April 30, 2021

Diversified Gas & Oil PLC Announces Conditional Acquisition in New Regional Focus Area and Trading Update

The first bullet for 'Financed with borrowings on the Revolving Credit Facility' under Acquisition Highlights has been corrected to state Pro forma consolidated Net Debt/Adjusted EBITDA unchanged at 2.3x rather than 2.4x in the earlier version. Nothing else has been amended. The full corrected version is below.

BIRMINGHAM, AL / ACCESSWIRE / April 30, 2021 / London LSE-quoted Diversified Gas & Oil PLC (LSE:DGOC) ("DGO" or "the Company"), announces the $135 million (gross) conditional acquisition of certain Cotton Valley upstream assets and related facilities primarily in the state of Louisiana ("the Assets") from Indigo Minerals LLC ("Indigo"), (the "Acquisition") and the following operations and trading update for the quarter ended March 31, 2021.

The Acquisition represents the first for the Company in its newly identified "Central" Regional Focus Area ("RFA") where it expects to replicate its proven business model on an expanded opportunity set:

Acquisition Highlights

- Purchase price of $135MM (gross; estimated $115MM net purchase price after customary purchase price adjustments)
    - ~2.9x multiple on ~$40MM of Adjusted EBITDA (Hedged)[a] before anticipated synergies
    - 13% accretive to the Company's 2020 Adjusted EBITDA[b]
    - PV10 ~$175MM as of March 1, 2021 effective date and based on April 16, 2021 NYMEX strip price
    - Proved-Developed-Producing ("PDP") reserves of ~50 MMBoe (~305 Bcfe)
    - Current production of ~16 MBoepd (~95 MMcfepd) includes ~780 net operated wells
    - Benefits from Gulf Coast pricing driving higher realizations
    - Retaining key field employees to streamline integration and Smarter Asset Management
- Strategic entry into prolific, gas-producing Cotton Valley/Haynesville area
    - Provides a robust opportunity set for further acquisitions
    - Compatible with roll-up strategy leveraging scale and geographic density to drive efficiencies
- Financed with borrowings on the Revolving Credit Facility
    - Pro forma consolidated Net Debt / Adjusted EBITDA unchanged at 2.3x[c]
    - Transaction effective date of March 1, 2021 with an anticipated closing in late May 2021

Central Regional Focus Area Highlights

- Includes producing areas within Louisiana, Texas, Oklahoma and Arkansas
- Offers significant opportunity to grow scale through complementary bolt-on and/or larger opportunities
- Enhances ability to optimize capital allocation across multiple regions as dictated by the prevailing M&A environment or other economic or operational factors
- Similar size geographical footprint to Diversified's existing Appalachia region
- Similar asset characteristics to Appalachia
- Industry supportive regulatory environments
- Substantial existing infrastructure complements a low-operating cost structure

Q1'21 Operations and Financial Highlights

- Average net daily production of 102 MBoepd (612 MMcfepd)
    - 73% Conventional (75 MBoepd; 448 MMcfepd)
    - 27% Unconventional (27 MBoepd; 164 MMcfepd)
- Adjusted average net daily production ("Adjusted Production") of 105 MBoepd, 3% higher for identifiable, temporary and primarily winter-weather related downtime
    - 72% Conventional (76 MBoepd; 454 MMcfepd)
    - 28% Unconventional (29 MBoepd; 174 MMcfepd)
- Q1'21 Adjusted EBITDA of ~$78MM (hedged) contributing to Cash Margin of 52%[d]
- Total unit cash expense[e] of $7.86/Boe ($7.66/Boe on Adjusted Production ("Adjusted"))
    - Base LOE of $2.63/Boe ($2.57/Boe, Adjusted)
    - Total operating expenses of $6.13/Boe ($5.98/Boe, Adjusted)
    - Total recurring administrative expense of $1.73/Boe ($1.68/Boe, Adjusted)
- Net Debt / Adjusted EBITDA[f] of ~2.3x and available liquidity of $204MM[g]
- Q1'21 dividend of 4.00¢/share, payable on September 24, 2021 (ex-dividend date of September 2, 2021)

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

"Over the past four years as a listed company, I shared my vision for expanding the Diversified mission with its emphasis on cash flow and tangible shareholder returns into other producing regions across the country. Our commitment to acquiring cash-generative assets and retaining the talented men and women who operate those assets establishes a highly transferable business model. Our strategic expansion into a new producing region turns vision to reality and marks a key milestone in our development. The expansion also provides significant runway for us to replicate our success in Appalachia: reducing unit expenses, improving margins and optimizing production.

