Coro Energy plc

In line with Coro's strategy to become a mid-tier South East Asian focused E&P company, the company has gained entry into Indonesia with the acquisition of a 42.5% interest in the Bulu Production Sharing Contract (PSC) offshore East Java for a total consideration of US$10.96m. This licence contains the Lengo gas field which has gross certified 2C resources of 359 BCF. With an approved field development plan in place and an MOU (Memorandum of Understanding) signed with a potential buyer for the gas, we believe that Coro has established a strong foundation on which to accelerate its South East Asian growth strategy.

Coro has entered into an agreement with AWE (Satria) NZ Ltd ("AWE") and HyOil (Bulu) Pte. Ltd (Bulu) under which Coro will pay AWE a cash consideration of US$6.96m plus working capital adjustments. Coro has also agreed to pay HyOil US$4.0m in Coro shares over three tranches following the closing of the transaction. Upon completion, Coro will hold 42.5% of the Bulu PSC with the balance held by experienced South East Asian operator, Kris Energy (42.5%) and the remaining 15% held by local Indonesian partners.

The Bulu PSC is located 65km offshore northern Java in shallow water depths of c.60 metres. Bulu contains the Lengo gas field which was discovered in 2008 and tested at production rates in excess of 21.2 mmcfpd of gas after appraisal drilling.

Lengo possesses independently certified gross 2C contingent gas resources of 359 BCF with upside of 420 BCF in the 3C category. A development plan for Lengo was submitted to the Indonesia authorities in late 2014 and consists of a US$200m-US$250m programme to drill an initial four wells from an unmanned platform with produced gas transported to shore for processing and onward delivery to customers. The development plan envisages gross output of 70 mmcfpd of gas at peak production.

Lengo gas production is 'sweet' (no H_2S impurities) with a CO_2 content of approximately 12%. Coro understands that potential buyers are often prepared to take delivery with or without the CO_2 content reduced and there are reportedly a range of potential customers in the region. As such, the Lengo partners signed an MOU with a gas trading company in January 2018 with a view to delivering gas production from Lengo.

Gas prices in the East Java region have been robust in recent years and pricing is reported in the range of US$5.50 – US$8.00 per MMbtu. As implied above, final pricing is dependent on who the ultimate buyer is and whether the CO_2 content of the gas has been reduced by additional processing.

Fiscal terms in Indonesia have improved in recent years and the contractor share of profit for gas production is typically higher than that for oil. Additional to this, PSC terms allow for 100% cost recovery of most capex and opex and Coro notes that there is an historical cost recovery pool of c.US$100m for the Bulu PSC. Recovery of a proportion of this cost pool through production has the potential to enhance significantly the economics of a field development on Lengo.

Although a number of milestones including funding for the company's share of development costs and the establishment of a final gas sales contract have yet to be finalised, this acquisition was completed for a very attractive price of only US$0.10 per MMbtu of gas. With the scale of the company's existing Italian assets in mind, we believe that the gas resources and production potential from Lengo attributable to Coro could elevate it onto the next level of E&P companies.

Stock Data

Share Price:	3.82p
Market Cap.:	£27.4m
Shares in issue:	718.5m

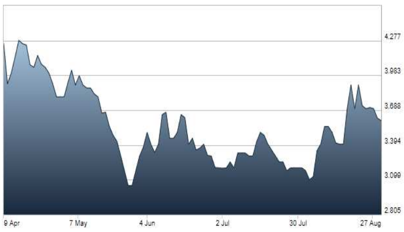
Company Profile

Sector:	Oil & Gas
Ticker:	CORO
Exchanges:	AIM

Activities

Coro possesses an ambitious South East Asian growth strategy and recently made its first acquisition in Indonesia to complement its existing gas assets in Italy. The company is focused on a large number of potential oil and gas opportunities in South East Asia with which to continue to expand its current portfolio.

Share price performance



Source: LSE

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Coro's first Indonesian acquisition

Coro Energy has gained entry to Indonesia with the acquisition of a 42.5% interest in the shallow water Bulu Production Sharing Contract (PSC) located offshore East Java, a licence that contains the Lengo gas field. Lengo has been attributed gross 2C contingent recoverable resources of 359 BCF of gas and 3C upside amounting to 420 BCF.

