May 16, 2022

Diversified Energy Releases First Quarter Trading Statement

BIRMINGHAM, AL / ACCESSWIRE / May 16, 2022 / Diversified Energy Company PLC (LSE:DEC) ("Diversified" or "the Company") is pleased to announce the following operations and trading update for the quarter ended March 31, 2022.

Recent Strategic Highlights

- Declared 1Q22 interim dividend of 4.25 cents per share, consistent with 4Q21; up 6% vs. 1Q21
- Acquired Central Region (East Texas) producing assets, adding scale to operations (previously announced on April 26th, 2022)
- Acquired Central Region midstream and processing facility assets complementing vertical integration to improve Cash Margins through higher pricing and lower expenses
- Acquired second Appalachian well plugging company, expanding capacity by 33% with two additional crews (8 total)

1Q22 Operating and Financial Highlights

- Exit rate production of 136 Mboepd (816 MMcfepd); Average 1Q22 production of 134 Mboepd (803 MMcfepd) inclusive of temporary weather-related impacts
- Realised 48% Cash Margin[(a)] (70% Unhedged Cash Margin) with higher realised prices partially offsetting elevated price-linked, largely-variable expenses
- Hedged additional 2023 and 2024 natural gas volumes[(b)] with an average NYMEX floor price 53% and 26% higher, respectively, versus the Company's portfolio average as of 17 March 2022
- After successful ABS financings in February, ~90% of borrowings are fixed rate, fully amortizing, largely investment grade notes that insulate from rising interest rates
- 2.2x Net Debt / Hedged Adjusted EBITDA leverage ratio[(c)] as of March 31, 2022 pro forma for recent acquisitions
- ~$350 million of liquidity[(d)]

Recent Environmental Highlights

- Joined the Oil and Gas Methane Partnership 2.0 (OGMP 2.0) to further advance the Company's commitment to reducing emissions
- Asset-Retirement Progress:
  - Plugged 49 wells through April 2022; on track to meet or exceed plugging goals
  - Expect to add a 9th crew by the end of 2Q22 (4Q21: 1 in-house crew)
  - Actively pursuing third-party work with independent operators and state agencies
- Emission Reduction Initiatives through April 30, 2022:

- Conducted ~37,500 unique emissions surveys of Appalachian assets benefiting from the full deployment of 600 handheld leak detection devices
    - >80% of sites surveyed demonstrated no leaks with well tenders eliminating fugitive emissions on an additional ~10% immediately while on site and scheduling remaining repairs
    - Accelerating the Company's commitment to survey its Appalachian wells by the end of of 3Q22, significantly ahead of the previous mid-2023 commitment
- Completed LiDAR aerial surveillance over 2,000 miles of midstream, repairing ~60% of identified leaks and progressing additional repairs
- Demonstrated commitment to early-adopt emissions detection and measurement technology (as previously announced on April 13, 2022)

Rusty Hutson, Jr., CEO of Diversified, commented:

"Following our four Central Region acquisitions in the second half of 2021, I'm pleased with the progress we are making to integrate and optimise these assets while adding to their scale and vertical integration to reduce costs. Mindful of cash flow and cash operating margins, we also added to our hedge positions to capture value from the higher forward commodity price curve.

"We continue to deliver on our sustainability commitments, and we have made further investments to expand our in-house well retirement crews. With growing internal well plugging capacity, we expect not only to exceed agreed levels under State agreements but also to become a leading provider of well retirement services to third-party operators and to the Appalachian States themselves.

"With our investments in emissions measurement technology gaining traction and giving us the capability to proactively detect, measure and repair fugitive emissions across our upstream and midstream asset base, I am increasingly confident in our ability to hit our committed targets of lowering methane emissions intensity by 30% by 2026 and 50% by 2030 on our path to net-zero greenhouse gas emissions by 2040."