"Our new regional focus area covers a multi-state area in a similar size footprint to Appalachia, and meets our expansion criteria in terms of asset quality, infrastructure, market dynamics, opportunity set and supportive regulatory environment. This first strategic acquisition outside of Appalachia also reflects our continued commitment to a consistent asset profile and valuation while affording us expanded value-accretive roll-up opportunities in this new region that will enable us to quickly build scale and drive efficiencies. Our financial and operational strengths continue to uniquely position Diversified to capitalize on

current market conditions as the PDP buyer of choice.

"I'd also like to commend our field team on their continued commitment and diligence through the first quarter and its harsh winter climate. Despite the challenging environment, our team continued to deliver strong financial performance through the quarter with continued strong Cash Margins. As detailed in our recently released second Sustainability Report, we also made significant progress enhancing our sustainability practices as we seek to optimize the stewardship of our assets in line with the global energy transition. I'm proud of what we've already accomplished, and look forward to working with our team of dedicated professionals to further build on this success as we responsibly enlarge the Diversified footprint."

New Regional Focus Area and Acquisition of Assets from Indigo

The Company's strategy of acquiring producing assets supported by their existing operational personnel is naturally and highly transferable to other producing regions across the United States. Retaining the assembled workforce with its collective understanding of the acquired assets while eliminating the expense, complexity and risk associated with drilling. as well as corporate and related management costs, aligns with the Company's Smarter Asset Management program and commitment to low operating costs.

Diversified has actively been evaluating a variety of regions as its first step outside of Appalachia to identify the optimal area to replicate its success in Appalachia through systematically adding scale and driving operational efficiencies with additional accretive acquisitions. Today's announced Acquisition represents the Company's strategic entry into a new RFA that includes producing areas within Louisiana, Texas, Oklahoma and Arkansas. In addition to a large opportunity set, the RFA benefits from an industry-friendly regulatory environment and mature infrastructure, which complement Diversified's low-cost operating profile.

The Company has signed a purchase and sale agreement with Indigo to acquire ~780 net operated wells producing ~16 MBoepd (~95 MMcfepd) located within the Cotton Valley/Haynesville producing area of northwest Louisiana and east Texas. The Acquisition will add ~50 MMBoe (~305 Bcfe) in PDP reserves, with a PV10 of ~$175MM using a full NYMEX strip as of April 16, 2021. DGO expects to close the transaction in the latter half of May 2021 following its customary diligence, reviews and approvals, with an effective date of March 1, 2021.

Consistent with Diversified's acquisition strategy, the long life and low-decline nature of the Assets' annualized ~$40MM of Adjusted EBITDA[a] ("Cash Flow") enhances the Company's free cash flow generation and strong Cash Margins with access to the favorable Gulf Coast pricing market and historical Cash Margins of ~50%. The estimated net purchase price of $115MM represents just a ~2.9x multiple of Adjusted EBITDA[a] and a ~PV20 value of the acquired PDP reserves before any anticipated synergies. Accordingly, the Acquisition both supports Diversified's current dividend distribution and complements its existing operations.

The Company will retain ~25 field personnel currently servicing the wells to ensure operational continuity and smooth integration into its Smarter Asset Management program. Replicating its success in Appalachia, DGO will continue to optimize the operations and cost structure as it acquires additional assets in the RFA.

The Company expects to initially fully fund the Acquisition from existing liquidity on its Revolving Credit Facility as it evaluates its options for long-term financing including additional asset-backed securitizations, term loans or similar financing options. Pro forma Net Debt/Adjusted EBITDA[c] after the Acquisition will approximate 2.3x, in line with the Company's current leverage position.

The Company continues to evaluate other acquisition opportunities, both in and out of the Appalachian Basin, with a keen focus on opportunities that align with the parameters of its participation agreement with Oaktree, including a purchase price threshold of greater than $250MM.