Coro has signed a binding conditional agreement for a total consideration of at least US$10.96m of which US$6.96m is payable in cash with the balance payable in new Coro shares to a value up to US$4.0m. The company notes that the deal implies a low acquisition price equivalent to US$0.10 per MMbtu* of contingent gas resources net to the company.

In terms of planning, Bulu appears to be a comparatively advanced project and a field development plan for Lengo has been approved by the Indonesian authorities. Coupled with this, gas marketing efforts which are targeting the Tuban industrial complex in East Java are also underway and an MOU (Memorandum of Understanding) was signed with a potential buyer of the gas in early 2018.

Economics enhanced by large cost recovery pool

Fiscal terms for hydrocarbon production in Indonesia are regarded as comparatively tough under typical PSC terms. However, the profit share for gas production accruing to the contractor (i.e. Coro) is usually considerably better than that for oil production. Although we do not yet know the precise terms for the Bulu PSC, in broad terms Indonesia has historically instigated a more favourable 70/30 contractor/government split for profit gas compared to a 15/85 contractor/government split for profit oil.

In addition, Indonesia generally operates a system whereby the contractor can recover its capital and operating expenditure from field revenue (after the payment of First Tranche Petroleum – effectively a government royalty of 10% on production). With this mechanism, a large cost pool of historical (and unrecovered) expenditure on an asset can be recovered from field revenue before any profit taxes become payable.

Coro notes that the existing cost pool for the Bulu PSC is approximately US$100m, the recovery of which has would enhance the economics of a full field development considerably given that the early years of cash flow can be enhanced significantly by accelerated cost recovery and negligible profits tax, which is currently charged at a rate of 44%.

Details of the transaction

Coro is entering a deal that was originally agreed between:

- AWE (Satria) NZ Ltd ("AWE"), a subsidiary of AWE Limited which currently holds the Bulu PSC and
- HyOil (Bulu) Pte. Ltd (HyOil), a subsidiary of HyOil Pte. Ltd, a private Singaporean company.

The new version of the transaction is now being expedited through a tripartite agreement between Coro, HyOil and AWE. With this new agreement, the original Sales & Purchase Agreement (SPA) between AWE and HyOil has been terminated and a new SPA between Coro and AWE has been instigated.

*Note that 1,000 MMbtu (a measure of the energy content of gas) converts to 975.6 mcf (a volumetric measure) at a conversion rate of 97.56%

Acquisition consideration

Under the new deal, Coro has agreed to pay HyOil up to a total of US$4.0m in Coro shares in the following tranches:

1. US$2.0m on the closing of the transaction which will be satisfied by the issue of 42,434,465 new Coro shares at a price of 3.6255p per share.
2. US$1.0m in new Coro shares upon the signing of a Gas Sales Agreement
3. US$1.0m in new Coro shares following the start of commercial production from the field

Under the terms of the new SPA, Coro also has agreed to pay AWE a cash consideration of US$6.96m plus back costs and other working capital adjustments estimated to be c.US$1.04. AWE will be liable for all transfer taxes that may be incurred upon the completion of this part of the transaction up to an amount totalling US$0.64m.

