January 27, 2021

# Diversified Gas & Oil PLC Announces Trading Statement and Cancellation of Warrants

**BIRMINGHAM, AL / ACCESSWIRE / January 27, 2021 /**London LSE-quoted Diversified Gas & Oil PLC (OTCQX:DGOCF) (LSE:DGOC) ("DGO" or "the Company") is pleased to announce the following operations and trading update confirming 2020 results are in line with market expectations. DGO also announces that it will release its 2020 full-year results and host an investor call on March 8, 2021, as more fully detailed below.

**Highlights**

- Record full-year average daily production of ~100 Mboepd, up 18% vs. 2019
- Full-year average daily production from Legacy Assets of ~69 Mboepd, consistent with 2019 as Smarter Asset Management continues to offset natural declines within the portfolio
- Full-year cash operating expense of $5.58/Boe ($0.93/Mcfe), 15% lower vs 2019
- Full-year total cash expenses, including G&A, of $6.93/Boe ($1.15/Mcfe), 10% lower vs. 2019
- 4Q20 accretive bolt-on acquisition of five gross unconventional wells in Ohio for $8.4 million or ~2.6x cash flow
- Robust hedge portfolio provides cash flow and dividend stability with ~90% of 2021 natural gas hedged at a weighted average floor price of $2.66/MMBtu
- Improved pricing outlook provides a constructive backdrop as the Company consistently layers in additional hedge protection in future years

Commenting on these accomplishments, CEO Rusty Hutson, Jr. said:

*"2020 proved to be another dynamic year for Diversified as we completed our transition from AIM to the premium segment of the Main Market, invested in enhanced Governance and efficiency-driving technology, and completed a series of accretive acquisitions funded using a balanced mix of equity and low-cost, fully amortizing and hedge-protected financings. Additionally, the unprecedented events of 2020 have underscored the inherent resilience of our business model. We've built our business to operate in any natural gas price environment, and the strength of that model was evident throughout the significant volatility of 2020. Not only did our business model perform well, but the resolve of our employees was outstanding.*

*"With our successes last year, we are positioned to enter 2021 with momentum including our most recent fourth-quarter complementary bolt-on acquisition of unconventional assets. With a strong balance sheet, efficient cost structure, improved commodity price outlook, strong hedge protection and a robust outlook of potential accretive growth, we are poised for*

*another exceptional year. Our opportunities to acquire high-quality assets that enhance or meaningfully enlarge our portfolio continue to increase with prolonged lower commodity prices and a sector increasingly motivated to consolidate. As we've demonstrated with each previous transaction, additional scale can further improve efficiencies and support the high cash operating margins that add stability to our dividend."*

## Operations Update

*Production*

DGO's total net production in Mboepd (or thousand barrels of oil equivalent per day) for the annual periods presented is as follows:

| Net Production (Mboepd) | FY20 | FY19 | Change # | Change % |
|---|---|---|---|---|
| Consolidated | 100 | 85 | 15 | 18% |
| Legacy Assets[a] | 69 | 70 | (1) | (1)% |

DGO achieved record consolidated net production of 100 Mboepd (599 MMcfepd, or million cubic feet equivalent per day) for the twelve months ended December 31, 2020, representing an 18% year-over-year increase. In a year defined by uncertainty and volatility largely tied to the global pandemic, DGO demonstrated the durability of its business model designed to thrive in any commodity price environment. The Company's success was underpinned by its consistent and diligent Smarter Asset Management program and the successful acquisition and integration of accretive upstream and midstream acquisitions.

DGO exited 2020 with December average production of 103 Mboepd (617 MMcfepd), including 68 Mboepd (406 MMcfepd) from its stable foundation of Legacy assets. Adjusting for identifiable and temporary production downtime, the Company's adjusted exit rate approximated 105 Mboepd (628 MMcfepd), including 69 Mboepd from its Legacy assets, which represents an 8% increase to the December 2019 consolidated exit rate of 95 Mboepd (569 MMcfepd). Downtime during the fourth quarter related to non-controllable events including maintenance at third-party midstream and processing facilities.

