements with the various state environmental regulatory departments to bolster these commitments. The objective of the agreements is to provide certainty for the states with regard to our commitment to fulfil our obligations as an operator of mature wells, whilst providing all parties, including DGO, our stakeholders and the state with clear long-term visibility on our asset retirement activities, the related liabilities and our ability to fund retirement from free cash flow.

Because of the systematic and ongoing nature of our well retirement programme, we have the ability to create value and improve cash flow by obtaining preferred vendor pricing in exchange for guaranteed utilisation for their service crews while also leveraging the knowledge we derive from a

WELLS BACK IN PRODUCTION



650

SINCE 2017

SUBSTANTIAL LEASEHOLD



7.8 million

ACRES

AVERAGE APPALACHIAN O&G EXPERIENCE



25+ Years

FOR OPERATIONAL
MANAGEMENT

CHIEF EXECUTIVE'S STATEMENT

CONTINUED

growing body of work to drive efficiencies and reduces costs on a prospective basis.

We are evaluating options to expand the use of and/or add additional skilled in-house labour to reduce third-party costs, using bespoke cement plugs to conform with local regulations as opposed to using standardised design across all wells, and right-sizing location containment to efficiently dispose of well-site materials. These initiatives have resulted in proven plugging cost reductions, in some examples lowering the cost of retiring a well by one-third.

WELL CAPITALISED FOR GROWTH

We could not have achieved our strategic objectives without the confidence and support from our shareholders and lenders. Through 2018, DGO successfully raised \$492 million including \$439 million in two over-subscribed equity placements and the issuance of \$53 million of equity to the vendors of Core Appalachia Holding Co LLC, which we acquired in October 2018, in addition to deploying incremental debt capital via our low-cost revolving credit facility to complete our acquisitions. Collectively, this balanced use of debt and equity financing demonstrates our commitment to maintain a strong balance sheet and low leverage, which we view as a critical component of our success. Our net debt to annualised adjusted EBITDA currently sits at just 1.8x.

With respect to the credit facility we established in March 2018, we significantly expanded our borrowing capacity by upsizing our revolving credit facility twice during 2018 - first in July 2018 to \$1.0 billion and most recently in December 2018

to \$1.5 billion. Similarly, we grew our borrowing base from \$200 million in March 2018 to \$600 million in July 2018 and to its current level of \$725 million as of December 2018. The bank syndicate, co-arranged by KeyBanc Capital Markets, The Huntington National Bank, Citizens Bank, N.A., Branch Banking and Trust Company ("BB&T") and Royal Bank of Canada ("RBC") includes other lending institutions for a total of 12 participating banks.

The commitment of such a large facility reinforced the faith that these lenders have in our business model, the quality of our assets and our ability to maintain a healthy balance sheet. In line with the Company's measured approach to risk exposure, we continue to operate comfortably within our previously guided leverage ratio of 2-2.5x Adjusted EBITDA/Net Debt. Despite significant growth, we have never wavered from our commitment to maintain a healthy balance sheet underpinned by strong cash flow, which we also re-invest in the business after returning a portion of cash flow to shareholders in the form of quarterly dividends. In fact, in 2018 we paid \$31 million to shareholders in the form of dividends, up from \$6 million in 2017.

DIVIDEND

The Board is recommending a final dividend of 3.40 cents per share making the total dividend for the full-year of 11.225 cents per share (2017: 5.44 cents per share). The significant growth of our dividend over the last twelve months falls in line with our key strategy of continued shareholder value growth.

If approved the final dividend will be paid on 28 June 2019 to those shareholders on the register on 31 May 2019.

WELL CAPITALISED FOR GROWTH

EQUITY
SUCCESSFULLY
RAISED

~\$500

MILLION

DGO LEVERAGE
RATIO *

~1.8x

LOW LEVERAGE

LOW-COST
REVOLVING CREDIT
FACILITY

\$1.5

BILLION

SIGNIFICANT
LIQUIDITY *

~\$270

MILLION

*As of 28 Feb 2019

A PROVEN MODEL

The acquisitions made in 2018 highlight the growth strategy in practice in that our acquisitions are not executed for the sake of production growth, but rather, selected on the basis of how they will complement the larger portfolio by delivering operating efficiencies that drive down operating costs and enhance our EBITDA margins. We continue to develop a track record for extracting value upside from integrated assets and this is evidenced through the positive trending financial KPIs addressed in the Financial Review.

OUTLOOK

To call 2018 transformational seems a bit of an understatement given our growth resulted in a series of material step-changes for our operational and financial profile. Certainly pleased, yet never satisfied with our progress, we continue to seek ways to further our strategy of optimising well performance and capitalise on compelling, per-share accretive acquisition opportunities in the Appalachian Basin.

Our primary near-term focus is balanced both on extracting maximum value from our enlarged portfolio by leveraging operating synergies to drive both top line growth and further cost reductions that collectively strengthen our already robust EBITDA margins while prudently evaluating opportunities to expand our assets. The successful execution of our Smarter Well Management programme will contribute to our production targets, whilst we begin to survey infill drilling opportunities across our expansive footprint in the oldest producing basin within the United States. We will continue to operate efficiently and safely and meet our asset retirement obligations as set forth in our agreements.

With our past success creating additional amplification of potential sellers' awareness of DGO as a credible buyer of producing assets, we continue to survey a robust pipeline of potential growth opportunities, and we have managed our balance sheet to enable us to consider opportunities that fit our investment criteria and that offer compelling returns for the benefit of our shareholders.

The outlook for the coming year and beyond is wholly encouraging, and we are fortunate to have strong opportunities on account of our low-risk business model. The Company has undoubtedly achieved rapid expansion and our focus will be on the continued successful integration and value extraction of the material acquisitions completed last year.

The Company has undoubtedly achieved rapid expansion and our focus will be on the continued successful integration and value extraction of the material acquisitions completed last year.

FINANCIAL REVIEW

	YEAR ENDED			
	31 DECEMBER 2018	31 DECEMBER 2017	\$ CHANGE	% CHANGE
NET PRODUCTION				
Natural gas (MMcf)	79,051	13,119	65,932	502.6%
Oil (MBbls)	308	163	145	89.0%
NGL (MBbls)	1,467	50	1,417	2,834.0%
Total (MBOE)	14,950	2,400	12,551	523.1%
Average daily production (BOE/d)	40,959	6,574	34,385	523.1%
% gas (BOE basis)	88%	91%		
AVERAGE REALISED SALES PRICE (excluding impact of cash settled derivatives)				
Natural gas (Mcf)	\$2.77	\$2.32	\$0.45	19.4%
Oil (Bbl)	\$62.07	\$49.37	\$12.70	25.7%
NGL (Bbl)	\$28.53	\$20.86	\$7.67	36.8%
Total (BOE)	\$18.74	\$16.48	\$2.26	13.7%
AVERAGE REALISED SALES PRICE (including impact of cash settled derivatives) ¹				
Natural gas (Mcf)	\$2.62	\$2.44	\$0.18	7.3%
Oil (Bbl)	\$54.88	\$49.07	\$5.81	11.8%
NGL (Bbl)	\$27.53	\$20.86	\$6.67	32.0%
Total (BOE)	\$17.69	\$17.11	\$0.58	3.4%
NATURAL GAS AND OIL REVENUE (in thousands)				
Natural gas	\$219,189	\$30,463	\$188,726	619.5%
Oil	\$19,117	\$8,047	\$11,070	137.6%
NGL	\$41,854	\$1,043	\$40,811	3,912.8%
Total natural gas, oil and NGL revenue	\$280,160	\$39,553	\$240,607	608.3%
Other revenue	\$2,294	\$2,224	\$70	3.1%
Midstream revenue	\$7,315	—	\$7,315	100.0%
Total revenue	\$289,769	\$41,777	\$247,992	593.6%
GAINS (LOSSES) ON DERIVATIVE SETTLEMENTS				
Natural gas	\$(11,979)	\$1,574	\$(13,553)	(861.1)%
Oil	\$(2,214)	\$(49)	\$(2,165)	4,418.4%
NGL	\$(1,462)	—	\$(1,462)	(100.0)%
Net (loss) gains on derivative settlements	\$(15,655)	\$1,525	\$(17,180)	(1,126.6)%
PER BOE METRICS				
Realised price (including impact of cash settled derivatives)	\$17.69	\$17.12	\$0.57	3.3%
Other revenue	0.64	0.93	(0.28)	(30.7)%
Lease operating expenses ²	4.83	7.02	(2.19)	(31.2)%
Recurring administrative expenses	1.34	2.03	(0.69)	(33.9)%
Production taxes	0.80	0.56	0.24	42.9%
Gathering and transportation	1.58	1.13	0.45	39.5%
Operating margin	\$9.78	\$7.30	\$2.48	34.0%
% Operating margin	53.3%	40.4%		

1. Includes the impact of settled hedges. See Note 19 for more information on hedges.

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

PRODUCTION, REVENUE AND HEDGING

Total revenue in 2018 was \$289.8 million a 593% increase over \$41.8 million for 2017. The increase in revenue was primarily attributable to a 523.1% increase in produced volumes sold on a barrel of oil equivalent basis compounded by a 13.7% increase in the average realised sales price. DGO ended 2018 with net MBOE sales of approximately 14,950 vs. the prior year sales of approximately 2,400. Production increases, modestly offset by the customary shallow declines on wells of this nature, were driven primarily by the acquisition of additional producing wells from Alliance Petroleum Company ("APC") and CNX Resources LLC ("CNX") in March 2018, from EQT Production Company ("EQT") in July 2018, and TCF II Core, LLC ("Core") in October 2018. See Note 4 for additional information regarding DGO's acquisitions.

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

	NATURAL GAS	OIL	NGL	TOTAL
Revenue for the year ended 31 December 2017	\$30,463	\$8,047	\$1,043	\$39,553
Volume increase	\$153,098	\$7,158	\$29,559	\$189,815
Price increase	\$35,628	\$3,912	\$11,252	\$50,792
Net increase	\$188,726	\$11,070	\$40,811	\$240,607
Revenue for the year ended 31 December 2018	\$219,189	\$19,117	\$41,854	\$280,160

To manage its cash flows in a volatile commodity price environment, DGO uses a combination of physical and financial derivative instruments. As required by its senior secured credit facility, DGO executed a combination of fixed price physical contracts, price swap financial contracts and two-way collar financial contracts equal to approximately 75% of the Company's forecasted production volumes for a 36-month rolling period. Refer to Note 19 for additional information regarding DGO's hedge portfolio.

EXPENSES

	YEAR ENDED				TOTAL CHANGE		BOE CHANGE	
	31 DECEMBER 2018	PER BOE	31 DECEMBER 2017	PER BOE	\$	%	\$	%
Lease operating expenses ¹	\$72,244	\$4.83	\$16,851	\$7.02	\$55,393	329%	\$(2.19)	(31)%
Production taxes	11,978	0.80	1,345	0.56	10,633	791%	0.24	43%
Gathering and transportation ²	23,572	1.58	2,712	1.13	20,860	769%	0.45	40%
Total operating expense	\$107,793	7.21	\$20,908	\$8.71	\$86,887	416%	\$(1.50)	(17)%
Depreciation and depletion	41,988	2.81	7,536	3.14	34,452	457%	(0.33)	(11)%
Administrative expenses	40,524	2.71	8,919	3.72	31,605	356%	(1.01)	(27)%
Total expenses	\$190,307	\$12.73	\$37,363	\$15.57	\$152,944	409%	(2.84)	(18)%

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

2. Gathering and transportation expenses are daily costs incurred to gather, process and transport gas.

In total, DGO's operating expenses in 2018 were \$190.3 million compared to \$37.4 million in 2017, though on a per-unit basis dropped 18% from \$15.57 to \$12.73. The \$152.9 million increase reflects the following:

- A \$86.9 million increase in additional expenses related to newly acquired oil and gas properties from APC, CNX, EQT and Core during 2018 and from the Titan acquisition in 2H17. On a per BOE basis, operating expense decreased by 17% which was attributable to higher production volumes received from an increased number of producing wells from these acquired properties.
- A \$34.5 million increase in depreciation and depletion primarily due to an increased depreciable base related to oil and gas properties and higher production volumes as a result of the acquisitions made as discussed above.
- A \$31.6 million increase in administrative expenses reflecting costs of the Company's acquisition efforts in 2018 and the investment made in staff and systems to support the Company's growth.

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

FINANCE COSTS

	YEAR ENDED		YEAR OVER YEAR	
	31 DECEMBER 2018	31 DECEMBER 2017	\$ CHANGE	% CHANGE
Interest	\$15,433	\$3,776	\$11,657	308.7%
Finance charge	—	140	(140)	(100.0)%
Bond financing costs	2,230	675	1,555	230.4%
Other	80	634	(554)	(87.4)%
Total finance costs	\$17,743	\$5,225	\$12,518	239.6%
Loss on early retirement of debt	\$8,358	\$4,468	\$3,890	(87.1)%

DGO's finance costs include interest expense on borrowings and non-cash amortisation of deferred financing costs. Interest expense on borrowings of \$15.4 million in 2018 increased by \$11.7 million compared to \$3.8 million in 2017 primarily due to the increase in borrowings used to fund the Company's previously mentioned acquisitions.

In March 2018, the Company closed a new \$500 million five year credit facility, initially subject to a borrowing limit of \$140 million that stepped up within the same month to \$200 million following the closing of the acquisition of certain assets of CNX.

In July 2018 and in conjunction with the acquisition of certain assets of EQT, the Company closed on an enlarged \$1 billion, five-year secured revolving credit facility with an initial borrowing base of \$600 million, which replaced the existing \$500 million facility.

In December 2018 and following the October 2018 acquisition of Core, the Company closed on a further-enlarged \$1.5 billion, five-year senior secured credit facility with an initial borrowing base of \$725 million, and which replaced the \$1 billion facility and fully extinguished Core's facility assumed as part of that acquisition. The facility maintains the July 2023 maturity date of the replaced facility, and has an initial interest rate of 2.75% plus the one-month LIBOR and is subject to a grid that fluctuates from 2.25% to 3.25% plus LIBOR based on utilisation.