Operations and Finance Update

Production

The Company recorded exit rate production in March of 136 Mboepd (816 MMcfepd), consistent with the Company's estimated ~8-9% annual decline rate, and delivered 1Q22 average net daily production of 134 Mboepd (803 MMcfepd), unchanged vs. 4Q21 reflecting temporary winter weather related impacts. Production levels continue to improve entering 2Q22 as weather moderates and reflecting the added East Texas assets (current gas production of 3.7 MBoepd / 22 MMcfepd) as previously announced on April 26,l 2022.

Operating Costs

Cash Margins[a] of 48% (70% unhedged) with a 2.1% increase in 1Q22 realised price ($18.79/Boe or $32.46/Boe unhedged vs 4Q21) partially offsetting higher price-linked costs (e.g. production taxes) and higher variable costs (primarily within the Central Region). Base Boe increased primarily due to elevated vehicle fuel costs, certain seasonal payroll/benefit costs affecting the first quarter and a full quarterly contribution of our Central Region Tapstone assets.

Having entered the Central Region in 2H21, the Company will seek to build scale within the region, vertically integrate with midstream and asset retirement assets, and advance its proven Smarter Asset Management efforts to reduce unit expenses and further improve margins. The acquisition of certain Central Region midstream and processing facility assets on April 1, 2022 (discussed below) demonstrates this type of vertical integration and affords added control over the flow of the Company's production, while eliminating the third-party's margin on the asset. Additionally, the Company's recent acquisition of additional wells in East Texas enhances Diversified's scale in the region and acts as a catalyst to optimise expenses in the area.

Total Unit Cash Expense[e]	**1Q22**		**4Q21**		
	$/Boe	$/Mcfe	$/Boe	$/Mcfe	**%**
Base Lease Operating Expense	$ 3.39	$ 0.57	$ 2.74	$ 0.46	24 %
Midstream Expense	1.32	0.22	1.28	0.21	3 %
Gathering and Transportation	2.26	0.38	2.21	0.37	2 %
Production Taxes	1.21	0.20	1.05	0.18	15 %
Total Lease Operating Expense	**$ 8.18**	**$ 1.36**	**$ 7.28**	**$ 1.21**	**12 %**

Amounts may not sum due to rounding

Adjusted G&A expense[f] increased to $1.54/Boe versus $1.73/Boe and $1.21/Boe in 1Q21 and FY2021, respectively, reflecting the investment to support the Company's expansion into the Central Region and efforts for a potential U.S. dual listing.

Hedging

Capturing the benefit of rising commodity prices, the Company added to its hedge portfolio[b] NYMEX average floor of $4.69/Mcf ($4.38/MMBtu) and $3.67/Mcf ($3.43/MMBtu) in 2023 and 2024, respectively. These prices represent a 53% premium and 26% premium, respectively, to the Company's March 17, 2022 hedge position.

The table below represents the Company's full-year hedge positions at April 30, 2022:

	GAS (Mcf)		NGL (Bbl)		OIL (Bbl)	
	Wtd. Avg. Hedge Price(g)(h)	~ % of Production Hedged(i)	Wtd. Avg. Hedge Price(g)	~ % of Production Hedged(i)	Wtd. Avg. Hedge Price(g)	~ % of Production Hedged(i)
FY22	$3.15	90%	$30.75	90%	$67.12	65%
FY23	$3.27	80%	$36.80	75%	$60.75	35%
FY24	$3.02	70%	$35.40	40%	$37.00	5%

Financing Efforts

Diversified continues to pursue additional asset-backed securitizations ("ABS") to maximise its liquidity, freeing its Revolving Credit Facility to fund accretive acquisitions. In addition to their low interest rate (versus traditional high-yield financing commonly used within the industry), ABS notes align nicely with long-life, low-decline assets by providing a fixed-rate and fully amortizing structure. Following the Company's successful ABS transactions announced in February 2022, ~90% of the Company's borrowings now sit in fixed rate, full amortizing, largely investment grade instruments that insulate the Company from rising interest rates.

