RNS Number : 4615V
Coro Energy PLC
03 December 2019

3 December 2019

Coro Energy plc
("Coro", the "Company" and together with its subsidiaries the "Group")

Disposal of Italian Portfolio and Notice of General Meeting

Coro Energy plc, the Southeast Asian focused upstream oil and gas company, is pleased to announce that the Group has entered into a conditional sale and purchase agreement (the "**SPA**") with Zenith Energy Ltd ("**Zenith**") for the proposed disposal by Coro of its entire Italian Portfolio for a total consideration of £3.9 million (the "**Disposal**").

The Disposal follows confirmation by the Company, in its H1 2019 interim results published on 12 September 2019, that Coro was firmly committed to its South East Asian growth strategy and that the Coro Board had, at that time decided to prioritise the divestment of the Group's non-core Italian operations.

The initial £0.4 million consideration for the Disposal, payable by Zenith to the Group on Completion, will be settled through the issue of 6.7 million new Zenith Shares at an effective issue price of 6.0 pence per Zenith Share. Subject to the Italian Portfolio being disposed of achieving average daily production of 100,000 scm over a period of four successive months, a deferred consideration payment of £3.5 million will be made by Zenith to the Group through the issue of new Zenith Shares at an effective issue price equal to a 40% premium to the then prevailing Zenith share price at the time of issue.

Completion of the Disposal is conditional on, *inter alia*, the passing of the Resolution at the General Meeting and the approval of the Italian Ministry of Economic Development.

A circular, which provides further details of the Disposal and includes a notice convening the General Meeting (the "Circular") will be sent to Coro Shareholders later today. A copy of the Circular will be available shortly from the Company's website at www.coroenergyplc.com.

James Menzies, Coro's Chief Executive Officer, commented:

"*As the Company continues to focus on the investment opportunities in South East Asia, the disposal of our Italian portfolio removes non-core* *assets and streamlines our geographic focus. The Italian portfolio requires significant management time and capital expenditure to sustain its production and in-line with our stated strategy, we believe that focusing our resources on the rapidly growing South East Asian market will provide greater opportunity to maximise shareholder value.*"

Background to, and reasons for, the Disposal

The Group continues to execute its South East Asian growth strategy following the acquisition of a 15% interest in the Duyung Production Sharing Contract ("PSC") in the West Natuna basin, offshore Indonesia (which contains the Mako gas field) and the successful restructuring of the cash consideration payable in connection with the Company's first deal in Indonesia - the acquisition of a 42.5% working interest in the Bulu PSC (which contains the Lengo gas field offshore East Java).

Completion of the Company's acquisition of a working interest in the Bulu PSC was, as announced on 28 July 2019, conditional on, inter alia, joint venture pre-emption waiver (the "Waiver") and regulatory government approvals (the "Approvals") prior to a long stop date of 2 December 2019 under the Bulu acquisition agreement (the "Long Stop Date").

The Company announced on 3 December 2019 that the parties to the Bulu acquisition agreement continue to progress the transfer of the participating interest in the Bulu PSC and that whilst the necessary Waiver had been received, receipt of the Approvals had been delayed. As a result, the Bulu Acquisition did not complete by the Long Stop Date. The Company confirms that the parties to the Bulu acquisition agreement are currently negotiating a further 6-month extension to the Long Stop Date to accommodate the additional time required for the Approvals to be received (the "Bulu Extension") and intend to enter into the Bulu Extension as soon as is practicable. The Company will update Shareholders in relation to the Extension, as appropriate, in due course.

The Company was pleased to announce on 22 November 2019 that a planned two well appraisal programme at Duyung had been completed by the Duyung PSC partners, on time and within budget, and that the appraisal programme had confirmed, inter alia, the Mako field to be a simple, single gas tank system with the upper section of the reservoir demonstrating high permeability and good porosity sandstone. The valuable information collected from this appraisal campaign will be used to revisit the resource estimates for the Mako field and the Duyung PSC partners will be commissioning an independent assessment of resources, which are currently expected to be completed in Q1 2020.