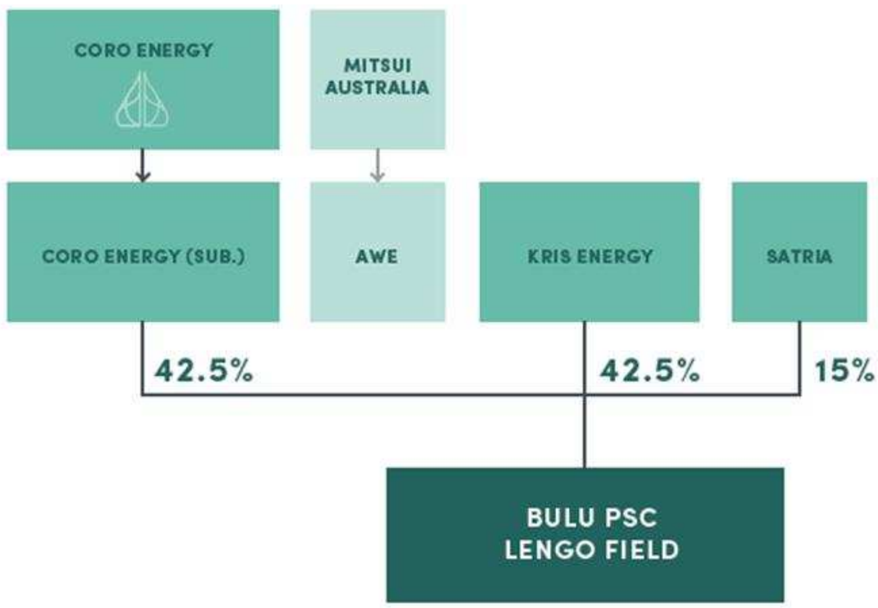
New partners in the Bulu PSC

As a result of the completion of this deal and all appropriate government regulatory approvals, Coro will become a 42.5% equity holder in the Bulu PSC and the remaining holders will be:

- Kris Energy (operator) – 42.5%
- Satria Energindo (local partner) – 10%
- Satria Wijaya Kusuma (local partner) – 5%

The Bulu PSC has a term of 30 years and is not due to expire until October 2033.

Bulu PSC equity partners after new SPA

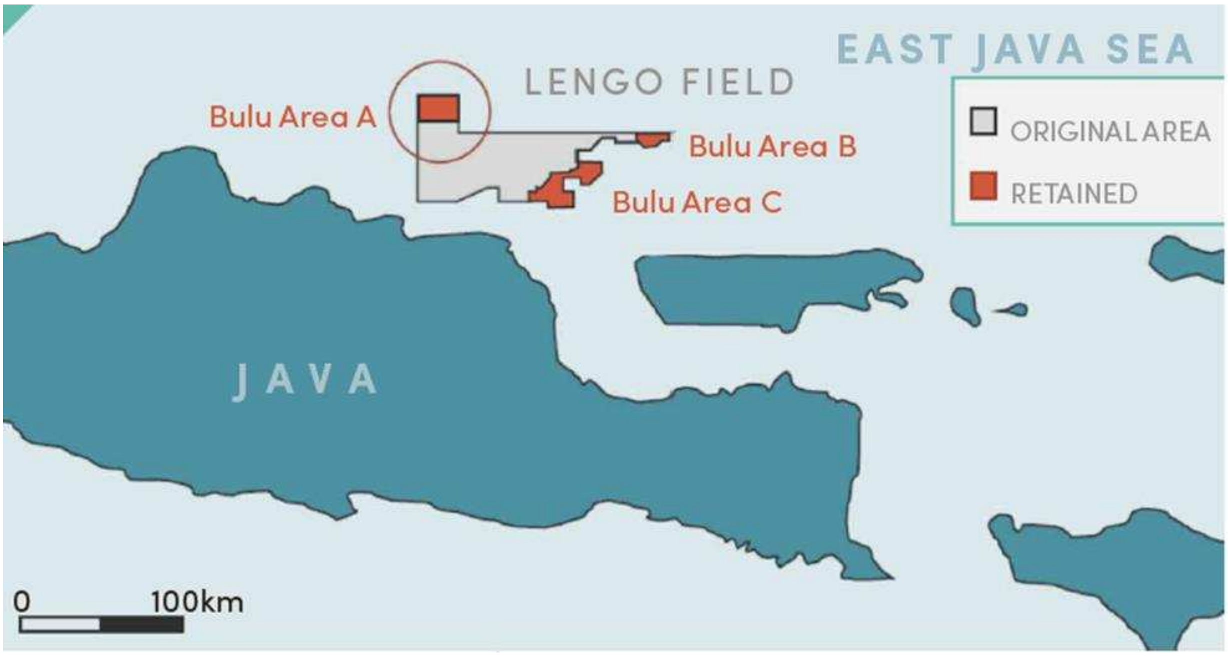


Source: Coro Energy

The Lengo gas field – Bulu PSC

The Bulu PSC is located approximately 65km off the northeast coast of Java in Indonesia. The licence is located in shallow water depths of approximately 60 metres. The Lengo field was discovered in 2008 with the drilling of the Lengo-1 well which tested gas at rate of 12.9 mmcfpd. The field was subsequently appraised by the successful Lengo-2 well which flow tested gas at a rate in excess of 21.2 mmcfpd. The Lengo-2 well also confirmed a consistent gas to water contact at 780 metres and good reservoir properties across the whole structure. A development plan for Lengo was submitted to the Indonesia authorities in November 2014.