In June 2017, the Company closed a new \$110.0 million senior secured credit facility, of which, \$64.0 million was drawn at closing of the Titan acquisition on 30 June 2017 and a subsequent draw of \$11.0 million on 30 September 2017, to partially fund the purchase of oil and gas assets.

As discussed above, DGO entered into the new senior secured revolving credit, in March 2018 that resulted in a non-recurring loss on early extinguishment of debt of \$8.4 million, which primarily included a \$2.6 million charge for the accelerated amortisation of the remaining deferred financing costs and \$5.8 million related to an early payment fee.

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

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

INCOME BEFORE TAXATION, EPS AND ADJUSTED EBITDA

DGO reported income before taxation of \$261.7 million in 2018 compared to \$29.7 million in 2017, an increase of 781%, and reported statutory earnings for 2018 per diluted ordinary share of \$0.52 compared to \$0.23 per diluted ordinary share in 2017. Adjusted for certain non-cash items such as gains on bargain purchases and similar items, DGO reported adjusted EBITDA per diluted ordinary share of \$0.38 per diluted ordinary share, a 159% increase over the prior year's \$0.15 adjusted EBITDA per diluted ordinary share. DGO's adjusted EBITDA for 2018 was \$146.2 million, a 734% increase over \$17.5 million in 2017. Refer to Note 7 for additional information regarding DGO's adjusted EBITDA.

PRINCIPAL RISKS AND UNCERTAINTIES

See Director's Report for principal risks and uncertainties.

CONCLUSION

All that remains is for me to thank the team of dedicated and talented employees, including those who have been with us since our humble beginnings in 2001 and those more recently joining the team through acquisitions, for their diligent commitment throughout the year. We are on an incredibly exciting journey and it would not be possible without the hard work and innovation that they all contribute on a daily basis. I would also like to thank the Board of Directors for their leadership, insights and commitment always aimed at making DGO better for the benefit of our shareholders and employees. I am very proud of the success that we have delivered to date, and have full faith in our talented team to maintain the momentum of the business and continued execution of our strategies.



RUSTY HUTSON JR *Chief Executive Officer*

A stylized, handwritten signature in black ink, appearing to read 'Rusty Hutson JR'.

RUSTY HUTSON JR *Chief Executive Officer*

CORPORATE GOVERNANCE

- BOARD OF DIRECTORS PAGE 21
- DIRECTORS' REPORT PAGE 22
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BOARD OF DIRECTORS

"An important aspect of successfully executing our strategy is ensuring we have leadership and management teams with the skills and experience necessary to execute our vision."

RUSTY HUTSON, JR. *Chief Executive Officer*

Martin Thomas
*Independent
Non-Executive Director*

David Johnson
*Senior Independent
Non-Executive Director*

Robert Post
Non-Executive Chairman

Bradley Gray
*Chief Operating Officer
& Finance Director*

Rusty Hutson, Jr.
Chief Executive Officer



DIRECTORS' REPORT



ROBERT M. POST *Chairman of the Board*

THE DIRECTORS PRESENT THEIR REPORT ON DGO, TOGETHER WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

REVIEW OF BUSINESS, OUTLOOK AND DIVIDENDS

Details of DGO's progress during the year and its future prospects, including its intended dividend strategy, are provided in the Chairman's Statement and Strategic Report.

FINANCIAL INSTRUMENTS

Details of DGO's principal risks and uncertainties relating to financial instruments are detailed below and in Note 21 to the Consolidated Financial Statements.

RISK MANAGEMENT

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

"Risk management is integral to all of DGO's activities. Each member of executive management is responsible for continuously monitoring and managing risk within the relevant business areas."

PRINCIPAL RISKS AND UNCERTAINTIES

DGO MAY NOT SUCCESSFULLY MANAGE ITS GROWTH

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

CHANGES IN NATURAL GAS AND CRUDE OIL COMMODITY PRICING ENVIRONMENT

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

MARKET RISK

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

LIQUIDITY RISK

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

ENVIRONMENTAL AND REGULATORY RISK

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

DIRECTORS' REPORT

CONTINUED

DIRECTORS

The Directors who served during the year are set out on page 21. The Directors' beneficial interests in DGO's share capital on 31 December 2018 were as follows (based on the issued share capital at that time):

	APPOINTED	ORDINARY SHARES OF 1P	% OF ISSUED SHARE CAPITAL
Robert M. Post	31/07/2014	20,000,000	3.7%
Robert R. Hutson, Jr.	31/07/2014	20,000,000	3.7%
Martin K. Thomas	01/01/2015	2,075,000	0.4%
Bradley G. Gray	24/10/2016	2,222,981	0.4%
David E. Johnson	03/02/2017	200,000	0.0%
		44,497,981	8.2%

DIRECTORS' REMUNERATION

The remuneration paid to the directors (who are the key management personnel) for the years ended 31 December 2018 and 2017 is shown below:

YEAR ENDED 31 DECEMBER 2018

DIRECTOR	TYPE	NOTES	SALARY \$'000	SHARE BASED PAYMENTS \$'000	OTHER REMUNERATION \$'000	FEES \$'000	TOTAL \$'000
Robert R. Hutson Jr	Executive	a	363	100	120	—	583
Bradley G. Gray	Executive	b	319	46	93	—	458
Robert M. Post	Non-Executive		—	—	—	58	58
Martin K. Thomas	Non-Executive		—	—	—	75	75
David E. Johnson	Non-Executive		—	—	—	75	75
			682	146	213	208	1,249

NOTES:

- (a) On April 16, 2018, the Company issued 6,000,000 stock options to Robert R. Hutson, Jr. For the year ended 31 December 2018, the expense related to these options was \$100 thousand and is included in 'Share based payments'. 'Other remuneration' for Robert R. Hutson, Jr included a \$120 thousand cash bonus.
- (b) On April 16, 2018, the Company issued 2,750,000 stock options to Bradley G. Gray. For the year ended 31 December 2018, the expense related to these options was \$46 thousand and is included in 'Share based payments'. 'Other remuneration' for Bradley G. Gray included an \$85 thousand cash bonus and automobile reimbursement of \$8 thousand.

YEAR ENDED 31 DECEMBER 2017

DIRECTOR	TYPE	NOTES	SALARY \$'000	SHARE BASED PAYMENTS \$'000	OTHER REMUNERATION \$'000	FEES \$'000	TOTAL \$'000
Robert R. Hutson Jr	Executive	b	390	—	245	—	635
Bradley G. Gray	Executive	c	377	—	148	—	525
Robert M. Post	Non-Executive	a, b	66	—	280	17	363
Martin K. Thomas	Non-Executive		—	—	—	63	63
David E. Johnson	Non-Executive		—	—	—	59	59
			833	—	673	139	1,645

NOTES:

- (a) Mr Robert M. Post was Executive Chairman of the Company until 28 July 2017 when he became Non-Executive Chairman.
- (b) For the year ended 31 December 2017, 'other remuneration' for Robert M. Post and Rusty R. Hutson, Jr. included a reimbursement of one-time expenses incurred as a result of the contribution of assets from individually owned entities to Diversified Gas and Oil Corporation.
- (c) For the year ended 31 December 2017, 'other remuneration' for Bradley G. Gray included a \$148 thousand cash bonus.

Martin K. Thomas is a Partner at Wedlake Bell LLP, UK legal advisor to DGO.

SUBSEQUENT EVENTS

Refer to Note 24 of the consolidated financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

PROVISION OF INFORMATION TO AUDITORS

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

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

SUBSTANTIAL SHAREHOLDERS

As at 13 March 2019, the Company has received notification from the following shareholders of interests in excess of 3% of the Company's issued Ordinary Shares with voting rights (being 542,653,937):

SHAREHOLDER	NUMBER OF ORDINARY SHARES	% OF ISSUED SHARE CAPITAL
HSBC Bank PLC	65,417,283	12.06%
Sand Grove Capital Management LLP*	65,331,288	12.04%
JO Hambro Capital Management Ltd	34,858,505	6.42%
Premier Fund Managers	31,971,588	5.89%
Standard Life Aberdeen plc	28,126,268	5.18%
BlackRock Inc.	27,635,395	5.09%
Caius Capital LLP	27,268,024	5.02%
GLG Partners	23,221,326	4.28%
Rusty Hutson (Director)	20,250,000	3.73%
Robert Post (Director)	20,200,000	3.72%

* Holding through financial derivatives

GOING CONCERN

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held in London on 17 April 2019. In addition to the usual business to be dealt with at the AGM, the Notice contains special business relating to:

- the renewal of authority for the Board to allot shares;
- the dis-application of statutory pre-emption rights on equity issues for cash; and
- the granting of authority to purchase the Company's own ordinary shares.

Full details of these proposals are set out in a separate Notice of Annual General Meeting sent to all shareholders.

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

By Order of the Board,



ROBERT M. POST *Chairman of the Board*

CORPORATE GOVERNANCE STATEMENT

As DGO grows, the Directors and Executive Management continue to review and adjust our approach and make ongoing improvements to the Company's policies and procedures as part of building a successful and sustainable company.

DGO's success is directly linked to sound and effective governance and we remain committed to achieving high standards in all we do. As an AIM quoted company, we have adopted the QCA Corporate Governance Code, as issued by the Quoted Companies Alliance in April 2018. We are acutely aware of the need to effectively and thoroughly integrate wholly a reporting and governance framework through our rapidly expanding company.

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

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

Specific matters for the Board's consideration include:

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



BOARD EFFECTIVENESS, COMPOSITION AND INDEPENDENCE OF THE BOARD

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

During the year ended 31 December 2018, the Board comprised a Non-Executive Chairman, Chief Executive Officer, Finance Director & Chief Operating Officer and two Non-Executive Directors. The skills and experience of the Non-Executive Directors are wide and varied and they provide constructive challenge in the boardroom.

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

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

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

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

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

THE AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

KEY OBJECTIVE

The Audit Committee acts on behalf of the Board and the shareholders to ensure the integrity of the Company's financial reporting, evaluate its systems of risk management and internal control and oversee the relationship and performance of the external auditors.

MEMBERSHIP, MEETINGS AND ATTENDANCE

The composition of the Audit Committee during the year was:



BRADLEY GRAY
Chairman



DAVID JOHNSON



MARTIN THOMAS

The Audit Committee meets at least twice during the year with all members of the Committee in attendance at each meeting.

The Board recognises that Bradley Gray is not an independent member of the committee. The Company is undertaking a process to identify and appoint a non-executive director to replace Bradley Gray.

RESPONSIBILITIES

The audit committee's main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which DGO is reliant, considering annual and interim accounts and audit reports, making recommendations to the Board in relation to the appointment and remuneration of DGO's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications.

The main responsibilities of the Committee are:

- to review accounting policies and the integrity and content of the financial statements;
- to monitor disclosure controls and procedures and the Company's internal controls;
- to monitor the integrity of the financial statements of the Company and to assist the Board in ensuring that the Annual Report and Accounts for 2018, when taken as a whole, are fair, balanced and understandable;
- to consider the adequacy and scope of external audits;
- to review and approve the statements to be included in the Annual Report on internal control and risk management; and
- to review and report on the significant issues considered in relation to the financial statements and how they are addressed.

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

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

The Committee's terms of reference are reviewed annually and a summary of these are available on the Governance section of our website at www.dgoc.com

ACTIONS UNDERTAKEN DURING THE YEAR

The key activities for the Committee for the period under review are set out below.

PRESENTATION OF RESULTS

At the request of the Board, the Committee reviewed the presentation of the Company's audited results for the year to 31 December 2018 and the unaudited results for the six months to 30 June 2018 to ensure that they were fair, balanced and understandable and provide sufficient information necessary for shareholders and other users of the accounts to assess the Company's position and performance, business model and strategy. In conducting this review, focus was given to the disclosure included in the basis of preparation in Note 1 to the financial statements in relation to the Company's funding position and the suitability of the going concern assumption.

Attention continues to be paid to the presentation of the results in the financial statements which uses alternative profit measures as indicators of performance. The Board considers current treatment which retains reference to "Adjusted EBITDA" and "EBITDA" to remain appropriate. "EBITDA" is "earnings before interest, tax, depreciation and amortisation, and "Adjusted EBITDA" is "EBITDA before exceptional items and acquisition and integration related expenditures". Reference has also been made in the Annual Report to a further alternative profit measure "Adjusted EBITDA", which adjusts Adjusted EBITDA to include depreciation and amortisation of capitalised development costs to reflect their part in the underlying performance of the Company. The Board regards these measures as an appropriate way to present the underlying performance and development of the business as it reflects the continuing investment being made by the Company, particularly in relation to recent and future acquisition activity, and this is how the board monitors progress of the existing businesses.

MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

The Committee considered the inherent risk of management override of internal controls as defined by Auditing Standards. In doing so the Committee continues to review the overall robustness of the control environment.

VALUATION OF OIL AND GAS PROPERTIES AND RELATED ASSETS

The Committee considered the carrying value of the Company's assets. The Committee reviewed management's recommendations, which were also reviewed by the external auditor, including an evaluation of the appropriateness of the identification of cash generating units and the assumptions applied in determining asset carrying values. The Committee was satisfied with the assumptions and judgements applied by management and concluded that no impairment of carrying values was required.

GOING CONCERN

The Committee was presented by management with an assessment of the Company's future cash forecasts and profit projections, available facilities, facility headroom, banking covenants and the results of a sensitivity analysis. Detailed discussions were held with management concerning the matters outlined in the basis of preparation in Note 2 to the financial statements, together with the availability of the additional funding agreed subsequent to the year end. The Committee discussed the assessment with management and was satisfied that the going concern basis of preparation continues to be appropriate for the Company and advised the Board accordingly.

RISK MANAGEMENT

Effective risk management and control is key to the delivery of the Company's business strategy and objectives. Risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and can only provide reasonable and not absolute assurance that the company will be successful in delivering its objectives. The Board is responsible for the oversight of how the Company's strategic, operational, financial, human, legal and regulatory risks are managed and for assessing the effectiveness of the risk management and internal control framework.