In addition to progress at the Duyung PSC, the Group continues its business development activities in the region and the Directors see further opportunities for the Group to capture value and scale in South East Asia.

The Directors do not consider that the same opportunities currently exist for the Group in Italy, where recent legislation has imposed a ban on exploration activity in the country - greatly reducing the appeal of developing an Italian energy and projects business such as the Italian Portfolio held by Coro Europe.

Whilst the Italian Portfolio produces 100% of the Group's current revenues (H1 2019: c.US$1.7 million), the currently producing assets in the Italian Portfolio have inherent production decline curves and Coro Europe will require investment to sustain and increase current levels of production.

The Board believes that incremental capital expenditure in South East Asia is a more value accretive use of the Group's resources and, ultimately, has a greater possibility of generating greater returns for Shareholders than allocating additional capital to the development of the Italian Portfolio.

As a result, Coro Europe has become a non-core element of the Company's portfolio and the Board has taken the decision to proceed with the Disposal.

Details of the Disposal

The Company's wholly owned subsidiary, Cell A, has entered into a binding conditional sale and purchase agreement with Zenith for the Disposal by the Group of the entire issued share capital of Coro Europe, which holds the Group's interests and liabilities in the Italian Portfolio.

The Disposal is conditional on, inter alia, the passing of the requisite Resolution at the General Meeting and receipt of necessary regulatory approvals including the approval of the Italian Ministry of Economic Development.

Under the SPA, the Consideration for the Disposal of Coro Europe will be £3,902,000, to be fully satisfied by:

(i) a payment of £402,000 to be settled by Zenith on Completion through the allotment and issue of 6,700,000 new Zenith Shares to Cell A ("Initial Consideration Shares"); and

(ii) subject to the average production of all hydrocarbon assets in which Coro Europe has an interest at Completion yielding not less than 100,000 scm/d of extracted product for a period of four consecutive months (the "Production Condition"), a further payment of £3,500,000 to be settled by Zenith on the first business day after satisfaction of the Production Condition through the allotment and issue of new Zenith Shares to Cell A as shall be calculated by dividing £3,500,000 by the London Stock Exchange plc closing price of Zenith Shares on such day plus 40% of such closing price ("Deferred Consideration Shares").

The Initial Consideration Shares and the Deferred Consideration Shares will be subject to a six-month lock-in from issue. All proceeds received by the Group pursuant to any sale of the Initial Consideration Shares and/or the Deferred Consideration Shares, as proceeds from the disposal of the Italian Portfolio, must be retained within Cell A and its subsidiary companies pursuant to the security charge associated with Coro's Eurobond issued in April 2019.

Further key terms of the SPA are set out below.

Background to Zenith

Zenith is an international oil and gas production group, incorporated in Canada, listed on the TSX Venture Exchange (TSX-V: ZEE), the Standard segment of the Main Market of the London Stock Exchange (LSE: ZEN) and the Merkur Market of the Oslo Børs (ZENA:ME).

Zenith's strategy is defined by its focus on the acquisition and further development of proven onshore oil and gas fields where production has declined over time, but which hold significant untapped reserves and the possibility to produce sizeable volumes of oil and gas following investment in new field infrastructure, the application of modern production technology, and new management supervision. To maximise shareholder value, Zenith targets acquisitions of production opportunities that offer strong logistics and close proximity to refineries and pipelines. Zenith's management and directors have extensive financial and government experience and possess the technical knowledge to execute this strategy.

Zenith operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with an average daily production of 238 barrels per day and independently assessed proven + probable (2P) reserves of 30.6 million barrels of oil. Zenith also operates, or has working interests in, a number of gas production and exploration concessions in Italy with independently assessed 2P reserves of 16.3 BCF. Zenith's Italian operations also include the production of electricity and condensate.

Zenith's strategy is to identify and rapidly seize opportunities in the onshore oil & gas sector. Specific attention is directed to fields formerly controlled by oil majors and state oil companies. These assets often have significant untapped potential and the capacity to produce sizeable volumes of oil & gas with investment in technology and new management supervision.

