



ASX / MEDIA RELEASE

23 January 2018

PO Valley advances Saffron Energy Plc expansion with binding deals and £14m capital raise

Shareholders in Australian gas producer, Po Valley Energy (“PVE” or “Po Valley”) have moved a step closer to benefiting from a three-way deal to become part of a larger European energy play under formal contract signings announced today.

Perth-based Po Valley said today it had now signed a binding Share Sale and Purchase Agreement with AIM-listed Saffron Energy Plc (“Saffron”) under which Saffron will acquire onshore and offshore oil and gas production, development and exploration assets in northern Italy held by Po Valley Operations Pty Ltd (“PVO”), a 100%-owned subsidiary of Po Valley Energy (“Transaction”).

The Transaction is subject to shareholder approval and is part of a broader three-way commercial deal to create a large European oil and gas business, as first announced on 6 October 2017, and from which Saffron intends to expand its interests to include South East Asian oil and gas assets.

PVE currently holds 100 million shares (53.8%) of Saffron. The asset change will deliver PVE shareholders participation in a strongly capitalised and London LSE listed European natural gas company which plans to broaden operations in both Europe and South East Asia.

Under today’s formal agreement, Saffron will acquire PVO from PVE for 200 million Saffron shares and also acquire fellow Italian-based Sound Energy Holdings Italy Ltd (“SEHIL”) for 185.9 million Saffron shares through a reverse takeover. This will increase PVE’s holding in Saffron to the 300 million shares.

As part of this larger Transaction, agreements have been reached with large international institutional investors for Saffron to raise £14 million (A\$24.3 million) at an issue price of 4.38p per Saffron ordinary share.

Po Valley plans under the broader Transaction, to eventually distribute its 300 million shares in Saffron to existing PVE shareholders on a pro-rata basis.

PVE shareholders will emerge from the Transaction with a direct shareholding in a more strongly capitalised Saffron which will then hold and operate 5 natural gas production fields, develop the large Selva and Teodorico gas fields in northern Italy and advance a number of large-scale gas and oil exploration assets.

Po Valley will retain a 5% royalty interest in the successful recently drilled Selva gas field and be reimbursed for its development funding of this field. It will also retain the cash proceeds of A\$1.7 million from the sale of the Grattassasso and Cadelbosco exploration licences in Italy, announced on 25 September 2017. The completion of this transaction is awaiting formal Italian Ministry approval.

The broader Saffron transactions are subject to PVE, Saffron and Sound Energy shareholder approval and the readmission of Saffron Energy to the AIM operations of the LSE as part of the Reverse Takeover of Saffron Energy.

More details will be provided to Po Valley shareholders in the Notice of an EGM, noting the EGM is anticipated to be held in March 2018.



Po Valley Chairman and CEO, Mr Michael Masterman, said today benefits to PVE shareholders of the transactions include:

- Direct shareholding in a much better capitalised Saffron;
- Listing on the higher liquidity AIM market which has a strong following of Europe's natural gas markets;
- Substantially stronger capitalisation through the £14 million (A\$24.3million) placement; and
- An expanded and consolidated European and Italian asset base through the combination of the Saffron, Sound Energy, and PVO assets, with South East Asia a target for future project expansion.

Italian oil and gas asset changes

Saffron, as a current Po Valley subsidiary, already owns a 100% interest in the Sillaro and Sant' Alberto gas projects and 90% in the Bezzecca gas production field. The reconfiguration will see Po Valley inject its remaining 63% of the recent Selva gas discovery and its 100% owned Teodorico gas and Torre Del Moro oil exploration projects into the enlarged entity. Sound will contribute its Maria Goretti, Laura, and Dalla gas exploration projects and two Italian gas production fields, Rapagnano, and San Lorenzo, into the enlarged group.

On re-listing on AIM, Saffron will also change its name to Coro Energy Plc ("Coro"). The current Board and Management of Saffron will remain unchanged following the completion of the Transaction.

Immediately post Transaction, Po Valley will own 33.65% of Saffron Energy Plc. It will also own a 5% royalty interest in any commercial gas discoveries within the Podere Gallina Licence Permit, including the recent Selva gas discovery, along with the proceeds from the expected completion of the sale of the Grattassasso and Cadelbosco exploration licences.