Further detailed risk assessment work has been conducted during the year to maintain and update the Company's risk register to ensure that all risks are appropriately prioritised and addressed.

A description of the Company's risk management procedures and the work completed in the year is provided in the Principal Risks and Uncertainties section.

INTERNAL AUDIT

The Company currently does not have an internal audit function. The Committee continues to monitor the appropriateness of this as the Company evolves and grows.

SAFEGUARDS AND EFFECTIVENESS OF THE EXTERNAL AUDITOR

The Committee recognises the importance of safeguarding auditor objectivity. The following safeguards are in place to ensure that auditor independence is not compromised.

- the Audit Committee carries out an annual review of the external auditor as to its independence from the Company in all material respects and that it is adequately resourced and technically capable to deliver an objective audit to shareholders. Based on this review the Audit Committee recommends to the Board the continuation, or removal and replacement, of the external auditor;
- a tax adviser separate from the external auditor is engaged to provide tax related services;
- the external auditor may provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars;
- non-audit services carried out by the external auditor are generally limited to work that is closely related to the annual audit or where the work is of such a nature that a detailed understanding of the business is beneficial;

- the external auditor may undertake due diligence reviews given its knowledge of the Company's business. Such provision is assessed on a case-by-case basis so that the best adviser is retained. The Audit Committee monitors the application of policy in this regard and keeps the policy under review;
- the Audit Committee reviews all fees paid for audit and consultancy services on a regular basis to assess the reasonableness of fees, value of delivery and any independence issues that may have arisen or may potentially arise in the future;
- the external auditor reports to the Directors and the Audit Committee regarding their independence in accordance with Auditing Standards. Crowe's policy, in line with best practice, is that audit partners are required to be rotated every fifth year;
- different teams are used on all other assignments undertaken by the auditor; and
- the Audit Committee monitors these costs in absolute terms and in the context of the audit fee for the year, to ensure that the potential to affect auditor independence and objectivity does not arise. The Committee does not adopt a formulaic approach to this assessment. The split between audit and non-audit fees for 2018 and information on the nature of the non-audit fees incurred is detailed in Note 6 accompanying the consolidated financial statements.

The Committee monitors the effectiveness of the external audit. To comply with this requirement, the Committee reviews and comments on the external audit plans before it approves them. It then considers progress during the year by assessing the major findings of their work, the perceptiveness of observations, the implementation of recommendations and management feedback. At the request of the Board, the Committee also monitors the integrity of all financial statements in the Annual Report and half year results statements, and the significant financial reporting judgements contained in them. Further details of the Committee's procedures to review the effectiveness of the Company's systems of internal control during the year can be found in the section on effective risk management and internal control below.

The Committee recognises that all financial statements include estimates and judgements by management. The key audit areas are agreed with management and the external auditors as part of the year-end audit planning process. This includes an assessment by management of the significant areas requiring management judgement. These areas are reviewed with the auditors to ensure that appropriate levels of audit work are completed and the results of this work are reviewed by the Committee.

EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL

One of the Board's key responsibilities is to ensure that management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulation. The Company's systems are designed to identify key financial and other risks to the Company's business and reputation, and to ensure that appropriate controls are in place. Consideration is given to the relative costs and benefits of implementing specific controls.

ASSURANCE

On behalf of the Board, the Audit Committee examines the effectiveness of:

- the systems of internal control, primarily through reviews of the financial controls for financial reporting of the annual, preliminary and half yearly financial statements and a review of the nature, scope and reports of external audit;
- the management of risk by reviewing evidence of risk assessment and management; and
- any action taken to manage critical risks or to remedy any control failings or weaknesses identified, ensuring these are managed through to closure.

Where appropriate, the Audit Committee ensures that necessary actions have been, or are being taken, to remedy or mitigate significant failings or weaknesses identified during the year either from internal review or from recommendations raised by the external auditor. The Company's internal controls over the financial reporting and consolidation processes are designed under the supervision of the Company's Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company's published financial statements for external reporting purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance and may not prevent or detect all misstatements whether caused by error or fraud. The Company's internal controls over financial reporting and the preparation of consolidated financial information include policies and procedures that provide reasonable assurance that transactions have been recorded and presented accurately.

Management regularly conducts reviews of the internal controls in place in respect of the processes of preparing consolidated financial information and financial reporting. During the year there has been a significant investment in resource, processes and personnel relating to the internal controls over these processes to reflect the growth of the Company in order to provide sufficient a level of assurance over the reliability of the financial statements.



RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM FEATURES

RISK MANAGEMENT CONTROL SYSTEM

As well as the risks that management identify through the ongoing processes of reporting and performance analysis, the Committee has additional risk identification processes, which include:

- risk and control process for identifying, evaluating and managing major business risks.
- external audit reports, which comment on controls to manage identified risks and identify new ones; and

INTERNAL CONTROL SYSTEM

The internal controls which provide assurance to the Audit Committee of effective and efficient operations, internal financial controls and compliance with law and regulation include:

- a formal authorisation process for investments;
- an organisational structure where authorities and responsibilities for financial management and maintenance of financial controls are clearly defined;
- anti-bribery and corruption policies and procedures and a dedicated email hotline, designed to address the specific areas of risk of corruption faced by the Company; and
- a comprehensive financial review cycle where annual budgets and subsequent reforecasts are formally approved by the Board and monthly variances are reviewed against detailed financial and operating plans.



DAVID JOHNSON *Chairman of the Remuneration Committee*

REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

STATEMENT FROM
DAVID JOHNSON, CHAIRMAN
OF THE REMUNERATION COMMITTEE

INTRODUCTION

The business has been through a number of acquisitions and is continuing to explore further growth opportunities which has created both challenges and opportunities for the board, management and staff of DGO.

The work of the Remuneration Committee this year has been focussed on the broader organisation and the operational board in light of the dramatic growth of the Company.

The operational board comprises a mixture of divisional and functional heads and it is this team that takes responsibility for Company performance and strategy; driving efficiencies, integrating acquisitions, market leadership, key account management and synergies. Following the appointment of our new remuneration committee advisors and a new Vice President of HR, the Committee commissioned a review of the remuneration policy and structures across the business.

PERFORMANCE OUTCOMES

Overall, this year has seen the DGO executive team exceed expectations in nearly all areas of operational performance, including production, and ahead of expectations for Revenue, EBITDA, EPS and DPS, the key financial metrics for the business. The share price increased from 80p to 117p in the period but has yet to reach the levels the board expects are achievable with consistent performance. In addition, dividends of 11.225 cents per share were declared to give a total shareholder return of 46%.

In February 2018 the Remuneration Committee awarded bonuses of \$120,000 to Rusty Hutson Jr, \$60,000 to Bradley Gray and \$35,000 to Eric Williams.

The Remuneration Committee will continue to monitor and review the remuneration framework so that the Company can continue to attract and retain high quality talent.

During 2018 an Executive Bonus Plan (the "Plan") was introduced and approved by the Board. The Plan is administered and controlled by the Remuneration Committee and will apply to future years. Under the terms of the Plan, Rusty Hutson and Bradley Gray are eligible to receive a bonus of up to a maximum of 150% of base salary, dependent upon the Company's performance in the year, and for Eric Williams up to 75% of base salary. The performance criteria are determined by the Remuneration Committee and the Board of Directors of the Company and incorporate a range of performance targets.

The Remuneration Committee has overall authority and discretion over the Plan and is able to make decisions in the context of overall circumstances including shareholder experience.

If the Bonus award exceeds 100% of base salary, one half of the excess is deferred to the following year. Participants have the option of receiving this deferred portion in shares rather than cash.

In light of the operational, strategic and financial performance during 2018, the Committee determined that the Executive Team should receive the maximum bonuses allowed within the Plan, inclusive of the interim payments already made.

Based on the recommendations of the Remuneration Committee and following the passing of the appropriate resolution proposed at the General Meeting held on 16 July 2018, the Board granted share options under the share option scheme of 15,450,000 new Ordinary Shares in aggregate at an exercise price of 84 pence per share to a total of 17 executive Directors and employees. The share options will vest in three equal tranches following publication of the Annual Report & Accounts in respect of the years ending 31 December 2020, 31 December 2021 and 31 December 2022. One third of the share options will be exercisable without performance-based vesting conditions and the remaining two thirds of the share options will be exercisable subject to the satisfaction of certain performance-based vesting conditions.

The Remuneration Committee will continue to monitor and review the remuneration framework so that the Company can continue to attract and retain high quality talent as the business grows.



DAVID JOHNSON *Chairman of the Remuneration Committee*

ANNUAL REPORT ON REMUNERATION FOR 2018

AN OVERVIEW OF THE REMUNERATION COMMITTEE

The composition of the Remuneration Committee during the year was:



DAVID JOHNSON
Chairman



ROBERT POST



MARTIN THOMAS

The Committee is made up of three Non-Executive directors with the Company Secretary acting as secretary. At appropriate times, the Committee invites the views of the Chief Executive Officer, and seeks advice from independent remuneration consultants. No Director or employee is present when his own remuneration or fees are discussed.

During the year, the Committee also used external consultants as advisors in connection with management incentive arrangements.

KEY OBJECTIVES

The key objectives of the Remuneration Committee are to develop the Company's policy on executive remuneration and to fix the remuneration of the Executive Directors, Chairman of the Board and senior managers.

RESPONSIBILITIES

The main responsibilities of the Committee are:

- to monitor and develop the Company's remuneration policy;
- to determine the remuneration of the Executive Directors;
- to approve the service agreements of the Executive Directors;
- to approve the remuneration of senior managers;
- to determine the fees of the Chairman;
- to review the Company's annual bonus proposals and to approve bonuses for the Executive Directors and senior managers;
- to approve the design of and oversee all awards under the Company's share incentive plans; and
- to consider risks to the Company in light of its remuneration policies.

RELATIONS WITH SHAREHOLDERS

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

Market sensitive information is notified in accordance with the AIM Rules of the London Stock Exchange and the Market Abuse Regulation. The Company is active in communicating with both its institutional and private shareholders. The AGM provides an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Company's activities. The Company maintains a corporate website where information on the Company is regularly updated, including Annual and Interim Reports and all announcements.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

OPINION

We have audited the financial statements of Diversified Gas & Oil PLC (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018, which comprise:

- the Group income statement and statement of comprehensive income for the year ended 31 December 2018;
- the Group and parent company statements of financial position as at 31 December 2018;
- the Group statement of cash flows for the year then ended;
- the Group and Parent Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

We determined overall materiality for the Group financial statements as a whole to be \$24 million based on approximately 1.5% of Group total assets.

OVERVIEW OF OUR AUDIT APPROACH

MATERIALITY

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be \$24 million based on approximately 1.5% of Group total assets. We considered an asset based measure to be appropriate for overall materiality because the Group completed four substantial acquisitions in the reporting period with a total value of approximately \$1 billion. We also took into account the findings in relation to oil and gas producers in the FRC's audit quality thematic review of materiality published in December 2017.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit

of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

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

We agreed with the Audit Committee to report to it all identified errors in excess of \$400,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

OVERVIEW OF THE SCOPE OF OUR AUDIT

There are two components of the group, Diversified Gas & Oil PLC as an entity and the US operating group as a whole. The US operating group is considered a single component because its business is to consolidate oil and gas assets in a close geographical area, the Appalachian basin, in order to achieve scale in its operations. The audit of Diversified Gas & Oil PLC was conducted from the UK, transactions are limited to administrative and professional fees and transactions involving the companies' equity. We obtained audit evidence for these transactions from management. The audit of the US operating group was carried out by the member of the Crowe Global international network in Dallas, Texas, as component auditor. We engaged with the component auditor at all stages during the audit process and directed the audit work on the US group operating group. We directed the component auditor regarding the audit approach at the planning stage, issued instructions that detailed the significant risks to be addressed through the audit procedures and indicated the information we required to be reported on. The audit team, including the RI, visited the component auditor and the principal finance location of the US operating group in order to review the component auditors' working papers, discuss key findings directly with the component audit team, specialist team members and reporting partner and conclude on significant issues.