General Meeting

Completion of the Disposal is conditional on, *inter alia*, the passing of the

Resolution at the General Meeting of the Company. A Circular, which provides further details of the Disposal and includes a notice convening the General Meeting will be sent to Shareholders later today. A copy of the Circular will be available shortly from the Company's website at www.coroenergyplc.com.

The General Meeting is to be held at the offices of Watson Farley & Williams LLP, 15 Appold Street, London EC2A 2HB at 11:00 a.m. on 20 December 2019 at which a Resolution will be proposed to approve the Disposal.

If Shareholders do not pass the Resolution, Completion of the Disposal and issue of the Initial Consideration Shares will not proceed.

Recommendation and Voting Intentions

The Disposal constitutes a fundamental change of the Company's business for the purposes of Rule 15 of the AIM Rules and is therefore subject to the approval of Shareholders at the General Meeting.

The Directors consider the Disposal to be in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution to be proposed at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings of Ordinary Shares, representing approximately 1.55% of the Company's existing Ordinary Shares.

Terms defined in the Circular apply throughout this announcement, unless the context requires otherwise.

The information communicated within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain. Bcf means billion standard cubic feet; scm means standard cubic metres; and scm/d means standard cubic metres per day.

For further information please contact:

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Summary of SPA terms

The SPA is conditional on certain conditions having been satisfied or waived on or prior to Completion, including the following:

- Approval by Coro Shareholders;
- Receipt of required regulatory approvals required from the Italian authorities (the "Italian Regulatory Approvals");
- Zenith having submitted applications in the manner prescribed in the SPA for the issue of the Initial Consideration Shares to be issued on the Completion Date;
- there not having occurred (in relation to the Company or Zenith) between the date of the SPA and the Completion Date, a breach of a warranty which constitutes a material adverse change, defined as an event, change or condition that causes, or could reasonably be expected to cause a reduction in (A) the consolidated net assets of Zenith and its subsidiaries of more than €2,000,000, (excluding certain global events) (a "Zenith Material Adverse Change"); or (B) in the consolidated net assets of the Coro Europe group and its subsidiaries of more than more than €2,000,000, excluding certain global events) (a "Coro Europe Material Adverse Change"); and
- Cell A having carried out its obligations in respect of a Bezzecca-Vitalba pipeline leak which occurred in November 2019 (the "Leakage") and paid all amounts due in respect thereof.

As noted above, the initial consideration of £0.4m is payable by Zenith to Cell A on Completion through the issue of the Initial Consideration Shares. Should the Coro Europe Italian Portfolio achieve average daily production of 100,000 scm over a period of four successive months, Zenith will issue the Deferred Consideration Shares to Cell A.

The SPA may be terminated in certain circumstances:

(i) by either party in the event that the conditions precedent, completion obligations and/or undertakings given for that party's benefit and standing to be satisfied on or before the Completion Date are not met or waived;

(ii) by Zenith in the event that any director of the Company publicly changes (including by attaching qualifications to) or withdraws (including by abstaining) their statement that they consider the Disposal to be in the best interests of the Shareholders or their recommendation that the Shareholders approve the Disposal, or publicly states an intention to change their voting intention in respect of any relevant Company shares; and

(iii) by Zenith in the event that (a) the conditions precedent have not been met by 30 April 2020 or (b) if the Italian Regulatory Approvals have not been granted or obtained by such date, 31 July 2020 or, (c) if before the end of the period set out in (b) Zenith provides written notice to Cell A, supported by reasonable documentation or other reasonable evidence that Zenith has promptly throughout filed all necessary applications and related supporting documents and taken all other actions necessary to obtain all necessary approvals (including following any requests from the Italian Regulatory Authorities) and such approval(s) have reached the final stage, 31 October 2020 or (d) such later date as Zenith and Cell A may agree.

Zenith and Cell A have undertaken to procure that, with effect from the Completion Date, each of Zenith and the Company enters into an agreement with Sound Energy plc ("Sound" as previous owner of Coro Europe, then known as Sound Energy Holdings Italy Limited) pursuant to which Zenith agrees that 5% of the total proceeds of natural gas sales received by Zenith and/or Coro Europe or any of its subsidiaries relating to the exploration license D.R. 74.AP (colloquially referred to as Laura) shall be paid to Sound by Zenith instead of the Company.