Location of the Bulu PSC offshore Java



Source: Coro Energy

Resources attributed to Lengo

The Lengo field reservoir is a Miocene-aged carbonate accumulation located at a comparatively shallow depth of approximately 700 metres. The reservoir is characterised by good porosity and permeability and the established gas-water contact across the entire field is coincident with a well-developed Direct Hydrocarbon Indicator on seismic data giving a high degree of confidence in the size and extent of the gas accumulation.

Following the successful appraisal well on the Lengo field, independent consultant, Netherland, Sewell & Associates certified that gross 2C as resources were 359 BCF with a comparatively narrow 1C to 3C range of 308 BCF to 420 BCF. The gas in place estimates imply a recovery factor of nearly 68% which is consistent with good quality reservoirs as outlined previously.

Gas resources attributable to Lengo (BCF)

Gas (BCF)	1C	2C	3C
Gas in place	470	531	599
Recoverable resources	308	359	420

Source: Netherland, Sewell & Associates (2015)

The proposed development plan

The approved Lengo Plan of Development (POD) includes an initial four wells from a small unmanned platform. Produced gas would be transported approximately 65 km by 20 inch diameter pipeline to an onshore facility and a further 5 km of pipeline connection to a processing plant before delivery to customers. The POD envisages plateau gas production of 70 mmcfpd (11.7 mmboepd) when all the production facilities are fully operational.

Coro estimates that such a project could incur development costs in the US$200m – US$250m range on a gross basis implying a net capex exposure to the company of at least US$85m and possibly as much as US$106.25m.

Gas market dynamics

As is characteristic of the East Java hydrocarbon basin, the Lengo gas is approximately 67% methane and contains impurities including a CO_2 content of approximately 12% and a nitrogen content of 20%. However, East Java gas is typically 'sweet' with no H_2S (hydrogen sulphide) content which requires additional processing to remove. The CO_2 content in particular is considered by Coro to be low in the context of the wider region and is understood to not impact the marketability of the gas.

Coro understands that potential buyers of Lengo gas are prepared to take delivery with or without the CO_2 content reduced. Potential customers for the gas include power generator, petrochemical manufacturers and also other fuel operators which require additional gas supply to make up shortfalls against their own delivery obligations (e.g. Take or Pay obligation shortfalls).

Gas prices in the East Java region have been reasonably strong in recent years although final prices received for produced gas are dependent on who the ultimate buyer is and whether the CO_2 content is reduced before delivery or not (removal of CO_2 implies a processing cost for the gas). As such, the pricing range of gas in the East Java region is quite wide at US$5.50 – US$8.00 per MMbtu (equivalent to US$5.36 – US$7.80 per mcf).

As outlined previously, the original Lengo field partners signed an MOU with an established gas trading company in January 2018 with a plan to supply customers on the Central-East Java pipeline route.

Coro’s Italian asset portfolio

Coro Energy possesses an existing portfolio of legacy production and exploration assets in Italy. With reserves of 7.2 BCF and contingent resources upside of a further 23.3 BCF, the Italian business is very modest in the context of Coro’s recent Indonesian acquisition. However, the company possesses three producing assets which provide modest cash flow to the company.

Coro’s Italian asset portfolio

Asset	2P Reserves (MMscm)	2C Resources (MMscm)	Total MMscm	Total BCF
Sillaro	61.5	31.3	92.8	3.3
Bezzecca	65.7	71.1	136.8	4.8
Sant' Alberto	58.9	0.0	58.9	2.1
Rapagnano	18.0	0.0	18.0	0.6
Casa Tiberi	1.0	30.7	31.7	1.1
Sant Andrea	0.0	54.7	54.7	1.9
Laura	0.0	401.6	401.6	14.2
Marciano	0.0	70.8	70.8	2.5
Total	**205.1**	**660.2**	**865.3**	**30.6**

Source: Coro Energy

Production and development

Of the producing assets, the Bezzecca gas field (Coro: 90%) is located in northern Italy, approximately 35km east of Milan in the Cascina Castello Licence. This field commenced production in July 2017 and over the first six months of 2018, was producing approximately 550 mcfpd of gas, equivalent to c.16,000 scm/day (cubic metres). The field is currently suspended as the associated gas treatment plant is undergoing maintenance.