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTER	HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
ACCOUNTING FOR ACQUISITIONS OF OIL AND GAS ASSETS INCLUDING DERIVATION OF APPROPRIATE FAIR VALUES REASON FOR ASSESSMENT AS SIGNIFICANT During the year the group made four substantial acquisitions of oil and gas assets with a combined value of approximately \$1 billion. The accounting for these has a significant impact on the group assets, liabilities and result. We considered the risk the accounting for the acquisitions was materially misstated, that assets and liabilities acquired may be recognised at inappropriate valuations and that gains on bargain purchase may be incorrectly calculated.	AUDIT RESPONSE The acquisitions were considered business combinations by management and therefore IFRS 3 was applied. For acquisitions of oil and gas properties during the year, we reviewed the acquisition documentation. We challenged management's assessment of fair values and assessed whether appropriate fair values has been attributed to the assets and liabilities acquired. Crowe's specialist valuation team undertook a detailed review of the valuation model which included reviewing the mathematical accuracy of key formulae in the valuations and performing shadow valuations using best practice inputs and investigating material valuation differences. We had discussions with, and challenged the methodology and assumptions of, the third party valuation specialists who had prepared the valuation models. WE PERFORMED AUDIT PROCEDURES ON THE INPUTS TO THE VALUATION MODEL INCLUDING: • challenging management regarding the key assumptions in the valuation models and benchmarking to available external data; • testing management's valuation of producing assets by comparing the assumptions used within the valuation models to approved budgets and business plans and other evidence of future intentions for the relevant assets, which we found to be materially consistent; • comparing reserves and production profiles and matching capital and operating expenditure forecasts to group approved values, operator estimates or reserves reports; • benchmarking key assumptions including commodity price and inflation against external data and recent public announcements from other oil companies; • comparing the discount rates used for oil and gas properties to expected ranges prepared by Crowe's valuations team; • reviewing management's sensitivities and performing additional sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes; • commissioning an independent review of real estate valuations used; and • assessing the inclusion of all appropriate assets and liabilities in the valuations and the inclusion or exclusion of certain tax related balances and agreed that all relevant balances had been included. Where there were differences we sought explanations for these. We ensured the consideration paid is in line with the documentation and re-performed the calculation of any gain on bargain purchase, as the existence of this could indicate that the assets are overvalued. We challenged management on the reasons why bargain purchases arose and benchmarked their explanations to available third party data. After performing the testing above, we concluded that the valuation of oil and gas properties and other acquired assets and liabilities were within ranges we consider to be acceptable and appropriate for the relevant assets and liabilities. We also reviewed the related disclosures in the Annual Report for compliance with accounting standards and consistency with the results of our work, with no matters arising.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

KEY AUDIT MATTER	HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
RISK OF IMPAIRMENT OF PRODUCING ASSETS REASON FOR ASSESSMENT AS SIGNIFICANT DGO has significant tangible assets relating to acquired oil and gas properties and related plant and equipment used for oil and gas production. Management has reviewed the assets and related income generated and no impairment triggers have been identified on any material individual assets. However, there remains a risk that the carrying value of the assets may not be recoverable and therefore an impairment charge may be necessary.	AUDIT RESPONSE As part of group audit procedures, we challenged management's assessment as to whether there is any indication of impairment of the Group's oil and gas assets. We considered whether there are any observable indicators regarding the assets are in decline and whether there have been any significant changes to the market or business in the period that could indicate the asset is impaired, with no matters arising. We also challenged the basis of aggregating income generating units for the purpose of the assessment.
REVENUE RECOGNITION REASON FOR ASSESSMENT AS SIGNIFICANT Revenue is a significant figure in these financial statements and is generated from various streams. The accounting policy is documented in note 2	AUDIT RESPONSE We designed procedures to test each different revenue stream and to consider whether the revenue recognition policy applied to the revenue stream was appropriate. Our testing in this area included examining individual wells and agreeing that revenue was appropriately recognized, including cut off procedures.

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

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

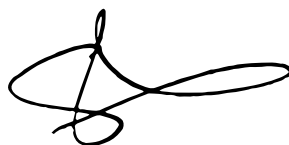
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

USE OF OUR REPORT

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



STEPHEN BULLOCK *Senior Statutory Auditor*

for and on behalf of
Crowe U.K. LLP
Statutory Auditor
London
28 February 2019

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		AUDITED YEAR ENDED 31 DECEMBER 2018 \$'000	(RESTATED) AUDITED YEAR ENDED 31 DECEMBER 2017 \$'000
	NOTE		
Revenue	5	289,769	41,777
Operating expense	6	(107,793)	(20,908)
Depreciation and depletion	6	(41,988)	(7,536)
Gross profit		139,988	13,333
Administrative expenses	6	(40,524)	(8,919)
Gain on oil and gas programme and equipment		4,079	95
Gain (loss) on derivative financial instruments	19	17,981	(441)
Gain on bargain purchase	4	173,473	37,093
Operating profit		294,997	41,161
Finance costs	17	(17,743)	(5,225)
(Loss) gain on early retirement of debt	17	(8,358)	(4,468)
Accretion of asset retirement obligation	15	(7,101)	(1,764)
Income before taxation		261,795	29,704
Taxation on income	8	(60,676)	(2,250)
Income after taxation available to ordinary shareholders		201,119	27,454
Other comprehensive income – gain on foreign currency conversion		1	355
Total comprehensive income for the year		201,120	27,809
Earnings per ordinary share – basic & diluted	9	0.52	0.23
Weighted average ordinary shares outstanding – basic	9	386,559	120,136
Weighted average ordinary shares outstanding – diluted	9	387,925	120,269

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		AUDITED 31 DECEMBER 2018 \$'000	(RESTATED) AUDITED 31 DECEMBER 2017 \$'000
	NOTE		
ASSETS			
Non-current assets			
Oil and gas properties, net	11	1,092,951	215,325
Property and equipment, net	12	324,766	6,947
Other non-current assets	18	25,526	1,036
Indemnification receivable		2,133	—
Total non-current assets		1,445,376	223,308
Current assets			
Trade receivables	13	78,451	13,917
Other current assets	18	30,043	513
Cash and cash equivalents		1,372	15,168
Restricted cash		1,730	744
Total current assets		111,596	30,342
Total Assets		1,556,972	253,650
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	7,346	1,940
Share premium	14	540,655	76,026
Merger reserve		(478)	(478)
Share based payment reserve		842	59
Retained earnings		200,498	30,691
Total Equity		748,863	108,238
Non-current liabilities			
Asset retirement obligation	15	140,190	35,448
Capital lease	16	2,694	836
Borrowings	17	482,528	70,619
Deferred tax liability	8	95,033	17,399
Other non-current liabilities	18	21,219	5,764
Uncertain tax position		2,133	—
Total non-current liabilities		743,797	130,066
Current liabilities			
Trade and other payables		9,383	2,132
Borrowings	17	286	373
Capital lease	16	842	324
Other current liabilities	18	53,801	12,517
Total current liabilities		64,312	15,346
Total Liabilities		808,109	145,412
Total Equity and Liabilities		1,556,972	253,650

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

The consolidated financial statements were approved by the Board of Directors on 28 February, 2019 and were signed on its behalf by:



Robert M. Post Chairman

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	NOTE	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	MERGER RESERVE \$'000	SHARE BASED PAYMENT RESERVE \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 January 2018		1,940	76,026	(478)	59	30,691	108,238
Income after taxation		—	—	—	—	201,119	201,119
Gain on foreign currency conversion		—	—	—	—	1	1
Total comprehensive income		—	—	—	—	201,120	201,120
Issuance of share capital, secondary offering	14	5,406	464,629	—	—	—	470,035
Equity compensation	—	—	—	—	783	—	783
Dividends authorized and declared	10	—	—	—	—	(31,313)	(31,313)
Transactions with shareholders		5,406	464,629	—	783	(31,313)	439,505
Balance at 31 December 2018		7,346	540,655	(478)	842	200,498	748,863

	NOTE	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	MERGER RESERVE \$'000	SHARE BASED PAYMENT RESERVE \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 January 2017		669	313	(478)	—	8,658	9,162
Income after taxation (as restated)		—	—	—	—	27,454	27,454
Gain on foreign currency conversion		—	—	—	—	355	355
Total comprehensive income		—	—	—	—	27,809	27,809
Issuance of share capital, initial offering		768	43,550	—	—	—	44,318
Issuance of share capital, secondary offering	14	503	32,163	—	—	—	32,666
Equity compensation		—	—	—	59	—	59
Dividends authorized and declared		—	—	—	—	(5,776)	(5,776)
Transactions with shareholders		1,271	75,713	—	59	(5,776)	71,267
Balance at 31 December 2017		1,940	76,026	(478)	59	30,691	108,238

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

CONSOLIDATED STATEMENTS OF CASH FLOW

		YEAR ENDED 31 DECEMBER 2018 \$'000	(RESTATED) YEAR ENDED 31 DECEMBER 2017 \$'000
	NOTE		
Cash flows from operating activities			
Income after taxation		201,119	27,454
Cash flow from operations reconciliation:			
Depreciation and depletion		41,988	7,536
Accretion of asset retirement obligation	15	7,101	1,764
Income tax charge	8	60,676	2,250
Provision for working interest owners receivable	13	—	632
(Gain)/loss on derivative financial instruments	19	(32,768)	1,965
Gain on oil and gas program and equipment		(4,079)	(396)
Gain on bargain purchase	4	(173,473)	(37,093)
Finance costs	17	17,743	4,510
Loss on early retirement of debt	17	8,358	—
Gain on disposal of property and equipment	12	—	95
Non-cash equity compensation		783	59
Working capital adjustments:			
Change in trade receivables		(41,225)	(11,464)
Change in other current assets		(6,286)	798
Change in other assets		(1,732)	(38)
Change in trade and other payables		1,134	(2,495)
Change in other current and non-current liabilities		8,396	11,345
Net cash provided by operating activities		87,735	6,922
Cash flows from investing activities			
Business combinations net of cash acquired	4	(750,256)	(89,785)
Expenditures on oil and gas properties and equipment		(18,515)	(2,935)
Asset retirement, plugging		(1,171)	(78)
Increase in restricted cash		(986)	(627)
Proceeds on disposal of oil and gas properties		4,079	334
Net cash used in investing activities		(766,849)	(93,091)
Cash flows from financing activities			
Repayment of borrowings	17	(280,890)	(42,514)
Proceeds from borrowings	17	581,221	75,000
Financing expense		(15,433)	(3,298)
Cost incurred to secure financing		(17,176)	—
Proceeds from capital lease		4,401	1,246
Repayment of capital lease		(1,093)	(529)
Proceeds from equity issuance, net		425,601	76,984
Dividends to shareholders		(31,313)	(5,776)
Net cash provided by financing activities		665,318	101,113
Net (decrease) increase in cash and cash equivalents		(13,796)	14,944
Cash and cash equivalents – beginning of the period		15,168	224
Cash and cash equivalents – end of the period		1,372	15,168

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 – GENERAL INFORMATION

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

NOTE 2 – ACCOUNTING POLICIES

Basis of Preparation and Measurement

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

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

Transactions in foreign currencies are translated into US Dollars at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange ruling at the balance sheet date. The resulting gain or loss is reflected in the Consolidated Statements of Profit or Loss and Other Comprehensive Income within Other comprehensive income – gain on foreign currency conversion.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 2 – ACCOUNTING POLICIES – CONTINUED

Prior Period Restatement

During the period ended 30 June 2018, DGO finalized the fair value measurement related to the previously reported EnerVest and Titan acquisitions discussed in Note 4. As a result, DGO retrospectively adjusted previously reported provisional amounts related to the EnerVest and Titan Energy acquisitions in accordance with IFRS – 3. The following tables summarizes the impact of these adjustments for the year ended 31 December 2017:

	YEAR ENDED 31 DECEMBER 2017 (REPORTED) \$'000	REVISIONS \$'000	YEAR ENDED 31 DECEMBER 2017 (RESTATED) \$'000
Balance sheet accounts impacted			
Oil and gas properties, net	190,358	24,967	215,325
Deferred tax liability	11,011	6,388	17,399
Retained earnings	12,112	18,579	30,691
Income statement accounts impacted			
Depreciation and depletion	(7,013)	(523)	(7,536)
Gain on bargain purchase	11,603	25,490	37,093
Income tax benefit (expense)	4,138	(6,388)	(2,250)

For the year ended 31 December 2017 the cumulative impact of these adjustments resulted in an \$18,579 increase to the Consolidated Statements of Changes in Equity through retained earnings and did not impact net cash provided by operating activities on the Consolidated Statements of Cash Flow.

Basis of Consolidation

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

- Diversified Gas & Oil PLC ("PLC"), and its wholly owned subsidiary,
 - Diversified Gas & Oil Corporation ("DGOC") as well as its, direct and indirect, wholly owned subsidiaries,
 - Diversified Resources, Inc.;
 - M & R Investments, LLC;
 - M & R Investments Ohio, LLC;
 - Marshall Gas and Oil Corporation;
 - R&K Oil and Gas, Inc.;
 - Fund 1 DR, LLC;
 - Diversified Oil & Gas, LLC;
 - Alliance Petroleum Corporation
 - Diversified Appalachian Group, LLC;
 - Diversified Energy, LLC;
 - Diversified Partnership Holdings, LLC
 - Diversified Partnership Holdings II, LLC
 - Atlas Energy Tennessee, LLC
 - Atlas Pipeline Tennessee, LLC
 - Diversified Southern Production, LLC;
 - Diversified Southern Midstream, LLC;
 - Diversified Energy Marketing, LLC;
 - Core Appalachia Holding Co, LLC;
 - Core Appalachia Compression, LLC
 - Core Appalachia Midstream, LLC
 - Core Appalachia Operating, LLC
 - Core Appalachia Production, LLC

New Standards and Interpretations

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

Adopted

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 incorporates the three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Financial assets are classified as trading activities (assets that are held for collection of contractual trading and are measured at amortised cost) or financial assets held for future sale (assets that are held for collection of contractual cash flows and are measured at fair value through other comprehensive income). The standard should be applied using the retrospective application. This standard will be effective on or after 1 January 2018.

DGO applied the simplified approach permitted by IFRS 9 for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables. DGO's financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

The Company adopted the new standard on 1 January 2018. DGO is not a financial institution and does not have any complex financial instruments. DGO does not apply hedge accounting and its customers are considered creditworthy and pay consistently within agreed payments terms. As such, other than disclosures, this standard will not have a material impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will supersede all current revenue recognition requirements under IFRS when it becomes effective. The standard can be applied using either the full retrospective approach or a modified retrospective approach at the date of adoptions. This standard will be effective on or after 1 January 2018.

The Company adopted the new standard on 1 January 2018 using the modified retrospective method at the date of adoption. The adoption of IFRS 15 is not expected to have a material quantitative impact on the financial results and no adjustment arose on transition. There were no contractual arrangements with customers giving rise to material deferred revenues at 1 January 2018 or 31 December 2018. No amounts have been recognised in relation to assets derived from costs to obtain or fulfil customer contracts and no practical expedients have been applied on transition to IFRS 15.

Not Yet Adopted

IFRS 16 Leases

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

Significant Accounting Policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 2 – ACCOUNTING POLICIES – CONTINUED

Cash

Cash on the balance sheets comprise cash at banks. Balances held at banks, at times, exceed federally insured amounts. DGO has not experienced any losses in such accounts and Management believes DGO is not exposed to any significant credit risk on its cash. At 31 December 2018 the Company's cash balance was \$1,372.