Zenith and Cell A have further undertaken to procure that, with effect from the Completion Date, each of Zenith, the Seller and the Company enter into an agreement with Sound pursuant to which:

(i) Sound will retain its economic rights to receive the proceeds of any future sale of the land comprising the Badile permit issued on 23 March 2010 and situated in the Piedmont Lombard Basin in northern Italy owned by Coro Europe ("Badile") (the "Badile Land") and Zenith will undertake to remit the net proceeds of the Badile Land sale (the "Badile Sale") to Sound on receipt by Coro Europe;

(ii) Sound undertakes that it shall:

(A) provide a restoration payment to Zenith (or Coro

Europe or Apennine, as Zenith may direct) in respect of Badile in a total aggregate amount of €870,000 (less payments already made by Sound under the Original Sale Agreement) to cover remaining costs with respect to the site restoration of Badile (payments to made on a quarterly basis in instalments on the basis of estimates submitted by Zenith to Sound). If, at the end of the Badile site restoration process, Zenith has not received the full €870,000, Sound agrees to make a balancing payment (the "Badile Site Restoration Payments"); and

(B) in addition to providing the Badile Site Restoration Payments, indemnify Zenith, Coro Europe and/or Apennine from and against any costs relating to the Badile site restoration which are incurred by Zenith, Coro Europe and/or Apennine above and beyond the Badile Site Restoration Payments (the "Additional Badile Restoration Payment") which directly result from:

- the requirement of any regulatory authority (whether or not pursuant to applicable laws or regulations);
- changes in any applicable laws or regulations following the date of the SPA;
- changes following the date of the SPA in either environmental laws applicable to the restoration of Badile and/or the specific restoration requirements for Badile imposed by the relevant regulatory authority on Zenith, Coro Europe and/or Apennine (whether or not pursuant to applicable laws or regulations);
- any bid or tender for works comprised or forming part of the Badile site restoration costs expiring as a result of delays in receipt of approvals from any regulatory authority (whether or not pursuant to applicable laws or regulations) and any new or revised bid or tender for such works being for an increased cost; and/or
- a dispute regarding unpaid rent and unlawful occupation of land relating to the Badile Land;

(iii) each of Zenith and Sound shall irrevocably and unconditionally release the Company from all liability that they may have in connection with the Badile Sale, including (for the avoidance of doubt) under an implementation agreement entered into between the Company (then known as Saffron Energy plc) and Sound dated 22 January 2018 (the "Original Sale Agreement"); and

(iv) the Company shall irrevocably and unconditionally waive any rights that it might have to receive the Badile Restoration Payments and/or the Additional Badile Restoration Payment, including (for the avoidance of doubt) under the Original Sale Agreement.

Under the SPA, Cell A has agreed to indemnify Zenith and each member of the Coro Europe group against liabilities arising out of or in connection with the Leakage and relating to the period up to and including the date upon which approval of the remediation works relating to the Leakage is given by the regional environmental agency (the "Leakage Indemnity"). Cell A has undertaken to enter into a reasonably standard form tax covenant on the Completion Date (the "Coro Europe Tax Covenant"). No claim can be brought against the Company under the Coro Europe Tax Covenant unless the value of the claim exceeds €25,000.

Under the SPA, no warranty claim can be brought unless it is for an amount at least equal to €25,000, and until the party bringing the claim has a claim or basket of claims exceeding €250,000. The liability of each of Cell A and Zenith under the SPA is further limited as follows:

(i) Cell A's total liability for all claims under the Coro Europe Tax Covenant and Leakage Indemnity and for all claims under the warranties given by it shall not in any event exceed €200,000; and

(ii) Zenith's total liability for all claims under the warranties given by it shall not in any event exceed €200,000.

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Disposal and Notice of General meeting

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Tue, 12/03/2019 - 07:00
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Company Announcement - General
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