Midstream Acquisition

On April 1, 2022, Diversified closed the strategic acquisition of Black Bear Midstream, a midstream operator in an active drilling area of Louisiana. The acquired assets include 34 miles of gathering pipeline, two 60 MMcfpd processing facilities, 41 miles of natural gas liquids pipeline and 7 miles of residue natural gas pipeline. The Black Bear assets currently gather and process ~18 MMcfepd of Diversified's net production in Louisiana. Acquiring these assets allows Diversified to recapture the gathering and processing fees it was paying to Black Bear, as well as potentially bringing additional equity and third party volumes through the system. Diversified will continue to seek similar accretive and complementary acquisitions as part of its vertical integration strategy to generate additional margin from cost efficiencies and incremental processing revenues.

Environmental Update

Oil and Gas Methane Partnership 2.0

Diversified is pleased to announce that it has joined the Oil and Gas Methane Partnership 2.0 ("OGMP 2.0") to further advance its commitment to reduce its emissions in alignment with this worldwide multi-stakeholder initiative launched by the United Nations Environment Programme and the Climate and Clean Air Coalition. Initial first year reporting has been accelerated to May 31, 2022 to allow rapid advancement of OGMP 2.0 goals on a compressed timeline. The OGMP 2.0 is the only comprehensive, measurement-based reporting framework for the oil and gas industry that improves the accuracy and transparency of methane emissions reporting in the oil and gas sector.

Asset Retirement Update

On May 4, 2022, the Company closed on the acquisition of a well-established, privately held plugging service provider in the State of Ohio, which Diversified will consolidate into its existing Next LVL platform. With the addition of the newly acquired company's two retirement crews, Diversified now has 8 crews and plans to add a ninth by the end of 2Q22, quickly establishing its initial target of 10-12 internal crews.

Diversified is well-positioned to meet or exceed its stated commitment to retire at least 200 wells per year across Appalachia by 2023 and to use its excess plugging capacity to provide services to third parties including other operators and State Governments. The Company expects to continue to expand its plugging capacity, which will allow Diversified to stay at the leading edge of asset retirements (in terms of technology and capacity) and creates new revenue generation opportunities to potentially offset the Company's own well-retirement costs while expanding the crews' experience to inform greater efficiency on future work.

Diversified safely retired 49 wells through April 30, 2022, of which 12 were completed by internal plugging crews and 37 using external vendors, with more favourable weather conditions facilitating the seasonal acceleration of retirements. Additionally, the Company plugged 12 third-party wells during the period. The Company remains firmly on track to exceed its prior-year retirements of 136 wells as it continues to increase its capacity and staffing throughout the year.

Progress on Emissions Reductions Initiatives

<u>Upstream Efforts</u>

During the quarter, Diversified successfully deployed 600 handheld emissions-detection devices across its well-servicing personnel and completed the necessary training to enhance its ability to identify and remediate unintended emissions, primarily in upstream assets.

Utilizing these devices, Diversified has, as of April 30, 2022, conducted ~37,500 unique voluntary emissions surveys of Appalachian assets (approximately 60% of operated wells). On >80% of the sites surveyed, the Company found no leaks at the lowest detection limits of 1 part-per-million (PPM) versus an EPA defined leak threshold of 500 PPM. Well tenders immediately repaired any unintended emissions for little-to-no cost (averaging <$300 per repair) at an additional ~10% of the sites registering such emissions. Combined, the Company attained a documented no-leak rate on greater than 90% of total assets surveyed, and is actively working to eliminate the remaining emissions. The Company expects to survey substantially all of its Appalachian wells by the end of September 2022, nearly nine months earlier than its previous mid-2023 commitment announced in November 2021.

Based on the handheld surveys, the Company expects to further reduce its unintended fugitive emissions, building on its progress in 2021. Using the data accumulated on fugitive emissions, the Company estimates it can further reduce its total greenhouse gas emissions by ~10%+ in 2022 versus 2021.