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

Trade receivables

Trade receivables are stated at the historical carrying amount, net of any provisions required. Trade receivables are due from customers throughout the oil and natural gas industry. Although diversified among several companies, collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. Management reviews the financial condition of customers prior to extending credit and generally do not require collateral to support of DGO's trade receivables. Any changes in Managements' provision for un-collectability of trade receivables during the year is recognized in the Statements of Profit or Loss and Other Comprehensive Income. Trade receivables also include certain receivables from third-party working interest owners. The Company consistently assesses the collectability of these receivables. At 31 December 2018, the Company considered a portion of these working interests receivables uncollectable and recorded a provision in the amount of \$2,200. See Note 13.

Derivative financial instruments

Derivatives are used as part of the Companies' overall strategy to mitigate risk associated with the unpredictability of cash flows due to volatility in commodity prices. Further details of DGO's exposure to these risks are detailed in Note 22. DGO has entered into financial instruments which are considered derivative contracts, such as swaps and collars which result in net cash settlement each month and do not result in physical deliveries. The derivative contracts are initially recognized at fair value at the date contract is entered into and remeasured to fair value every balance sheet date. The resulting gain or loss is recognized in the Statement of Profit or Loss and Other Comprehensive Income in the year incurred.

Restricted cash

Cash held on deposit for bonding purposes is classified as restricted cash and recorded within non-current assets. The cash is restricted in use by state governmental agencies to be utilised and drawn upon if the operator should abandon any wells or is being held as collateral by the Company's surety bond providers. At 31 December 2018 and 2017, the Company's restricted cash balance was \$1,730 and \$744, respectively. The Company expects the cash to become unrestricted within the next twelve months.

Oil and gas properties

Development and acquisition costs

Expenditures related to the construction, installation or completion of infrastructure facilities, such as platforms and pipelines, and the drilling of development wells, including delineation wells, is capitalised within oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the well asset retirement obligation, for qualifying assets, and borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Exploration and evaluation costs

DGO follows IFRS 6 in accounting for oil and gas assets. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statements of Profit or Loss and Other Comprehensive Income. Only material expenditures incurred after the acquisition of a license interest are capitalized. Historically, the expenditures related to exploration and evaluation have not been material, as DGO drills in active areas where there are minimal and immaterial exploration and evaluation costs and therefore the cost has been expensed.

Depletion

Oil and gas properties are depleted on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for the depreciation of field development costs considers expenditures incurred to date, together with sanctioned future development expenditure.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property and equipment initially recognized includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

	YEARS
Buildings and leasehold improvements	7 – 15
Drilling costs and equipment	10 – 39
Motor vehicles	5 – 7
Compression assets	13
Pipeline assets	15
Other property and equipment	3 – 5

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

Impairment of financial assets

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39 – Financial Instruments: Recognition and Measurement. The expected credit loss model requires DGO to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The credit event does not have to occur before credit losses are recognised. IFRS 9 allows for a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

DGO has three types of financial assets subject to the expected credit loss model: 1) trade receivables for sales of inventory; 2) trade receivables for R&D services; and 3) accrued royalty and milestone income.

DGO was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. There was no impact of the change in impairment methodology on the carrying values disclosed.

Impairment of non-financial assets

At each reporting date, Management assesses whether indications exist that an asset may be impaired. If indications do exist, or when annual impairment testing for an asset is required, Management estimates 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, Management considers the asset impaired and writes the subject asset down to its recoverable amount. In assessing value-in-use, Management discounts the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, Management considers recent market transactions, if available. If no such transactions can be identified, Management will utilize an appropriate valuation model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 2 – ACCOUNTING POLICIES – CONTINUED

When applicable, DGO recognizes impairment losses of continuing operations in the Statements of Profit or Loss and Other Comprehensive Income in those expense categories consistent with the function of the impaired asset.

Leases

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

Asset retirement obligation

Where a material liability for the retirement of a well, removal of production equipment and site restoration at the end of the production life of a well exists, the Company recognizes a liability for well asset retirement. The amount recognized is the present value of estimated future net expenditures determined in accordance with local conditions and requirements. The unwinding of the discount on the decommissioning liability is included as accretion of the decommissioning provision. The cost of the relevant property, plant and equipment asset is increased with an amount equivalent to the liability and depreciated on a unit of production basis. The Company recognizes changes in estimates prospectively, with corresponding adjustments to the liability and the associated non-current asset.

Taxation

Deferred taxation

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realized or the deferred liability is settled.

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

Income taxation

Current income tax assets and liabilities for the year ended 31 December 2018 are measured at the amount to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the jurisdictions where DGO operates and generates taxable income.

Revenue recognition

Natural gas, natural gas liquids (“NGLs”) and crude oil

Revenue from sales of natural gas, NGLs and crude oil products is recognized when title transfers to the customer. This transfer generally occurs when product is physically transferred into a vessel, pipe, sales meter or other delivery mechanism. This also represents the point at which DGO fulfils its single performance obligation to its customer under contracts for the sale of natural gas, NGL’s and crude oil.

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

Third-party gathering revenue

Revenue from gathering and transportation of third-party natural gas is recognized when the customer transfers its gas to the entry point in DGO’s midstream network and becomes entitled to withdraw an equivalent volume of gas from the exit point in DGO’s midstream network under contracts for the gathering and transportation of natural gas. This transfer generally occurs when product is physically transferred into DGO’s vessel, pipe, or sales meter. The customer’s entitlement to withdraw an equivalent volume of gas is broadly coterminous with transfer of gas into DGO’s midstream network.

Other revenue

Revenue from the operation of third-party wells is recognized as earned in the month work is performed and consistent with DGO’s contractual obligations. DGO’s contractual obligations in this respect are considered to be its performance obligations for the purposes of IFRS15.

Revenue from the sale of water disposal services to third-parties into DGO's disposal well is recognized as earned in the month the water was physically disposed. Disposal of the water is considered to be DGO's performance obligation under these contracts.

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

Functional currency and foreign currency translation

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

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

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

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

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

Segment reporting

DGO complies with IFRS 8 *Operating Segments*, to determine its operating segments and has identified one reportable segment that produces natural gas, NGL and crude oil in the Appalachian Basin of the United States of America.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Valuation of intangible oil and gas assets on acquisition

The Company determines the fair value of oil and gas assets using the income approach based on expected discounted future cash flows from estimated reserve quantities, costs to produce and develop reserves, and oil and natural gas forward prices. The future net cash flows are discounted using a weighted average cost of capital as well as any additional risk factors. Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Impairment indicators for oil and gas properties

Following a review by Management of ongoing operational performance of DGO's natural gas and crude oil properties for the year ended 31 December 2018, Management is of the opinion that no impairment indicators are apparent for these assets.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS – CONTINUED

Reserve estimates

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

Estimating the quantity and/or grade of reserves requires the size, shape and depth of fields to be determined by analyzing geological data, such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

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

Asset retirement obligation costs

The ultimate asset retirement obligation costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, significant estimates and assumptions are made in determining the provision for asset retirement. See Note 15 for more information.

NOTE 4 – ACQUISITIONS

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

2018 Acquisitions

Acquisition of the stock of Alliance Petroleum Corporation

In March 2018, DGO acquired the entire share capital of Alliance Petroleum Corporation, including approximately 13,000 conventional natural gas and oil wells in the states of Pennsylvania, West Virginia and Ohio and all other property and equipment. The Company paid consideration of \$80,743, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the net proceeds from its equity placing of DGO's stock in February 2018 discussed further in Note 14.

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

	\$'000
Total cash consideration	80,743
Less cash received	(8,638)
Cash consideration, net of cash received	72,105
Net Assets Acquired:	
Current assets	13,403
Oil and gas properties, net	129,125
Property and equipment, net	2,444
Other assets (a)	2,133
Current liabilities	(7,576)
Deferred tax liability	(19,852)
Uncertain tax position (a)	(2,133)
Debt (b)	(25,000)
Other liabilities	(119)
Asset retirement obligation	(20,153)
Net assets acquired	72,272
Gain on bargain purchase	(167)
Purchase Price	72,105

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

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

Acquisition of assets from CNX Resources LLC

In March 2018, DGO acquired approximately 11,000 conventional natural gas and oil wells principally in the states of Pennsylvania and West Virginia and other equipment from CNX Resources LLC ("CNX"). The Company paid purchase consideration of \$89,296, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the proceeds from its equity placing of DGO's stock in February 2018 discussed further in Note 14. Subsequent to the purchase of these assets, CNX agreed to retain a monthly tariff obligation applicable to the Appalachian assets that requires monthly cash payments to a pipeline transmission company through a portion of calendar year 2022. Tariff payments from the effective date of the purchase through their expiration in 2022 totaled \$27,000. In exchange for CNX retaining this \$27,000 pipeline tariff obligation, the Company paid CNX \$17,000. This one-time payment allows DGO to retain complete and uninterrupted access to the applicable pipeline system and eliminates the \$27,000 tariffs the Company would have paid over the remaining term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 4 – ACQUISITIONS – CONTINUED

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

	\$'000
Oil and gas properties	130,500
Oil and gas properties (Asset retirement obligation, asset portion)	14,332
Asset retirement obligation	(14,332)
Other liabilities	(4,790)
Gain on bargain purchase	(36,414)
Purchase price	89,296

Acquisition of assets from EQT Production Company

In July 2018, DGO acquired approximately 11,250 conventional natural gas wells and a wholly-owned midstream gathering and a compression system with approximately 6,400 miles of pipeline and 59 compressor stations in the states of Kentucky, West Virginia and Virginia and other equipment from EQT Production Company ("EQT"). The Company paid purchase consideration of \$527,158, excluding customary purchase price adjustments. The Company funded the cash consideration for the purchase with the proceeds from its equity placing of stock in July 2018, discussed in Note 14, and a draw of \$336,200 from the debt facility discussed in Note 17. At the time of acquisition DGO engaged a third party valuation firm to further substantiate management's valuation assumptions. As a result of this valuation, the fair value of the reserves held in the assets acquired was \$363,300, which was derived using a cumulative discount rate of 10.5%. The tangible assets acquired were determined to have a fair value of \$237,894, which was derived using a cumulative discount rate of 9.5%. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	\$'000
Oil and gas properties	363,300
Oil and gas properties (Asset retirement obligation, asset portion)	26,257
Pipelines	205,810
Compressors	46,634
Mobile Equipment	8,562
Rights of Way	3,250
Buildings	620
Land	2,420
Inventory	5,047
Asset retirement obligation	(26,257)
Suspense	(4,764)
Other	(3,428)
Gain on bargain purchase	(100,293)
Purchase price	527,158

Acquisition of the stock of Core Appalachia Holding Co, LLC

In October 2018, DGO acquired Core Appalachia Holding Co, LLC ("Core"), which included approximately 5,000 conventional natural gas wells and a wholly-owned midstream gathering and compression system with approximately 4,100 miles of pipeline and 47,000 horsepower of compression in the states of Kentucky, West Virginia and Virginia. The Company funded the acquisition with \$40,000 of cash and 35,000 shares of common stock (at an assumed offering price of \$1.41 per share (1.07 pence), which was the last reported sale price of our common stock on the acquisition date) discussed further in Note 14. At the time of acquisition DGO engaged a third party valuation firm to further substantiate management's valuation assumptions. As a result of this valuation, the fair value of the reserves held in the assets acquired was \$176,860, which was derived using a cumulative discount rate of 10.5%. The tangible assets acquired were determined to have a fair value of \$48,812 which was derived using a cumulative discount rate of 9%. The provisional estimated fair values of the assets and liabilities assumed were as follows:

	\$'000
Cash consideration	45,938
Less cash received	(4,454)
Fair value of stock consideration	49,159
Total consideration	90,643
Net assets acquired:	
Oil and gas properties	176,860
Oil and gas properties (Asset retirement obligation, asset portion)	19,214
Pipelines	27,797
Compressors	6,401
Mobile Equipment	4,206
Buildings	3,880
Land	6,440
Other	88
Accounts receivable	11,506
Other current assets	3,754
Other long term assets	6,617
Asset retirement obligation	(19,214)
Accounts payable	(5,586)
Taxes payable	(7,020)
Notes payable assumed	(93,246)
Other current liabilities	(12,259)
Other long term liabilities	(1,898)
	127,540
Gain on bargain purchase	(36,897)
Purchase price	90,643

Other Acquisitions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4 – ACQUISITIONS – CONTINUED

2017 Acquisitions (Restated)

EnerVest Acquisition

In April 2017, DGO acquired approximately 1,300 conventional natural gas and oil wells in Ohio and equipment from EnerVest. The Company paid in cash the consideration totaling \$1,750. Management considered the fair value of the reserves held in the assets acquired to be \$8,500, which was the 30% cumulative cash flow discount reserve valuation derived from a third-party engineer at the time of purchase. During 2018, DGO finalized the fair value measurement of the EnerVest acquisition. As a result, DGO retrospectively adjusted previously reported provisional amounts related to the acquisition in accordance with IFRS 3. See additional information regarding this restatement in Note 2. The fair values of the assets and liabilities assumed were as follows:

	\$'000
Oil and gas properties	8,500
Oil and gas properties (Decommissioning provision, asset portion)	2,406
Decommissioning liability	(2,406)
Gain on bargain purchase	(6,750)
Purchase price	1,750

Titan Energy Acquisition

In June 2017, DGO acquired approximately 8,380 producing conventional natural gas and oil wells in the states of Pennsylvania, Ohio, and Tennessee (including approximately 1,140 non-operated wells) and equipment from Titan Energy. The Company paid total consideration of \$77,343, excluding customary purchase price adjustments. The cash consideration for the purchase was funded by a \$110,000 Senior Secured Loan Facility, of which, \$64,000 was drawn at closing on 30 June 2017, and an equity placing of DGO's stock. DGO placed 39,300 new ordinary shares at \$0.89 per share with certain existing and new institutional investors to raise \$35,020. The equity placing occurred in two tranches of 11,400 shares which raised \$10,158 and 27,900 shares were placed with the second tranche, which raised \$24,862. During 2018, DGO finalized the fair value measurement of the Titan Energy acquisition. As a result, DGO retrospectively adjusted previously reported provisional amounts related to the acquisition in accordance with IFRS 3. See additional information regarding this restatement in Note 2.