Coro also produces gas from the Sillaro gas field (Coro: 100%) located in the Emilia Romagna region some 30km east of the city of Bologna. Production from Sillaro commenced in May 2010 from two wells and over the first six months of 2018, was modest at around 300 mcfpd (c.9,000 scm/day). Sillaro recovery rates have exceeded expectations and the company has outlined plans to execute a sidetrack workover on one of the existing wells in order to increase and prolong production from this field. However, the field is currently suspended while the gas treatment plant is undergoing maintenance.

The onshore Rapagnano field is comparatively small and produces approximately 250-300 mcfpd of gas (c.8,000 scm/day) in the Marche region of central Italy.

The Sant’Alberto field (Coro: 100%), also located in Emilia Romagna, was awarded a production concession in October 2017 and Coro has outlined plans for initial production to be delivered via a low pressure connection approximately 260 metres from the well head.

Exploration and appraisal assets

As outlined in the table above, Coro possesses exploration/appraisal upside across several assets, the largest of which is Laura located in the offshore region of the Adriatic Sea in southern Italy. Laura is located some 4km from the coast in water depths of 197 metres and was discovered by ENI/Agip with the Laura-1 well in 1980. At this stage, we believe that Laura is non-core to Coro as the Italian government ministry has suspended the licence and therefore development plans are currently in hiatus.

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Appendix - Board of Directors

James Parsons – Non-Executive Chairman

James was CEO at Sound Energy and Non-Executive Chairman at Echo Energy. He has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. He started his career with the Royal Dutch Shell group in 1994 and spent 12 years with Shell working in Brazil the Dominican Republic, Scandinavia, the Netherlands and London. James is a qualified accountant and has a BA Honours in Business Economics.

James Menzies - CEO

James was the co-founder and CEO of South East Asia focused Salamander Energy from 2005 to 2015 when it was acquired by Ophir Energy for $850m. He is a qualified geologist with over 30 years' industry experience, having held senior technical and commercial roles at Lasmo in the UK, Vietnam and Indonesia. James subsequently worked for boutique M&A house Lambert Energy in London before founding Salamander. James is a Non-Executive Director of Trinity Exploration.

Sara Edmonson – Deputy CEO

Sara joined as CEO of Coro (formally Saffron Energy) on 1 November 2017 and prior to that was a NED of Saffron following its IPO Admission in February 2017. Sara was previously CEO of Po Valley Energy having joined the company in July 2010 as CFO. She is fluent in Italian, having previously worked both in Italy and internationally for EY Transaction Advisory Services. During her tenure at EY, Sara advised numerous blue chip corporate clients on transactions in Russia, Romania, Turkey and the US including the US$5bn acquisition of DRS Technologies by Finmeccanica in 2008. She holds a BA from St John's University in New York City.

Fiona MacAulay – Non-executive Director

Fiona has over 30 years of experience in the oil and gas industry and is currently the CEO of Echo Energy PLC. Former COO and Technical Director of Rockhopper Exploration plc, Fiona, a Chartered Geologist, started her career with Mobil North Sea Limited in 1985 and has subsequently held senior roles in a number of leading oil and gas firms, including Amerada Hess and BG. She is European President of the American Association of Petroleum Geologists.

Marco Fumagalli - Non-executive Director

Marco is Managing Partner at Continental Investment Partners SA, a Swiss-based fund and cornerstone shareholder in Sound Energy and Echo Energy. He is a well-known Italian businessman who was previously a Group Partner at 3i. He is a qualified accountant and holds a degree in Business Administration from Bocconi University in Milan. He is a NED at Sound Energy and Echo Energy.

Ilham Akbar Habibe – Independent Non-executive Director

Ilham is a qualified engineer and holds a PhD in aeronautical engineering from the Technical University of Munich and an MBA from the University of Chicago. He has been the CEO and President of a number of aerospace and other companies which he founded and has served as a scientist and lecturer at the Technical University of Munich. He has held senior positions at a number of Indonesian companies in the private sector, including CEO and President Director of PT. Ilthabi Rekatama and Commissioner of PT Citra Tubindo tbk. Ilham served as a NED at Sound Oil (now Sound Energy plc) and has been an Independent Commissioner of PT Intermedia Capital Tbk. He also has served as a NED of Hichens, Harrison (Asia) Ltd and serves as a Member of the Board of Commissioners at PT Malacca Trust Wuwungan Insurance and as a Director of PT Ilthabi Bara Utama.

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