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Diversified Gas & Oil Plc Completes Acquisition of Carbon Energy Assets and 10-Year Amortizing Term-Loan Financing

BIRMINGHAM, AL / ACCESSWIRE / May 27, 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, confirms that further to the announcements made by the Company on April 8, 2020 and May 12, 2020, it has completed the purchase of certain upstream and midstream assets from Carbon Energy Corporation ("Carbon") (the "Acquisition"). Concurrent with the Acquisition, DGO also closed on a 10-year amortizing \$160 million gross senior secured term loan (\$155 million net of fees and a \$3 million interest and principal reserve account) underwritten and funded by Munich Re Reserve Risk Financing, Inc. ("MRRF") that includes a 6.5% fixed coupon and a 10-year hedge portfolio to stabilize cash flows (the "Financing").

Acquisition Highlights:

- PDP reserves of ~74 MMBoe (444 Bcfe) with pretax PV10 of ~\$189 million on recent NYMEX strip
- Estimated next twelve months Adjusted EBITDA of ~\$29-\$31 million
- Net consideration represents a 3.2x-3.4x cash multiple
- ~9,100 Boepd (~54,600 Mcfe) of adjusted 2019 net production (~97% gas)
- Average 92% working interest / 82% net revenue interest
- ~6,100 net conventional wells with an average decline rate of ~4%/year
- ~4,700 miles of midstream providing flow optionality and margin-enhancing opportunities:
 - Significant future cost and operational optimization opportunities with >200 common intersects with existing DGO gathering systems
 - Direct connections to favorably priced interstate pipelines
 - Revenue-generating opportunities with direct connections to large commercial/industrial and utility customers as well as two active gas storage fields with ~3.5 Bcf of working capacity
- Immediate realizable synergies in field operating expenses and G&A achieved by retaining ~80% of existing Carbon workforce
- Inclusive of the assets acquired from both Carbon and EQT Corporation ("EQT"), DGO's average daily net production is 112 Mboepd

For the Acquisition and at closing, DGO paid net consideration of approximately \$98 million (\$110 million, gross) after customary purchase price adjustments with a January 1, 2020 effective date. Depending on future natural gas prices and measured on an annual basis over the next three years, Carbon may earn additional contingent consideration of up to \$15 million in aggregate if actual NYMEX natural gas prices exceed certain established

thresholds. Based on forward NYMEX natural gas prices at the time of closing, total estimated contingent consideration is less than \$5 million.

The Financing:

Using the Financing proceeds, DGO funded the Acquisition and repaid the short-term draw on its revolving credit facility used to fund a portion of the EQT asset acquisition announced on May 26, 2020. DGO collateralized the Financing primarily with working interest in certain of its newly acquired upstream assets and related landholdings from EQT and Carbon (together, the "Collateral Assets"). As with the Company's previous securitized financing transactions, DGO created a wholly owned and fully consolidating special purpose vehicle ("SPV") to hold the Collateral Assets, which DGO will operate.

The Financing represents the Company's second transaction with MRRF, the sole investor in the Company's inaugural \$200 million asset-backed securitized financing arrangement completed in November 2019. Combined, MRRF has underwritten and funded \$360 million (gross) since November 2019, validating the quality of the Company's assets, cash flows and operating capabilities.

Financing Highlights:

- 6.5% coupon
- 10-year amortizing repayment
- No corporate covenants or recourse outside the SPV
- 10-year hedge protection on specified volumes
 - Hedged volumes are shaped to fit the natural expected production decline from the assets over time
 - Swap prices of \$2.20/MMBtu for the remainder of 2020 and \$2.70/MMBtu and \$2.65/MMBtu in 2021 and 2022, respectively
 - DGO will post an updated hedge supplement to its website in due course that reflects the entire hedge portfolio

Following the Financing, ~70% of DGO's debt now sits in long-term, fixed rate, amortizing structures through 2030 underpinned with long-term hedges and no redetermination risk and lessens DGO's reliance on its revolving credit facility during this period of heightened market volatility. The long-term Financing aligns with DGO's long-life assets, and its amortizing structure demonstrates commitment to continuous debt reduction while eliminating future "bullet payments" along with the associated refinancing risk.

Immediately following the Acquisition and Financing, the Company's consolidated net debt-to-Adjusted EBITDA approximates 2.3x. Additionally, DGO's total liquidity now approximates \$213 million, inclusive of cash and availability on its revolving credit facility. The Company's liquidity reflects the impact of less cash needed at closing due to a larger than originally estimated downward purchase price adjustment for both acquisitions' effective date of January 1, 2020. DGO's borrowing base on its revolving credit facility remains \$425 million as the Company begins working with its bank group to complete its semi-annual redetermination process during June 2020.

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

"Today's transactions continue our commitment to create long-term shareholder value through selective expansion of our upstream and strategically important midstream assets. Like our largely conventional legacy assets, Carbon's wells display the same long-life, low-decline profile and expand our base of stable production and Smarter Well Management opportunities. To that end, we welcome the members of Carbon's team who today join the Diversified family and partner with us to realize the full, combined potential of these wells and the complementary midstream assets. I would also like to thank Munich Re Reserve Risk Financing, Inc. for their commitment to fund our acquisition of assets from EQT and Carbon, increasing their total investment in Diversified to \$360 million during a time when many lenders are reducing their exposure to the sector. We share a common belief in the low-risk profile and high-quality nature of the underlying assets and their associated cash flows, and believe this amortizing financing, in concert with proceeds from our successful equity fundraising, further demonstrates our commitment to maintain a healthy balance sheet and appropriate leverage profile relative to the strength, reliability and visibility of our cash flow."

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