Management determined the fair value of the reserves held in the assets acquired on 30 June 2017 to be \$108,011. The fair values of the assets and liabilities assumed were as follows:

	\$'000 (RESTATED)
Oil and gas properties	108,011
Oil and gas properties (Asset retirement obligation, asset portion)	16,366
Other PPE	1,752
Asset retirement obligation	(16,366)
Other liabilities	(2,279)
Gain on bargain purchase	(30,141)
Purchase price	77,343

NGO Acquisition

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

	\$'000
Oil and gas properties	3,003
Oil and gas properties (Asset retirement obligation, asset portion)	818
Other PPE	352
Asset retirement obligation	(818)
Other liabilities	(39)
Gain on bargain purchase	(202)
Purchase price	3,114

NOTE 5 – REVENUE

DGO extracts and sells natural gas, natural gas liquids and crude oil to various customers in addition to operating a majority of these oil and natural gas wells for customers and other working interest owners. In addition, DGO provides gathering and transportation services to third parties. All revenue was generated in the United States of America. The following table reconciles the Company's revenue for the periods presented:

	AUDITED YEAR ENDED 31 DECEMBER 2018 \$'000	(RESTATED) AUDITED YEAR ENDED 31 DECEMBER 2017 \$'000
Natural gas	219,189	30,463
Oil	19,117	8,047
NGL	41,854	1,043
Total natural gas, oil and NGL	280,160	39,553
Midstream revenue	7,315	—
Other	2,294	2,224
Total revenue	289,769	41,777

DGO adopted IFRS 15 *Revenue from Contracts with Customers* 1 January 2018 using the modified retrospective method at the date of adoption. During the year ended 31 December 2018, DGO derived approximately 97% of its revenues from the sale of natural gas, NGLs and crude oil. Revenue from those sales is recognized when the product is physically transferred into a vessel, pipe, sales meter or other delivery mechanism. Contracts with customers for the sale, gathering and transportation of natural gas, NGLs and crude oil are predominantly of a short duration and have specific outcomes and performance obligations. Further details of DGO's performance obligations are discussed in Note 2.

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

During the year ended 31 December 2018, two customers individually totaled more than 10% of total revenues, totaling 24% and 18%. For the year ended 31 December 2017, two customers individually totaled more than 10% of total revenues, totaling 25%, and 17%. Because alternative purchasers of oil and natural gas are readily available, the Company believes that the loss of any of these purchasers would not result in a material adverse effect on its ability to market future oil and natural gas production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 6 – EXPENSES BY NATURE

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

		YEAR ENDED 31 DECEMBER 2018 \$'000	(RESTATED) YEAR ENDED 31 DECEMBER 2017 \$'000
EXPLANATION			
Employees and benefits		35,061	8,539
Automobile		5,569	1,441
Insurance		4,698	491
Transportation		10,221	—
Production taxes (severance taxes, property taxes and other taxes)		11,978	1,345
Gathering and compression		9,186	2,712
Well operating expenses, net		31,080	6,380
Total operating expense	(a)	107,793	20,908
Depreciation		10,272	1,469
Depletion		31,716	6,067
Total depreciation and depletion		41,988	7,536
Employees and benefits		12,653	2,655
Other administrative		1,834	1,611
Professional fees		5,070	360
Auditors' remuneration			
Fees payable to the Company's auditor for the audit of the group and Company's annual accounts		95	55
Fees payable to the Company's auditor and its associates for other services:			
Audit of the accounts of subsidiaries		310	125
Corporate finance services		142	73
Total auditors' remuneration		547	253
Recurring administrative expenses		20,104	4,879
Non-recurring costs associated with acquisitions & contribution of assets		19,637	3,349
Provision for working interest owners receivable		—	632
Non-cash equity compensation	(b)	783	59
Non-recurring administrative expenses		20,420	4,040
Total administrative expenses	(a)	40,524	8,919
Total expenses	(a)	190,305	37,363
Aggregate remuneration (including Directors):			
Wages and salaries		30,238	8,272
Payroll taxes		1,972	729
Benefits		4,323	2,252
Total employees and benefits expense	(a)	36,533	11,253

(a) The increase in expenses is primarily related to the oil and gas properties and midstream assets acquired during 2018. See Note 4 for more information about the Company's acquisitions.

(b) Non-cash equity issuance in 2018 and 2017 reflects the expense recognition related to the issuance of restricted stock units to certain key managers.

For the years 31 December 2018 and 31 December 2017, DGO's average workforce was comprised of approximately 600 and 209 employees, respectively. For the year ended 31 December 2018, DGO employed an average of 112 employees in administrative, which is inclusive of management, and an average of 488 employees in field operations. For the year ended 31 December 2017, DGO employed an average of 34 employees in administration, which is inclusive of management, and an average of 175 employees in field operations.

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

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

NOTE 7 – ADJUSTED EBITDA

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

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

The following table reconciles operating profit to Adjusted EBITDA:

	YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
Operating profit	294,997	41,161
Depreciation and depletion	41,988	7,536
Gain on bargain purchase	(173,473)	(37,093)
Gain on oil and gas programme and equipment	(4,079)	(95)
(Gain) loss on derivative financial instruments	(33,636)	1,965
Non-recurring costs associated with acquisitions & contribution of assets	19,637	3,349
Provision for working interest owners receivable	—	632
Non-cash equity issuance included in administrative expense	738	59
Total adjustments	(148,825)	(23,647)
Adjusted EBITDA	146,172	17,514
Weighted average ordinary shares outstanding – basic	386,559	120,136
Weighted average ordinary shares outstanding – diluted	387,925	120,269
Adjusted EBITDA per share – basic and diluted	0.38	0.15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 – TAXATION

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

For taxable year ending 31 December 2018 and 2017, DGO had tax expense of \$60,676 and \$2,251, respectively. The Company's effective tax rate was 23.20% and 7.50%, respectively, for the same periods. The effective tax rate is primarily impacted by recognition of federal tax credits, and also is impacted by recurring permanent differences, such as meals and entertainment, state taxes, and other deferred tax, as the Company is currently generating operating losses for United States taxation purposes.

The provision for income taxes for the years ended 31 December 2018 and 31 December 2017 in the Statements of Comprehensive Income are summarized below:

	YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
Current income tax expense		
Federal	—	—
State	2,894	—
Total current income tax expense	2,894	—
Deferred income tax expense		
Federal	47,554	883
State	10,228	1,367
Total deferred income tax expense	57,782	2,250
Total income tax	60,676	2,250

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

	YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
Expected tax at U.S. statutory income tax rate	54,954	21.0%
Increase (decrease) in tax resulting from:		
State income taxes, net of federal tax benefit	12,515	4.8%
Federal credits	(7,084)	(2.7)%
Other – net	291	0.1%
Total taxation on income	60,676	23.2%

The Company had a net deferred tax liability of \$95,033 and \$17,399 as of 31 December 2018 and 31 December 2017, respectively. The deferred tax liability increased by \$77,633, primarily due to 2018 acquisitions whereby bargain purchase gains were recorded for financial reporting purposes but not for tax purposes and immediate expensing for tax purposes of purchase consideration assigned to tangible property acquired. Additionally, the net deferred tax liability increased due to unrealized gains for unsettled derivatives and decreased due to an increase of Federal net operating loss generated.

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

	AUDITED YEAR ENDED 31 DECEMBER 2018 \$'000	AUDITED YEAR ENDED 31 DECEMBER 2017 \$'000
Deferred tax assets		
Decommissioning provision asset	46,893	9,133
Derivative adjustment	—	742
Allowance for doubtful accounts	577	166
Federal net operating loss	53,904	1,056
State net operating loss	3,177	216
Federal tax credits carryover	14,365	250
Capital loss carryover	1,988	—
Valuation allowance	(1,988)	—
Other	1,334	83
Total deferred tax assets	120,250	11,646
Deferred tax liabilities		
Premises, equipment and oil and gas properties	(206,795)	(29,045)
Derivative adjustment	(8,488)	—
Total deferred tax liabilities	(215,283)	(29,045)
Net deferred tax liability	(95,033)	(17,399)

For U.S. federal tax purposes, DGO is taxed as one consolidated entity, which includes its parent company, PLC. PLC is subject to additional taxes in its home jurisdiction of the United Kingdom. For the years ended 31 December 2018 and 31 December 2017, PLC did not incur any income tax liability in the United Kingdom.

On 22 December 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant change in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate AMT. The legislation reduced the U.S. corporate tax rate from the current rate of 34% to 21% for the year ended December 31, 2018. As a result of the enacted law, the Company is required to revalue deferred tax assets and liabilities at 22 December 2017. The revaluation of deferred taxes for the rate reduction resulted in \$8,525 of benefit to income tax expense for the year ended 31 December 2017. The other provisions of the Tax Cuts and Jobs Act are not expected to have a material impact on the Company's consolidated financial statements in future years.

At 31 December 2018, the Company had federal net operating loss carryforwards of approximately \$256.7 million. Federal net operating loss carryforwards of \$5.9 million expire in the years 2035 through 2037. The Federal net operating loss carryforward of \$250.8 million generated in the year ended 31 December 2018 does not have an expiration date as a result of the 22 December 2017 tax law changes discussed above. Additionally, the Company has state net operating loss carryforwards of approximately \$62.7 million, which expire in the years 2036 through 2038.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 – TAXATION – CONTINUED

At 31 December 2018, the Company had federal marginal well tax credit carryforwards of approximately \$14.3 million, which expire in the years 2036 through 2037.

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

NOTE 9 – EARNINGS PER SHARE

The calculation of basic income/(loss) per ordinary share is based on the income/(loss) after taxation available to ordinary shareholders and on the weighted average number of ordinary shares outstanding during the period. The calculation of diluted income/(loss) per ordinary share is based on the income/(loss) after taxation available to ordinary shareholders and the weighted average number of ordinary shares outstanding plus the weighted average number of shares that would be issued if dilutive options and warrants were converted into ordinary shares on the first day of the reporting period. Basic and diluted income/(loss) per ordinary share is calculated as follows:

		YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
	CALCULATION		
Income after taxation available to ordinary shareholders	A	201,119	27,454
Weighted average ordinary shares outstanding – basic	B	386,559	120,136
Weighted average ordinary shares outstanding – diluted	C	387,925	120,269
Earnings per ordinary share – basic	= A/B	0.52	0.23
Earnings per ordinary share – diluted	= A/C	0.52	0.23
Adjusted EBITDA per ordinary share – basic & diluted	Note 7	0.38	0.15

NOTE 10 – DIVIDENDS

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

<u>DIVIDEND PER ORDINARY SHARE</u>						
DATE DECLARED	USD	GBP	RECORD DATE	PAY DATE	SHARES OUTSTANDING	GROSS DIVIDENDS PAID \$'000
Dividend declared 15 June 2017	0.0199	0.0155	07 July 2017	31 July 2017	145,076	2,888
Dividend declared 11 September 2017	0.0199	0.0149	17 November 2017	20 December 2017	145,076	2,888
Cumulative dividends declared as at for the year ended 31 December 2017						5,776
Dividend declared 30 April 2018	0.0345	0.0251	11 May 2018	25 May 2018	311,476	10,746
Dividend declared 29 June 2018	0.0173	0.0131	13 July 2018	24 September 2018	311,476	5,373
Dividend declared 11 September 2018	0.0280	0.0223	30 November 2018	19 December 2018	542,633	15,194
Dividends paid during the year ended 31 December 2018						31,313
Cumulative dividends declared as at for the year ended 31 December 2018						37,089
Dividend declared 14 December 2018	0.0330	Pending	8 March 2019	29 March 2019	Pending	Pending

NOTE 11 – OIL AND GAS PROPERTIES

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

PERIOD	COSTS				DEPLETION AND IMPAIRMENT				NET BOOK VALUE \$'000
	BEGINNING BALANCE \$'000	ADDITIONS ^(a) \$'000	DISPOSALS \$'000	ENDING BALANCE \$'000	BEGINNING BALANCE \$'000	PERIOD CHARGES \$'000	DISPOSALS \$'000	ENDING BALANCE \$'000	
As at and for the year ended 31 December 2018	239,814	908,514	(93)	1,148,235	(24,489)	(30,795)	—	(55,284)	1,092,951
As at and for the year ended 31 December 2017	94,608	145,527	(321)	239,814	(17,815)	(6,674)	—	(24,489)	215,325

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 – PROPERTY AND EQUIPMENT

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

PERIOD	PLANT, PROPERTY & EQUIPMENT				ACCUMULATED DEPRECIATION AND DISPOSALS				NET BOOK VALUE \$'000
	BEGINNING BALANCE \$'000	ADDITIONS ^(a) \$'000	DISPOSALS \$'000	ENDING BALANCE \$'000	BEGINNING BALANCE \$'000	PERIOD CHARGES \$'000	DISPOSALS \$'000	ENDING BALANCE \$'000	
As at and for the year ended 31 December 2018	9,676	327,876	(142)	337,410	(2,729)	(11,193)	1,278	(12,644)	324,766
As at and for the year ended 31 December 2017	5,223	4,595	(142)	9,676	(1,875)	(862)	8	(2,729)	6,947

- (a) Of the \$327,876 in additions, \$318,848 relates to equipment purchased through acquisitions. See Note 4 for more information about the Company's acquisitions.

NOTE 13 – TRADE RECEIVABLES

The majority of trade receivables are current and DGO believes these receivables are collectible. Trade receivables also include certain receivables from third-party working interest owners. The Company consistently assesses the collectability of these receivables. At 31 December 2018, the Company considered a portion of these working interests receivables received from the APC acquisition as uncollectable and recorded a provision in the amount of \$2.2 million which was charged against the gain on bargain purchase.

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Trade receivables	78,451	13,917
Total trade receivables	78,451	13,917

NOTE 14 – SHARE CAPITAL

In February 2017, DGO placed 61,000 new ordinary shares at 65 pence per share to raise gross proceeds of \$49,589 (approximately £39,650). DGO used the funds raised for the repurchase of bonds, repayment of existing debt facilities, costs of admission to AIM and working capital requirements of the Company. Following this initial placing, and as discussed in Note 4, in June 2017, DGO issued an additional 39,300 ordinary shares at 70 pence per share to raise additional gross proceeds of \$35,020 (approximately £27,510) to fund part of the purchase price for the Titan acquisition.