Looking forward to 2021 and mindful of the Presidential Executive Order to ban drilling on federal lands, the Company highlights that less than 1% of its total acreage consists of federal property. The Company further noted that its model of acquiring and operating existing production would be unaffected by the current order which has no bearing on existing gas and oil properties. More broadly, a changing regulatory environment with no development on federal lands may curtail the pace of additional development thereby contributing to higher commodity prices as demand remains unchanged.

*Recent Bolt-on Acquisition*

The Company has closed the bolt-on acquisition of five gross unconventional Utica Shale horizontal wells (the "Assets") for total cash consideration of $8.4 million, prior to normal and customary purchase price adjustments (the "Acquisition"). The Assets are in Monroe County, Ohio and are in close proximity to the Company's existing assets. This complementary Acquisition, fully funded with existing liquidity on the credit facility, reflects the Company's continued commitment to pricing discipline, representing a purchase price multiple of approximately 2.6x next twelve months' projected cash flow.

The synergistic Acquisition demonstrates the availability of quality asset as operators continue to focus their operations around assets they define as core. The Acquisition also represents the continuation of DGO's long-standing strategy of making accretive acquisitions of varying sizes that expand the Company's regional scale and complement operating efficiencies including lower unit operating costs that bolster strong cash (Adjusted EBITDA) margins. The Assets have an average well age of two years and daily net production at closing of approximately 6 MMcfe per day (1.0 Mboepd). The Acquisition adds approximately 14 Bcfe of PDP reserves with a PV10 of $9.7 million on recent NYMEX strip[(b)], with the purchase price representing an approximate PV15 value.

## Financial Update

*Continued Cost Discipline*

| **Total Unit Cash Expense**[(c)] | **FY20** | | **FY19** | | **%** |
|---|---|---|---|---|---|
| | $/Boe | $/Mcfe | $/Boe | $/Mcfe | |
| Total Lease Operating Expense | $ 5.58 | $ 0.93 | $ 6.54 | $ 1.09 | (15) % |
| General & Administrative Expense (Adjusted) | 1.34 | 0.22 | 1.17 | 0.19 | 15 % |
| **Total Unit Cash Expense** | **$ 6.93** | **$ 1.15** | **$ 7.71** | **$ 1.28** | **(10) %** |

*Amounts may not sum due to rounding*

DGO's operating efficiencies and consistent production contributed to lower per unit expenses. DGO reduced its Total Unit Cash Expenses largely through lower base lease operating expenses as it operates a larger portfolio of assets across the basin, and through lower production taxes amid lower commodity prices. These savings were partially offset by increases to adjusted general and administrative expense supporting its move to the premium segment of the Main Market and positioning itself with the team needed to support the larger company and effectively capitalize on a growing inventory of producing wells and complementary midstream opportunities that are highly aligned with the Company's strategy.

*Liquidity Update and Leverage Profile*

DGO's liquidity approximates $210 million including cash on hand and undrawn amounts on the Company's revolving credit facility. Reflective of the Company's fully amortizing debt instruments and adjusting for acquisitions, DGO reduced its outstanding debt with $82 million in debt principal payments[(d)] during 2020, resulting in a Net Debt of approximately $725 million and Net Debt/Adjusted EBITDA[(e)] of 2.2x at December 31, 2020.

*Hedging Update*

The Company enters 2021 with significant downside protection, including approximately 90% of its natural gas production hedged at a weighted average floor price of $2.66/MMBtu. These hedges establish a significant portion of DGO's revenues, protecting the Company's cash flows, future dividend distributions and debt repayments. As the natural gas price outlook continues to improve, DGO will proactively continue to increase its 2022 hedge book and beyond, building on an already solid foundation of approximately 65% of 1H2022 production hedged, with an average floor price of $2.61/MMBtu.

