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Diversified Gas & Oil PLC Announces Strategic Participation Agreement

BIRMINGHAM, AL / ACCESSWIRE / October 5, 2020 London-LSE quoted Diversified Gas & Oil PLC (LSE: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 signing of a definitive participation agreement (the "Agreement") with funds managed by Oaktree Capital Management, L.P. ("Oaktree") to jointly identify and fund future proved developed producing ("PDP") acquisition opportunities the Company identifies.

DGO continues to demonstrate its proven ability to identify prudent ways to advance its growth strategy while strengthening its balance sheet. The Agreement with Oaktree, a premier global firm with a history of successful partnerships, enhances DGO's access to capital in an opportunity-rich acquisition market and positions both parties for continued success when other market participants lack the capital or management teams to transact.

Key Terms

- **Oaktree Funding Commitment** Up to \$1 billion in aggregate over three years for mutually agreed upon PDP acquisitions with transaction valuations greater than \$250 million
- **Funding Allocation** Oaktree and DGO fund equal portions of completed acquisitions (i.e. 50.0%/50.0%)
- **Operator** DGO will serve as the sole operator of all assets the parties acquire under the Agreement
- **Initial Promote** Oaktree will provide DGO a 5.0% upfront promote of its funded working interest (2.5% incremental) at the time of an acquisition:
 - DGO receives 52.5% working interest for a 50.0% investment
 - Oaktree receives 47.5% working interest for a 50.0% investment
- **Reversion Promote** Upon achieving a 10.0% unlevered IRR on its investment by acquisition tranche, Oaktree will convey to DGO 15.0% of its working interest (7.125% incremental). Upon Oaktree achieving the threshold rate of return (10.0%):
 - DGO's ownership will increase to 59.625%
 - Oaktree's ownership will decrease to 40.375%
- **Right of First Offer ("ROFO"); Tag Rights** DGO has the right of first offer to acquire Oaktree's interest when Oaktree decides to divest. DGO and Oaktree each have the right to participate in a sale by the other party with a third party upon comparable terms

Strategic Benefits

In exchange for the opportunity to partner with a proven management team, with a track record of successfully sourcing and closing accretive acquisitions and then efficiently operating its assets, and in exchange for DGO's administrative services, the Agreement provides the following strategic benefits to DGO:

- **Accretive Promotes** Initial Promote provides immediate accretion to DGO shareholders (\$50 million on a fully funded commitment and Reversion (back-end) Promote provides increased economics to DGO over time
- **Greater Scale** Enhances DGO's ability to complete larger acquisitions with less debt and equity to fund its 50% portion that would otherwise be needed to fund 100% of the acquisition, driving greater efficiencies on a per barrel equivalency basis
- **Supplementary Market Intel** Enhances DGO's insight into distressed assets that meet the Company's asset profile and that will benefit from the Company's Smarter Well Management programme
- **Enhanced Buyer Credibility** DGO's partnership with a premier global private capital provider who specialises in alternative investment strategies offers greater visibility to potential sellers of DGO's ability to fund and close large-scale acquisitions
- **Creates Visible Pipeline of Future Acquisitions** DGO's operatorship and its ROFO provides visibility into future assets that DGO can potentially acquire as Oaktree elects to divest of its investment
- **Acquisition Timing Flexibility** Provides DGO with the agility and added flexibility to acquire and finance acquisitions (i.e. Oaktree's interest throughout the commodity price cycles)

Commenting on the Agreement, CEO, Rusty Hutson, Jr. said:

"We are excited to partner with Oaktree, a well-respected and well-funded firm. We continuously evaluate various PDP asset packages and anticipate more coming to market over the near term as the prolonged lower commodity price environment and capital market conditions create an environment poised for consolidation. This Agreement uniquely positions DGO and Oaktree to capture long-term value for our respective shareholders, including opportunities of a greater size than we otherwise might have approached on a stand-alone basis. Additionally, having paid and declared over \$165 million in dividends since our 2017 IPO, including last week's quarterly dividend totalling nearly \$25 million, this Agreement enhances visibility into DGO's future opportunities to sustain production and cash flow through the acquisition of producing assets, underpinning our commitment to create tangible returns for shareholders through the dividend."

Similarly, Brook Hinchman, Co-Head of North America for the Oaktree Opportunities Funds, said:

"We are excited to partner with Diversified's world-class management team. Amidst an ever-changing oil & gas industry, Diversified has been resolute in pursuing its strategy of acquiring producing, cash-flowing assets and delivering shareholder returns through excellent execution. Oaktree's investment will allow Diversified to apply its proven framework to larger acquisition opportunities, accelerating the growth of the business and amplifying the returns

to shareholders over the long-term."

Jefferies LLC acted as financial advisor to DGO.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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