The Company will host a conference call later today to discuss the Acquisition, with call details as follows:

Date: April 30, 2021
Time: 2:00 pm BST / 08:00 am CDT
US (toll-free) +1 877-407-5976
UK (toll-free) +44 (0)800 756 3429
Web Audio www.dgoc.com/news-events/events

Operations and Financial Update

Production Update

Diversified's average net production for the quarter was 102 MBoepd (612 MMcfepd), consistent with average net production during 4Q'20. Adjusted for identifiable and temporary downtime, primarily related to the harsh winter weather, net production would have been 3% higher at 105 MBoepd (628 MMcfepd). Importantly, the Company's conventional production also remained consistent with 4Q'20 at 75 MBoepd or 76 MBoepd, Adjusted.

Low Costs Drive Consistent Margins While Proactively Positioning for Growth

Diversified's commitment to one of its daily objectives that "Every Dollar Counts" remains strong. We proactively prepared our business for this milestone through many of the initiatives we have highlighted over the past several quarters including our:

- Transition from AIM to the Premium Segment of the Main Market and transition of our independent financial and reserve audit work to PricewaterhouseCoopers and Netherland, Sewell & Associates, Inc., respectively;
- Enhanced governance with an expanded, more diverse and more independent Board;
- Investments in a variety of ESG-related activities including asset integrity and line loss initiatives; and
- Investments in our people, processes and systems with an emphasis on scalability and security including:
    - Cloud data architecture capable of efficiently growing with the Company and
    - Technology that will provide insights to optimize both financial and human capital allocation.

We made these enhancements and investments to our vertically-integrated structure to establish Diversified with a solid foundation grounded in the right leadership and expertise to responsibly and efficiently position the Company for entry into a new RFA. Importantly, inclusive of these investments, we once again delivered a Cash Margin greater than 50%[d] with a total unit cash expense of $7.86/Boe in the quarter. While our general and administrative costs in the first quarter are higher than our previous trend, by building scale in this RFA and Appalachia, we expect to enjoy unit cost reductions, mirroring our past success. While total unit cash expenses were higher in the first quarter, we continued to reduce our Base Lease Operating Expense by 6% to just $2.57/Boe on adjusted production.

Footnotes (for Company-specific items, refer also to the Glossary of Terms and/or Alternative Performance Measures found in the Company's 2020 Annual Report):

(a) Multiple based on estimated net purchase price of $115MM and Acquisition's annualized 4Q'20 Adjusted EBITDA (hedged), where Adjusted EBITDA assumes historical cost structure and not reflective of synergies that may be realized following post-acquisition integration

(b) Based on the Company's 2020 reported Adjusted EBITDA of $301MM and the Acquisition's annualized 4Q'20 Adjusted EBITDA (hedged) of $40MM

(c) Pro forma, calculated as current Net Debt/Adj EBITDA, see footnote (f), adjusted for the impact of the Acquisition's Net Purchase Price and Estimated Adjusted EBITDA (Hedged) as described herein

(d) Cash Margin calculated as Adjusted EBITDA (Hedged) as a percentage of Adjusted Total Revenue (which includes natural gas, natural gas liquids and crude oil commodity revenue, midstream revenue and other revenue) plus settled net hedging gains (losses) as applicable

(e) Total Unit 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.

(f) Calculated as Net Debt at March 31, 2021 (inclusive of Acquisition down payment) / LTM ended March 31, 2021 Adjusted EBITDA (Hedged), pro forma for the annualized impact of previously announced Carbon, EQT and Utica shale acquisitions

(g) As at March 31, 2021

For further information, please contact:

Diversified Gas & Oil PLC +1 205 408 0909

Teresa Odom, Vice President, Investor Relations

www.dgoc.com

ir@dgoc.com

Buchanan +44 20 7466 5000

Financial Public Relations

Ben Romney

Chris Judd

Kelsey Traynor

James Husband

dgo@buchanan.uk.com

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

View source version on accesswire.com:
https://www.accesswire.com/643517/CORRECTION-Diversified-Gas-Oil-PLC-Announces-Conditional-Acquisition-in-New-Regional-Focus-Area-and-Trading-Update