The table below presents the Company's full-year hedge positions for the periods reflected:

| | GAS | | NGL | | OIL | |
|---|---|---|---|---|---|---|
| | Wtd. Avg. Hedge Price(f) | ~ % of Production Hedged(g) | Wtd. Avg. Hedge Price(f) | ~ % of Production Hedged(g) | Wtd. Avg. Hedge Price(f) | ~ % of Production Hedged(g) |
| FY21 | $2.66 | 90% | $21.44 | 90% | $48.44 | 75% |
| FY22 | $2.55 | 60% | $24.75 | 45% | $43.06 | 30% |

## Settlement of Existing Warrants and Broker Appointment

DGO entered into an agreement to cancel 2,377,143 warrants (the "Warrants") held by Mirabaud Securities Limited ("Mirabaud") and certain former Mirabaud employees for an aggregate principal amount of approximately £1.0 million (equivalent USD of approximately $1.4 million(h)). Mirabaud and its former employees will surrender the Warrants to DGO for cancellation. Following this purchase, 1,122,634 warrants remain outstanding. This notification complies with LR 12.5.2R in relation to the cancellation of the Warrants.

DGO is also pleased to announce it has appointed Tennyson Securities as its Joint Broker. Tennyson Securities is the new home of the Primary Team joining from Mirabaud, providing continuity of the Company's broking relationships.

## Final Results Release Information

*Conference Call*

The Company will issue its full-year 2020 results on March 8, 2021. Following the release of the full-year results, DGO will host a conference call on March 8, 2021 at 2:00pm GMT (9:00am EST) to discuss the results.

The conference call details are as follows:

Date: March 8, 2021
Time: 2:00 p.m. GMT / 09:00 a.m. EST
US (toll-free): +1 877 407 5976
UK (toll-free): +44 (0)800 756 3429
Web Audio: [www.dgoc.com/news-events/events](www.dgoc.com/news-events/events)
Replay Information: [https://ir.dgoc.com/financial-info](https://ir.dgoc.com/financial-info)

*Investor Webinar*

Additionally, on March 10, 2021 at 6:00pm GMT (1:00pm EST), DGO is pleased to host an investor webinar featuring CEO Rusty Hutson, COO Brad Gray and CFO Eric Williams during which management will discuss the full year results. To register for the webinar, please contact Yellowstone Advisory at info@yellowstoneadvisory.com, or refer to the following link:

https://us02web.zoom.us/webinar/register/5816106105281/WN_u6UZAWCXTXaT_8uqF9rPE

**Footnotes:**

(a) Legacy assets defined as assets owned at December 31, 2018 and prior to acquisitions made in 2019 and 2020.

(b) 10-year NYMEX strip as at October 20, 2020.

(c) Total cash expenses represent total lease operating costs plus recurring administrative costs. Total lease operating costs include base lease operating expense, owned gathering and compression (midstream) expense, third-party gathering and transportation expense, and production taxes. Recurring administrative expenses is a non-IFRS financial measure defined as total administrative expenses excluding non-recurring acquisition & integration costs and non-cash equity compensation.

(d) Includes total debt principal reductions adjusted for draws to fund acquisitions made on the revolving credit facility during the period.

(e) Net debt of $725 million assumes total debt less cash and restricted cash. Adjusted EBITDA of $326 million assumes annualized pro-forma hedged EBITDA on previously announced Carbon and EQT acquisitions to account for timing differences.

(f) Weighted average price reflects the weighted average of the swap price and floor price for collar contracts.

(g) Illustrative percent hedged, calculated using December 2020 Exit Rate and assuming an annual decline rate of 6%.

(h) Currency conversion performed using an exchange rate of GBP:USD 1:1.36832.

**For further information, please contact:**

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**About Diversified Gas & Oil PLC**

Diversified Gas & Oil PLC is an independent energy company engaged in the production, marketing and transportation of primarily natural gas related to its synergistic US onshore upstream and midstream assets.

**SOURCE:** Diversified Gas & Oil PLC

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