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

In July 2018, DGO placed 195,330 new ordinary shares at \$1.28 per share (97 pence) to raise gross proceeds of \$250,005 (approximately £189,470). DGO used the proceeds to partially fund the EQT acquisition discussed in Note 4.

In October 2018, DGO placed 35,000 new ordinary shares at 1 pence at an assumed offering issue price of \$1.41 per share (£1.07) (which was the last reported sale price of our common stock on the acquisition date) for an assumed value of \$49,159 to partially fund the Core acquisition. See further discussion surrounding the acquisition in Note 4.

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

	NUMBER OF SHARES	TOTAL SHARE CAPITAL \$'000	TOTAL SHARE PREMIUM \$'000
Balance at 1 January 2018	145,076	1,940	76,026
Issuance of share capital	166,400	2,359	178,301
Issuance of share capital	195,330	2,575	236,621
Issuance of share capital	35,000	463	49,159
Other issues ^(a)	848	9	548
Balance at 31 December 2018	542,654^(a)	7,346	540,655
	NUMBER OF SHARES	TOTAL SHARE CAPITAL \$'000	TOTAL SHARE PREMIUM \$'000
Balance at 1 January 2017	44,210	669	313
Issuance of share capital, initial offering	61,381	768	43,550
Issuance of share capital, secondary offering	39,485	503	32,163
Balance at 31 December 2017	145,076	1,940	76,026

(a) In November 2018 DGO issued 162,619 restricted stock units to certain members of management and 685,231 shares upon conversion of stock warrants granted to Smith and Williamson related to the initial public offering.

NOTE 15 – ASSET RETIREMENT OBLIGATION

The Company records a liability for future cost of decommissioning production facilities and pipelines. The decommissioning liability represents the present value of decommissioning costs relating to oil and gas properties, which the Company expects to incur over the long producing life of its wells, presently estimated through to 2093 when the Company expects its producing oil and gas properties to reach the end of their economic lives.

As discussed more fully in Note 2, these liabilities represent Management's best estimates of the future obligation. Management's assumptions are based on the current economic environment, and represent what they believe is a reasonable basis upon which to estimate the future liability. Management reviews these estimates regularly and adjust for any identified material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices at the time the decommissioning services are performed. Furthermore, the timing of decommissioning will vary depending on when the fields ceases to produce economically, which makes the determination dependent upon future oil and gas prices, which are inherently uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 15 – ASSET RETIREMENT OBLIGATION – CONTINUED

The discount rate and the cost inflation rate used in the calculation of the decommissioning liability was 8.0% as at each of the periods presented. The table below summarizes the activity for the Company's decommissioning liability:

	YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
Balance at 1 January	35,448	12,265
Additions ^(a)	96,508	21,497
Accretion	7,101	1,764
Disposals	(1,161)	(78)
Revisions to estimate ^(b)	4,829	—
Balance at 31 December	142,725	35,448
Less: Current decommissioning provision	2,535	—
Long-term decommissioning liability	140,190	35,448

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

(b) During the year Management revised the plugging program to more closely align with operations. As a result of this revision, cost inputs and assumptions made surrounding the life of certain wells were amended. See further information regarding these assumptions in Note 2.

NOTE 16 – LEASES

DGO leased automobiles, equipment and real estate under both operating and capital leases at 31 December 2018 and 2017.

Capital leases

DGO leases automobiles under leases classified as capital leases with an interest rate of 5.5% and mature 2018 January through 2021 December. The net book value of assets under lease at 31 December 2018 and 2017 is \$3,152 and \$2,127, respectively.

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

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Not later than one year	842	324
Later than one year and not later than five years	2,694	971
Later than five years	—	—
Total minimum lease payments	3,536	1,295
Less amount representing interest	(351)	(135)
Present value of minimum lease payments	3,185	1,160

Reconciliation of capital leases arising from financing activities:

	31 DECEMBER 2017 \$'000	NET CASH FLOWS \$'000	31 DECEMBER 2018 \$'000
Total present value of minimum lease payments	1,160	2,025	3,185

Operating leases

DGO leases both equipment and real estate under multi-year agreements that are classified as operating leases. Operating lease expense for the year ended 31 December 2018 was \$659 (2017: \$122). Future minimum lease payments for leases with original terms greater than one year are included in the table below:

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Not later than one year	659	122
Later than one year and not later than five years	1,299	412
Later than five years	441	1,371
Future minimum lease payments	2,399	1,905

Operating leases between related parties are detailed in Note 24.

NOTE 17 – BORROWINGS

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

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Individuals and institutional investor bonds, interest rate of 8.50%, maturing June 2020, unsecured	86	81
Financial institution, interest rate of 2.75% plus LIBOR (2018) and 8.25% plus LIBOR (2017), secured by oil and gas properties	495,284	73,249
Miscellaneous notes, primarily for real estate and equipment	2,337	495
Total borrowings	497,706	73,825
Less current portion of long-term debt	(286)	(373)
Less deferred financing costs	(15,093)	(2,833)
Total non-current borrowings, net	482,327	70,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 17 – BORROWINGS – CONTINUED

In March 2018, the Company closed a \$500,000 five year credit facility, initially subject to a borrowing limit of \$140,000. Following the closing of the acquisition of certain assets of CNX Resources in March 2018, as discussed in Note 4, the borrowing limit increased to \$200,000. In July 2018, in conjunction with the acquisition of certain assets of EQT, the Company closed on an enlarged \$1 billion, five-year secured revolving credit facility with an initial borrowing base of \$600,000, which replaced the existing \$200,000 facility. In November 2018, following the October 2018 acquisition of Core, the Company closed on a further-enlarged \$1.5 billion, five-year senior secured credit facility. The enlarged facility consolidates the Company's previous \$1 billion facility with Core Appalachia's facility and has an initial borrowing base of \$725,000. The facility maintains the maturity date of the previous \$1 billion facility of July 2023. In December 2018, DGO extinguished \$93m of debt assumed with the Core acquisition. The facility has an initial interest rate of 2.75% plus the one-month LIBOR and is subject to a grid that fluctuates from 2.25% to 3.25% plus LIBOR based on utilization.

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

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Not later than one year	286	373
Later than one year and not later than five years	497,420	73,452
Total borrowings	497,706	73,825

Reconciliation of borrowings arising from financing activities:

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
At the beginning of the period	70,992	37,294
Acquired as part of business combination	118,223	—
Proceeds from new borrowings	581,221	75,000
Repayments of borrowings	(275,115)	(42,514)
Financing fees paid	(17,176)	—
Amortisation of financing fees	4,812	1,212
Interest paid in cash	(15,433)	(3,298)
Deferred finance costs	15,290	3,298
At the end of the period	482,814	70,992

- (a) During 2018 DGO acquired \$25,000 and \$93,000 of debt, respectively, from the APC and Core acquisitions discussed in Note 4. During 2018, DGO repaid \$281,177 of outstanding debt, including the debt assumed through the aforementioned acquisitions, received proceeds of \$581,221 and financed a \$5,837 early payment fee related to the March 2018 refinancing.

Loss on Debt Extinguishment

As discussed above, DGO entered into the new senior secured revolving credit in March 2018 that resulted in a non-recurring loss on early extinguishment of debt of \$8,358, which primarily included a \$2,583 charge for the accelerated amortization of the remaining deferred financing costs and \$5,776 related to an early payment fee.

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

NOTE 18 – OTHER ASSETS & LIABILITIES

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

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Other non-current assets		
Derivative financial instruments	21,745	—
Other non-current assets	3,781	1,036
Total other non-current assets	25,526	1,036
Other current assets		
Prepaid Expenses	2,996	513
Derivative financial instruments	17,573	—
Other receivables	4,171	—
Inventory	5,303	—
Total other current assets	30,043	513
Other non-current liabilities		
Derivative financial instruments	—	1,943
Revenue to be distributed	20,159	3,486
Other	1,060	335
Total other non-current liabilities	21,219	5,764
Other current liabilities		
Accrued expenses	21,852	2,300
Taxes payable	13,854	—
Net revenue clearing	9,299	6,472
Asset retirement obligation – current	2,535	—
Derivative financial instruments	—	961
Other	6,261	2,784
Total other current liabilities	53,801	12,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 19 – DERIVATIVES

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

(LIABILITIES)/ASSETS	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Natural gas		
Swaps	4,053	28
Collars	131	311
Basis swaps	(1,720)	(965)
Put options	7,292	—
Total natural gas financial derivative contracts	9,756	(626)
Natural gas liquids		
Swaps	26,208	—
Total natural gas financial derivative contracts	26,208	—
Oil		
Swaps	676	(56)
Collars	2,929	(2,222)
Total oil financial derivative contracts	3,605	(2,278)
Total financial derivative contracts	39,569	(2,904)

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

DERIVATIVE FINANCIAL INSTRUMENTS	STATEMENT OF FINANCIAL POSITION LINE ITEM	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Non-current assets		49,854	1,348
Current assets		29,068	955
Total assets		78,922	2,303
Non-current liability		(28,109)	(3,291)
Current liabilities		(11,495)	(1,916)
Total liabilities		(39,604)	(5,207)
Net assets – non-current	Other non-current assets/(liabilities)	21,746	(1,943)
Net assets – current	Other current assets/(liabilities)	17,573	(961)
Net assets/(liabilities)		39,319	(2,904)

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

	YEAR ENDED 31 DECEMBER 2018 \$'000	YEAR ENDED 31 DECEMBER 2017 \$'000
Net loss (gain) on settlements	15,655	(1,524)
Net (gain) loss on fair value adjustments on unsettled financial instruments	(33,636)	1,965
Total (gain) loss on derivative financial instruments	(17,981)	441

NOTE 20 – FAIR VALUE AND FINANCIAL INSTRUMENTS

Fair Value

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

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

Level 2: Inputs (other than quoted prices included in Level 1) can include the following:

- (a) observable prices in active markets for similar assets;
- (b) prices for identical assets in markets that are not active;
- (c) directly observable market inputs for substantially the full term of the asset; and
- (d) market inputs that are not directly observable but are derived from or corroborated by observable market data.

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

DGO does not hold derivatives for speculative or trading purposes and the derivative contracts held by DGO do not contain any credit-risk related contingent features. Management has elected to not apply hedge accounting to derivative contracts.

Netting the fair values of derivative assets and liabilities for financial reporting purposes is permitted if such assets and liabilities are with the same counterparty and a legal right of set-off exists, subject to a master netting arrangement. Management has elected to present derivative assets and liabilities net when these conditions are met. When derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. At 31 December 2018 and 2017, there were no collateral assets or liabilities associated with derivative assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 20 – FAIR VALUE AND FINANCIAL INSTRUMENTS – CONTINUED

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

Possible actions would be to transfer DGO's positions to another counterparty or request a voluntary termination of the derivative contracts, resulting in a cash settlement in the event of non-performance by the counterparty. For the years ended 31 December 2018 and 2017, the counterparties for all DGO's derivative financial instruments were lenders under formal credit agreements.

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

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

All financial instruments measured at fair value use Level 2 valuation techniques for the years ended 31 December 2018 and 2017.

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

There were no transfers between fair value levels during the reporting year.

Financial Instruments

Financial assets are classified as trading activities or financial assets held for future sale. Trading activities are assets that are held for collection of contractual trading and are measured at amortised cost. Financial assets held for future sale are assets that are held for collection of contractual cash flows and are measured at fair value through other comprehensive income. In instances where the financial assets meets neither category, they are measured at fair value through profit and loss. Due to the short-term nature of current receivables, their carrying amount is considered to be the same as their invoice amount as interest is not applicable to the contract.

For trade receivables, DGO applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

DGO is not a financial institution and does not have any complex financial instruments. DGO does not apply hedge accounting and its customers are considered creditworthy and pay consistently within agreed payments terms.

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

	31 DECEMBER 2018 \$'000	31 DECEMBER 2017 \$'000
Cash and cash equivalents held at amortised cost	1,372	15,168
Trade receivables and accrued income held at amortised cost	78,451	13,917
Financial assets at amortised cost	7,952	1,036
Financial liabilities at amortised cost	(56,328)	(15,377)
Derivative instruments at FVPL	39,319	(2,904)
Borrowings, net of deferred financing costs	(482,613)	(70,990)
Total	(411,847)	(59,152)

NOTE 21 – FINANCIAL RISK MANAGEMENT

Financial Risk Management

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

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

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

DGO also enters into derivative transactions, which depending on market dynamics are recorded as assets or liabilities. To assist with its hedging program design and composition, DGO engages a specialist firm with the appropriate skills and experience to manage its risk management derivative-related activities.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DGO is subject to this risk exposure as it relates to changes in interest rates on its variable rate borrowings. As discussed in Note 17, DGO had \$495 million of total debt outstanding at 31 December 2018 on its senior secured credit facility with interest rate of 2.50% plus LIBOR. In November 2018, the Company closed on a \$1.5 billion, five-year senior secured credit facility, subject to a borrowing base of \$725,000. The facility has an initial interest rate of 2.50% plus LIBOR and is subject to a grid that fluctuates based upon utilisation with a pricing of 2.25% – 3.25% plus LIBOR. Based on a notional amount of \$10,000 outstanding under the senior secured credit facility, an increase or decrease of 1% in the interest rate would have a corresponding increase or decrease in our annual net income of approximately \$100.

An interest rate swap, which is designed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount is a way to mitigate interest rate risk. At 31 December 2018, the Company elected not to enter an interest rate swap.

NOTE 21 – FINANCIAL RISK MANAGEMENT – CONTINUED

Commodity price risk

The prices for natural gas, natural gas liquids and crude oil can be volatile and sometimes experience fluctuations as a result of relatively small changes in supply, weather condition, economic conditions and government actions. DGO's revenues are primarily derived from the sale of its natural gas and crude oil production, and as such, DGO is subject to this commodity price risk. For 2018 and 2017, DGO's revenue was \$280,160 and \$39,553 related to the sale of natural gas, NGL and crude oil, respectively.