As recently announced, the Company demonstrated its leadership within the basin by acquiring the newly available Opgal EyeCGas 2.0, with companion EyeCSite Tablet software, and the Semtech Hi-Flow 2 sampler. These leading-edge devices are able to quantify methane emissions, unlike previous generation equipment which was capable only of visual detection. While the Company continues to field test both emissions measurement devices, measurement of leaks and other emissions has begun, informing emission reduction efforts and further improving the documentation of actual year-end emissions instead of using theoretical factors to estimate emissions.

<u>Midstream Efforts</u>

In March, as the weather improved, the Company commenced its multi-year aerial surveillance of its midstream assets aimed at identifying and reducing unintended natural gas emissions. Utilising Bridger Photonics' advanced LiDAR aerial leak detection technology, through 30 April 2022 the Company has surveyed ~2,000 miles of Appalachian midstream assets. The Company repaired ~60% of confirmed leaks at minimal cost and is actively progressing to address the other necessary repairs.

The Company found that ~10% of the leaks it detected originated from nearby third-party operators or midstream companies, and proactively shared this data with the party responsible to drive emission reductions across the basin on behalf of all stakeholders and the communities served.

ESG Visibility driving Accountability

To strengthen the level of accountability for meeting its ESG-related commitments, the Company expanded its data warehouse to store captured data that feeds new dynamic/interactive Executive Dashboards that detail emissions reductions activities and progress.

The Company has extended its Project Fresh initiative into the Central Region and anticipates similar benefits achieved in its Appalachian Region for reducing usage of theoretical emissions factors, which often overstate emissions quantities.

The Company continues to evaluate solutions for accelerating its pneumatic device conversions efforts as part of its $15 million commitment for emissions reduction in 2022 announced at its November 2021 Capital Markets Day.

U.S. Dual Listing Update

Diversified continues to progress its evaluation of a potential U.S. dual-listing to complement its current listing on the London Stock Exchange. Diversified believes its strategy of consistent cash flow generation and meaningful dividend distributions supports demand for a dual US-listing as the Company executes its stewardship strategy and increases its market capitalisation and enterprise value.

Footnotes (for Company-specific items, refer also to the Glossary of Terms and/or Alternative Performance Measures found in the Company's 2021 Annual Report):

(a) As used herein, Cash Margin is measured as Hedged Adjusted EBITDA, as a percentage of Adjusted Total Revenue. The key distinction between Cash Operating Margin and Cash Margin is the inclusion of Adjusted G&A. The Directors believe that Cash Margin is a useful measure of DEC's profitability and efficiency as well as its earnings quality.

(b) Represents incremental value of hedging on Natural Gas volumes between the previously disclosed position at March 17, 2022 and current position as of April 30, 2022, representing approximately 15% of illustrative natural gas production volumes in 2023 and 2024.

(c) As used herein, Net Debt-to-TTM Hedged Adjusted EBITDA, or "Leverage" or "Leverage Ratio", is measured as Net Debt divided by pro forma Trailing Twelve Months ("TTM") Hedged Adjusted EBITDA, which includes adjustments for the trailing twelve months ended March 31, 2022 for the Indigo, Blackbeard, Tanos and Tapstone acquisitions as well as Oaktree's subsequent participation in the Indigo transaction to pro forma their results for a full twelve months of operations.

(d) Calculated as the availability on the Company's Revolving Credit Facility ("RBL") and inclusive of cash on hand and letters of credit as of March 31, 2022.

(e) 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.

(f) As used herein, Adjusted G&A represents Base G&A plus recurring allowances for expected credit losses. The Directors use Adjusted G&A because this measure excludes items that affect the comparability of results or that are not indicative of trends in the ongoing business.

(g) MMBtu prices have been converted to Mcf using a richness factor of 1Mcf=1.07MMBtu.

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

(i) Illustrative percent hedged, calculated using December 2021 Exit Rate and assuming a consolidated annual corporate decline rate of 9%.

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About Diversified Energy Company PLC

Diversified Energy Company 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.

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SOURCE: Diversified Energy Company PLC