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Diversified Gas & Oil Plc Completes Securitized Financing

BIRMINGHAM, AL / ACCESSWIRE / April 14, 2020 /London-AIM quoted Diversified Gas & Oil PLC (AIM:DGOC)("DGO" or the "Company"), the U.S. based owner and operator of natural gas, natural gas liquids and oil wells as well as midstream assets is pleased to announce the successful completion of a second $200 million securitized financing arrangement. This securitized financing arrangement, where Guggenheim Securities, LLC acted as sole structuring advisor and placement agent, maintains many of the same significant financial characteristics as the previous arrangement.

Securitization Highlights

- Closed a second $200 million par value securitized financing (the "Notes") with key terms summarized below:
  - BBB investment grade rating from Fitch
  - 5.25% coupon (6.00% yield after original issue discount)
  - 8.5-year amortizing note (with 17-year legal final maturity)
  - Secured by 29.4% working interest of proved developed producing upstream assets (excluding EdgeMarc assets)
  - 6-year extendable hedges on approximately 85% of the production volumes of the collateralized assets to provide stable cash flow, with natural gas hedged at $2.40/MMBtu
  - Nuveen (investment manager of ESG-focused TIAA) served as the financing's lead investor

- Key benefits to DGO of the successful financing include:
  - Strengthens DGO's commitment to sustain its dividend; Inclusive of ABS 1, in addition to having ~90% of its production hedged in 2020 and 2021, DGO now has >40% of its production hedged with long-term, 6 to 10 year contracts providing for highly visible, dependable cash flow to complement its stable, predictable production profile
  - Approximately 2/3 of DGO's debt now resides in long-term, fixed rate, amortizing Notes underpinned with long-term hedges and no redetermination risk
  - Enhances DGO's liquidity (currently approximating $200 million) and balance sheet by further diversifying its debt structure while reducing reliance on its credit facility during a time of unprecedented debt-market volatility
  - Long-term financing appropriately aligned with DGO's long-life assets
  - Leverage neutral; with proceeds of the Notes to reduce the balance on the Company's existing revolving credit facility
  - Amortizing structure demonstrates commitment to continuous debt reduction and eliminates future "bullet payments" along with the associated refinancing risk

The Company is pleased to follow its inaugural securitized financing arrangement announced on 14 November 2019 with this equally significant transaction funded by ESG-focused investors like Nuveen, the investment manager of TIAA, who were attracted to DGO's commitment to sustainability and measures taken by DGO to ensure its wells are well-managed, with the appropriate focus given to environmental protections and operational commitment throughout the wells' useful lives to their safe retirement at end of life.

Optimizing the Capital Structure

Recognizing the long-life nature of its assets, the Company believes it to be prudent to identify low cost financing that appropriately matches its asset profile and complemented its revolving credit facility. The Company believes these securitized financings fit the need with an amortizing structure that provides for consistent debt reduction and an investment grade rating that provides for a low interest rate compared to unsecured financing.

In addition, the securitized and revolving credit facility financing structures provide different benefits that collectively form a stable, yet flexible, foundation. The following table highlights important elements of each structure:

	Securitized Financing	Revolving Credit Facility	Consolidated
Interest type	Fixed Rate	Variable Rate	
Lower rate than unsecured structures	Yes	Yes	
Highly compatible with DGO's dividend strategy	Yes	Yes	
Requires long-term hedging of >80% of production	Yes	No	
Scheduled amortization	Yes	No	
Revolving nature supportive of working capital needs	No	Yes	
Borrowing capacity insulated from prospective changes in reserves value (i.e. Redetermination Risk)	Yes	No	
Scales quickly with changes in reserves value	No	Yes	
Better suited for	Acquisition Refinancing	Acquisition Closing	
Corporate covenants	No	Yes	
Recourse to parent	No	Yes	
Carries greater leverage by utilizing hedging to maintain an investment grade rating	Yes	No	
Collateral securing the financing	Contributed upstream assets Long-Duration Hedge Portfolio	Remaining Upstream assets Mid-Duration Hedge Portfolio All Midstream Assets	
Net Debt / Adjusted EBITDA	~3x - 4x (at Inception)	~1x - 2x (Actively Managed)	~2.3x (at Present)
Investment grade debt	Yes	No	

Securitized Financing Update

The Company has closed the Fitch-rated BBB investment grade securitized financing arrangement (the "Arrangement") with a coupon of 5.25%, a 6% yield and an 8.5-year scheduled maturity, though a longer 17-year legal final maturity is provided.

Similar to its initial securitization transaction, the Company created a wholly-owned and fully consolidated (for accounting purposes) special purpose vehicle, Diversified ABS Phase II

LLC (the "LLC") to issue $200 million (approximately $191 million net including closing costs and original issue discount) of non-recourse asset-backed securities, collateralized by a ~29.4% working interest in the Company's existing upstream proved developed producing asset portfolio (excluding the EdgeMarc assets). Following the establishment of a required ~$7 million Reserve Account, DGO will use the approximately $184 million of proceeds to reduce its borrowings on its revolving credit facility.

As with the first securitization, DGO retains 100% ownership and operational control of the securitized assets. The securitization transaction eliminates exposure to semi-annual borrowing base redeterminations which is particularly important during periods of low commodity prices and credit market volatility. Additionally, the financing includes few financial covenants which are limited exclusively to the performance of the assets related to the financing.

To protect the LLC's cash flows, similar to the first securitization, DGO hedged approximately 85% of the LLC's forecasted natural gas production. The hedge locked in a NYMEX price of $2.40 per MMBtu on a six-year extendable hedging structure which provides the hedge counterparty with an extension option at the end of the initial hedge period to extend the trade at like terms for a matching term up to six years. DGO will also maintain two rolling years of basis hedges, with the first two years initially swapped at -$0.43 per MMBtu.

Updated ABS and hedge supplemental presentations reflecting the completion on this financing arrangement can be found on the Company's website at https://ir.dgoc.com/presentations.

Reserve-Based Lending ("RBL") Redetermination

Upon closing the securitization, DGO's borrowing base on its revolving credit facility will be $425 million. The Company will begin its semi-annual redetermination process later this month and would expect it to conclude in May 2020.

Commenting on the update, Rusty Hutson, Jr., CEO of the Company said,

"Against a backdrop of credit market volatility and scarcity of capital, I am pleased to announce another successful, low-cost securitization financing agreement that delivers multiple benefits to the Company and its stakeholders. Namely, this arrangement strengthens our balance sheet and provides clear long-term visibility on hedged cash flow, both of which support our unwavering commitment to return value to shareholders through our reliable quarterly dividend. The strength and low-risk nature of our business model and current liquidity of nearly $200 million ensures that DGO is ideally positioned to maintain its dividend, a factor that we believe to be a core pillar of our investment case, while strengthening our position in the market to opportunistically pursue prudent and accretive growth during a time when we expect significant, high-quality assets to become available at compelling valuations. It is critically important to me to position DGO to capitalize on this unique ability to grow scale and cash flows for the benefit of our dividend and shareholders.

"The quality of the investors in this transaction further validates the quality and predictability of our assets and related cash flow, and of equal importance, highlights the positive sustainability element of our investment case. We have worked tirelessly over the past year

to articulate our ESG platform via our recently published inaugural Sustainability Report and are pleased to see this resonating with investors that base investment decisions on these criteria. Our unique business model sets DGO apart from its peers as we focus not on drilling and fracking new wells, but instead remain steadfast in our commitment to efficiently manage and steward the resource previously developed by others. This business model reduces the industry's footprint on the planet and ensures we effectively produce existing wells."

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