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

DGO's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on petroleum exchanges and keep options and swaps in place for approximately 36 months on approximately 50-75% of its anticipated production volumes to minimize commodity risk and create stabilized and predictable cash flow important to funding its operation and stated dividend for shareholders.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will not meet its obligations under a contract and arises primarily from DGO's cash in banks and trade receivables.

Cash and Cash Equivalents

The credit risk from its cash and cash equivalents is limited because the counter parties are banks with high credit ratings and have not experienced any losses in such accounts.

Trade receivables

Trade receivables are due from customers throughout the oil and natural gas industry and collectability is dependent on the financial condition of each individual company as well as the general economic conditions of the industry. DGO reviews the financial condition of customers prior to extending credit and generally does not require collateral in support of their trade receivables. The majority of trade receivables are current and DGO believes these receivables are collectible. At 31 December 2018, DGO had two customers that individually accounted for more than 10% of total receivables, totaling 35% of total trade receivables.

Receivables from joint interest owners, classified in other non-current assets, are generally with other oil and natural gas companies that own a working interest in the properties operated by DGO. DGO has the ability to withhold future revenue payments to recover any non-payment of joint interest receivables.

Liquidity risk

Liquidity risk is the risk that DGO will not be able to meet its financial obligations as they are due. DGO manages this risk by 1) maintaining adequate cash reserves through the use of its cash from operations and bank borrowings and 2) continuously monitors its forecast and actual cash flows to ensure it maintains an appropriate amount of liquidity. In November 2018, the Company closed on a \$1.5 billion, five-year senior secured credit facility, subject to a borrowing base of \$725,000. See Note 17 for more information on DGO's secured revolving credit facility.

	LESS THAN 3 MONTHS \$'000	3 TO 12 MONTHS \$'000	1 TO 5 YEARS \$'000	> 5 YEARS \$'000	TOTAL \$'000
31 December 2018					
Trade and other payables	9,383	—	—	—	9,383
Borrowings	32	254	495,709	1,711	497,706
Capital lease	123	719	2,694	—	3,536
Other liabilities	21,852	29,646	21,219	—	72,717
Asset retirement obligation	211	2,324	12,675	124,980	140,190
Total	31,601	32,943	532,297	126,691	723,532
31 December 2017					
Trade and other payables	2,130	2	—	—	2,132
Borrowings	266	107	70,619	—	70,992
Capital lease	54	270	971	—	1,295
Other liabilities	7,978	3,578	3,821	—	15,377
Total	10,428	3,957	75,411	—	89,796

Capital risk

DGO's objectives when managing capital are to safeguard the ability to continue as a going concern while pursuing opportunities for growth through identifying and evaluating potential acquisitions and constructing new infrastructure on existing proved leaseholds. DGO's management does not establish a quantitative return on capital criteria, but rather promotes year over year growth.

Collateral risk

DGO has pledged its oil and gas properties to fulfill the collateral requirements for borrowing credit facilities with its senior secured lenders. The fair value is based on a third-party engineering reserve calculation using a 10% cumulative discount cash flow and a commodities futures price schedule.

NOTE 22 – CONTINGENCIES AND PROVISIONS

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

DGO's operations are subject to environmental regulation in all the jurisdictions in which it operates. The Company is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect DGO's operations. DGO can offer no assurance regarding the significance or cost of compliance associated with any such new environmental legislation once implemented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

NOTE 23 – RELATED PARTY TRANSACTIONS

UK Legal Counsel

Martin K. Thomas is a partner at Wedlake Bell, LLP, the UK legal advisor to DGO. During 2017 Martin K. Thomas was a partner at Watson Farley & Williams LLP, the former UK legal advisor to DGO.

	YEAR ENDED 31 DECEMBER 2018		YEAR ENDED 31 DECEMBER 2017	
	£'000	£'000	£'000	£'000
Fees paid to related party legal advisor	324	423	661	834

Office Space Lease

For the years ended 31 December 2018 and 31 December 2017, the Company leased its corporate headquarters in Birmingham, Alabama (US) from Diversified Real Estate Holdings, LLC, which is owned by Rusty Hutson, Jr. and Robert Post, directors of the Company. During 2018 the Company terminated the lease to purchase a new corporate headquarters. For the years ended 31 December 2018 and 31 December 2017, the Company incurred related party costs to related to this lease of \$106 and \$86, respectively. Management believes the terms of this lease were reasonable and reflected market rates for a facility of this type.

NOTE 24 – SUBSEQUENT EVENTS

The Company determined the need to disclose the following material transactions that occurred subsequent to 31 December 2018, which have been described within each relevant footnote as follows:

DESCRIPTION	FOOTNOTE
Dividends	Note 10

STATEMENTS OF FINANCIAL POSITION

	NOTE	31 DECEMBER 2018 £'000	31 DECEMBER 2017 £'000
ASSETS			
Investments	4	350	350
Other assets		106	20
Total non-current assets		456	370
Current assets			
Other current assets		208	2
Receivables from subsidiaries	10	425,577	70,565
Cash and cash equivalents		373	235
Total current assets		426,158	70,802
Total Assets		426,614	71,172
EQUITY AND LIABILITIES			
Share capital	5	5,426	1,451
Share premium		418,590	60,390
Share based payment reserve		44	44
Retained earnings		2,404	8,625
Total Equity		426,464	70,510
Non-current liabilities			
Borrowings	7	67	67
Total non-current liabilities		67	67
Current liabilities			
Trade and other payables		83	595
Borrowings	7	—	—
Total current liabilities		83	595
Total Liabilities		150	662
Total Equity and Liabilities		426,614	71,172

The profit for the financial year of the Company was £17,778 (2017: £(4,406)).

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

The financial statements were approved by the Board of Directors on 28 February 2019 and signed on its behalf by:



Robert M. Post Chairman

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

STATEMENTS OF CHANGES IN EQUITY

	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	SHARE BASED PAYMENT RESERVE \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 January 2018	1,451	60,390	44	8,625	70,510
Total comprehensive income	—	—	—	17,778	17,778
Issuance of share capital, initial offering	—	—	—	—	—
Issuance of share capital, secondary offering	3,975	358,200	—	—	362,175
Equity compensation	—	—	—	—	—
Dividends authorized and declared	—	—	—	(23,999)	(23,999)
Balance at 31 December 2018	5,426	418,590	44	2,404	426,464

	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	SHARE BASED PAYMENT RESERVE \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 January 2017	442	256	—	2,039	2,737
Issuance of share capital, initial offering	614	34,819	—	10,992	46,425
Issuance of share capital, secondary offering	395	25,315	—	—	25,710
Equity compensation	—	—	44	—	44
Comprehensive income	—	—	—	(4,406)	(4,406)
Balance at 31 December 2017	1,451	60,390	44	8,625	70,510

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1 – GENERAL INFORMATION

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

NOTE 2 – ACCOUNTING POLICIES

Basis of Preparation and Measurement

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

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

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

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

New Standards and Interpretations Not Yet Adopted

At the date of authorisation of this financial information, Management has reviewed the standards in issue by the Financial Reporting Council, which are effective for annual accounting years ending on or after the stated effective date. In their view, none of these standards would have a material impact on the financial reporting of the Company.

Significant Accounting Policies

Cash and cash equivalents

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

Borrowings

Borrowings which are basic financial instruments are initially recorded at the transaction price. Subsequently, they are measured at amortised cost using the effective interest method.

Finance costs

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

Investments

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements Management considers that the key judgement is the recoverability of subsidiaries' receivables of £425,577 (2017: £70,565).

NOTE 4 – INVESTMENTS

The Company owns in its entirety the issued share capital of Diversified Gas & Oil Corporation, a company incorporated in Delaware, United States of America. The carrying value at both 31 December 2018 and 2017 of investments held was £350.

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

- Diversified Resources, Inc.;
- M & R Investments, LLC;
- M & R Investments Ohio, LLC;
- Marshall Gas and Oil Corporation;
- R&K Oil and Gas, Inc.;
- Fund 1 DR, LLC;
- Diversified Oil & Gas, LLC;
- Alliance Petroleum Company;
- Diversified Appalachian Group, LLC;
- Diversified Energy, LLC;
 - Diversified Partnership Holdings, LLC
 - Diversified Partnership Holdings II, LLC
 - Atlas Energy Tennessee, LLC
 - Atlas Pipeline Tennessee, LLC
- Diversified Southern Production, LLC;
- Diversified Southern Midstream, LLC;
- Diversified Energy Marketing, LLC;
- Core Appalachia Holding Co, LLC;
 - Core Appalachia Compression, LLC
 - Core Appalachia Midstream, LLC
 - Core Appalachia Operating, LLC
 - Core Appalachia Production, LLC

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

NOTE 5 – SHARE CAPITAL

The following table summarizes the Company's share capital for the periods presented. DGO used the proceeds to partially fund the 2018 acquisitions as discussed in Note 4 to the consolidated financial statements:

	NUMBER OF SHARES	TOTAL SHARE CAPITAL £'000
Balance at 1 January 2018	145,076	1,451
Issuance of share capital	166,400	1,664
Issuance of share capital	195,330	1,953
Issuance of share capital	35,000	350
	848	8
Balance at 31 December 2018	542,654^(a)	5,426

	NUMBER OF SHARES	TOTAL SHARE CAPITAL £'000
Balance at 1 January 2017	44,210	442
Issuance of share capital, initial offering	61,381	614
Issuance of share capital, secondary offering	39,485	395
Balance at 31 December 2017	145,076	1,451

- (a) In addition to the above issued shares, DGO issued 162,619 restricted stock units to certain members of management and placed 685,231 shares upon conversion of stock warrants granted to Smith and Williamson related to the initial public offering.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 6 – DIVIDENDS

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

DATE DECLARED	DIVIDEND PER ORDINARY SHARE		RECORD DATE	PAY DATE	SHARES OUTSTANDING	GROSS DIVIDENDS PAID \$'000
	GBP					
Dividend declared 15 June 2017	0.0155		07 July 2017	31 July 2017	145,076	2,249
Dividend declared 11 September 2017	0.0149		17 November 2017	20 December 2017	145,076	2,157
Cumulative dividends declared as at for the year ended 31 December 2017						4,406
Dividend declared 30 April 2018	0.0251		11 May 2018	25 May 2018	311,476	7,818
Dividend declared 29 June 2018	0.0131		13 July 2018	24 September 2018	311,476	4,080
Dividend declared 11 September 2018	0.0223		30 November 2018	19 December 2018	542,633	12,101
Cumulative dividends declared as at for the year ended 31 December 2018						23,999

NOTE 7 – BORROWINGS

Borrowings consist of the following amounts for the periods presented:

	31 DECEMBER 2018 £'000	31 DECEMBER 2017 £'000
Individuals and institutional investor bonds, interest rate of 8.50%, maturing June 2020, unsecured	67	67
Total borrowings	67	67

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

	31 DECEMBER 2018 £'000	31 DECEMBER 2017 £'000
Not later than one year	—	—
Later than one year and not later than five years	67	67
Later than five years	—	—
Total borrowings	67	67

NOTE 8 – OPERATING EXPENSES

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

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

NOTE 9 – TAXATION

The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%).

	YEAR ENDED 31 DECEMBER 2018 £'000	YEAR ENDED 31 DECEMBER 2017 £'000
Profit on ordinary activities before tax	17,778	10,992
Corporate tax in the UK of 19.0% (2017: 19.25%) on profits for the period	3,378	2,116
Non-taxable income	(3,738)	(2,195)
Permanent differences	138	43
Effects of tax losses carried forward	222	36
Total tax charge for the year	—	—

Non-taxable income of PLC for 2018 relates to dividend income received from US subsidiaries in the amount of £17,778

A deferred tax asset of approximately £128 (2017: £87) has not been recognized on the losses due to the uncertainty of the availability of future profits.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

NOTE 10 – RELATED PARTY TRANSACTIONS

See Note 23 to the consolidated financial statements.

NOTE 11 – SUBSEQUENT EVENTS

The Company determined the need to disclose the following material transactions that occurred subsequent to 31 December 2018, which have been described within each relevant footnote as follows:

DESCRIPTION	FOOTNOTE
Dividends	Note 6

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS	Robert Marshall Post (Non-Executive Chairman) Robert "Rusty" Russell Hutson, Jr. (Chief Executive Officer) Bradley Grafton Gray (Chief Operating Officer & Finance Director) David Edward Johnson (Senior Independent Non-Executive Director) Martin Keith Thomas (Independent Non-Executive Director)
REGISTERED NUMBER	09156132 (England and Wales)
REGISTERED OFFICE	27/28 Eastcastle Street London W1W 8DH (UK)
HEAD OFFICE	1800 Corporate Drive Birmingham, Alabama 35242 (US)
COMPANY SECRETARY	MSP Secretaries Ltd 27/28 Eastcastle Street London W1W 8DH (UK)
INDEPENDENT AUDITOR	Crowe UK LLP St Bride's House, 10 Salisbury Square London EC4Y 8EH (UK)
LEGAL ADVISOR, UK	Wedlake Bell LLP 71 Queen Victoria Street London EC4V 4AY (UK)
LEGAL ADVISOR, US	Maynard Cooper & Gale 1901 Sixth Avenue North, Suite 2400 Birmingham, Alabama 35203 (US)
COMPETENT PERSON	Wright & Company, Inc. 12 Cadillac Drive, Suite 260 Brentwood, Tennessee 37027 (US)
SHARE REGISTRAR	ComputerShare Investor Services plc The Pavilions, Bridgewater Road Bristol, BS13 8AE (UK)
NOMINATED ADVISER	Cenkos Securities PLC 6.7.8 Tokenhouse Yard London EC2R 7AS (UK)
BROKERS	Mirabaud Securities Limited 10 Bressenden Place London SW1E 5DH (UK) Stifel Nicolaus Europe Limited 150 Cheapside London, EC2V 6ET (UK)

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