Further details of the Transaction can be found in the Saffron announcement, which can be found at this link [Signing of Agreements and New Strategy](#)

Planned Saffron expansion into South East Asia's energy opportunities

Mr Masterman said that, in addition to creating a substantial European asset base through this transaction, Saffron believed there were particular opportunities to acquire exploration licenses in South East Asia.

As a result, Saffron would pursue a combined European and South East Asian regional exploration strategy focused on multi Tcf (trillion cubic feet), low cost, onshore gas piped to high value, growing markets.

Saffron believes South East Asia possesses some of the world's fastest developing economies where demand for gas currently significantly outstrips supply. This, combined with increasing growth across the region and the increasing shortage of gas in major markets, provides a compelling investment proposition for investors at this specific point in the energy cycle.

The Company plans to acquire a series of assets across the South East Asian region, with an initial focus on Indonesia, leveraging existing infrastructure, relationships and processing capability which should enable new discoveries to be brought to market quickly. Saffron is planning to selectively bring in pre-identified strategic partners to the business to fund and technically de-risk such assets.

MEDIA CONTACTS:

Po Valley Energy
+61 414 822 631



Summary of the binding agreement for the sale and purchase of PVO (the “PVO Agreement”)

- (a) the consideration payable by Saffron for the entire issued share capital of PVO (the “PVO Shares”) is to be settled through the issue of 200,000,000 Ordinary Shares (the “PVO Consideration Shares”), which will be issued upon completion of the PVO Agreement (“PVO Completion”) to Po Valley Energy, for immediate distribution to Po Valley Energy shareholders in accordance with a capital reduction (the “Po Valley Capital Reduction”);
- (b) the PVO Agreement is conditional on certain conditions and undertakings having been satisfied or waived on or prior to PVO Completion, including the following: (i) completion of a firm and conditional placing; (ii) approval by the shareholders of Saffron and also on the shareholders of Po Valley Energy approving the Po Valley Capital Reduction; (iii) re-admission of the entire issued, and to be issued, share capital of Saffron to trading on AIM (“Re-admission”), which conditions are expected to be satisfied in April 2018; (iv) Po Valley Energy providing evidence satisfactory to Saffron that, on completion of the Proposed PVO Transaction, the indebtedness of PVO shall be limited to certain permitted indebtedness (being certain agreed interim debt (the “Interim Debt”), an amount equal to the expected sale proceeds of each of the licences known as Cadelbosco di Sopra and/or Grattasasso, an amount equal to an agreed VAT rebate to be paid by PVO to Po Valley Energy on completion) and amounts advanced by Saffron to PVO (the “Permitted Indebtedness”); (v) delivery by Po Valley Energy to Saffron of an amended and restated loan agreement between Po Valley Energy and PVO, in a form agreed by Saffron, dealing with (inter alia) the treatment of the Permitted Indebtedness following completion of the Proposed PVO Transaction; (vi) receipt of required regulatory approvals; (vii) each of Michael Masterman, Kevin Bailey and Byron Pirola having entered into an orderly market agreement in a form agreed by Saffron in respect of his shareholding in Saffron; (viii) Saffron receiving evidence satisfactory to it that there are no registered charges against PVO; (ix) Po Valley Energy being satisfied that on PVO Completion and Re-admission, the PVO Consideration Shares, when taken together with Po Valley Energy’s existing holding of Ordinary Shares and assuming no disposals are made by Po Valley after the date of the PVO Agreement, represent not less than 20 per cent. of the issued share capital of Saffron; (x) delivery by PVE, no less than 10 business days prior to the intended date for PVO Completion, of a disclosure letter in a form accepted by Saffron (together with associated disclosure documents); and (xi) there not having occurred (in relation to Saffron or Po Valley Energy) between the date of the agreement and the date of the meeting to approve the Po Valley Energy Capital Reduction, a breach of warranty which constitutes: (A) in the case of a Saffron breach of warranty, a Saffron Material Adverse Change; or (B) in the case of a Po Valley breach of warranty, a PVO material adverse change (meaning any event, matter, change or condition which occurs, or is announced, or becomes known to Po Valley (whether or not becoming public) where that event, change or condition causes, or could reasonably be expected to cause, a reduction in the consolidated net assets of PVO of more than £200,000, excluding certain global events) (a “PVO Material Adverse Change”);
- (c) Saffron has undertaken to procure that: (i) the Interim Debt (ii) certain indebtedness incurred by PVO between the date of the PVO Agreement and PVO Completion relating to the licence known as Podere Maiar-1 and/or (iii) certain indebtedness incurred by PVO in relation to the licences known as Teodorico and Torre del Moro (each held by PVO), shall be paid to the respective creditor in cash on Completion (and Saffron has agreed that it may be required to provide PVO with funding to enable PVO to make such payments);
- (d) As announced by Po Valley Energy on 25 September 2017, Po Valley Energy has entered into a conditional sale agreement with a private oil and gas company, backed by a private equity fund based in London, for the sale of each of the licences held by PVO, known as Cadelbosco di Sopra (an 85% interest) and Grattasasso (100%) (the “Licence Sales” and each a “Licence Sale”). The Licence Sales remain subject to ministry approval, and so Po Valley Energy and Saffron have agreed a number of matters in the PVO Agreement as regards the Licence Sales, inter alia, the PVO Agreement contains the following undertakings:



- (i) to the extent that the Licence Sales complete in accordance with their terms, Saffron agrees to procure that the Licence Sale proceeds ("Licence Sale Proceeds") are paid to Po Valley by Saffron or PVO as soon as reasonably practicable following receipt thereof;
 - (ii) in the event that any Licence Sale does not complete in accordance with its terms, Po Valley Energy, or a subsidiary of Po Valley Energy will have an option to acquire the licences known as Cadelbosco di Sopra and Grattasasso (the "Po Valley Licence Sale") in consideration for the release of an amount equal to the anticipated Licence Sale Proceeds owing by PVO to Po Valley Energy following completion of the Proposed PVO Transaction. Such option will expire on the earlier of: (A) 18 months and (B) the licences are sold to a third party;
 - (iii) in the event that any Licence Sale does not complete in accordance with its terms, Saffron undertakes to use reasonable efforts to undertake the sale of Cadelbosco di Sopra and Grattasasso to a third party and remit the proceeds to Po Valley Energy;
 - (iv) following completion of the Proposed PVO Transaction and until the earlier of the (i) the date of the Licence Sales; and (ii) the date on which any of Cadelbosco di Sopra and Grattasasso lapses or is withdrawn by the relevant authority, Saffron undertakes to use reasonable efforts to take administrative steps reasonably required under applicable law to maintain the good standing of Cadelbosco di Sopra and Grattasasso with the Italian Ministry of Economic Development; and
 - (v) from the date of the PVO Agreement, Po Valley Energy agrees that neither Saffron nor PVO shall be under any obligation to incur any expenditure in relation to, or otherwise carry out, any work programme in relation to Cadelbosco di Sopra and Grattasasso that may be required by applicable law in order to maintain the good standing of either or both of Cadelbosco di Sopra or Grattasasso, provided that Saffron shall provide reasonable assistance to Po Valley Energy in the event that Po Valley Energy chooses to take such steps required to meet any such work programme (at the sole cost of Po Valley Energy). In the event that Po Valley Energy wishes to pursue any such work programme but fails to provide the required funds, neither Saffron nor PVO shall have any liability or obligation to Po Valley Energy to undertake the relevant work.
- (e) the PVO Agreement may be terminated in certain circumstances:
- (i) by either party in the event that the conditions precedent and/or undertakings given for their benefit and standing to be satisfied on or before completion of the agreement are not met or waived;
 - (ii) by Po Valley Energy, in the event of a Saffron Material Adverse Change;
 - (iii) by Po Valley Energy at any time before at any time before 8.00 am on 26 March 2018 if any Saffron director or the board of directors of Saffron, excluding any Saffron directors excluded from recommending and voting thereon, publicly changes (including by attaching qualifications to) or withdraws (including by abstaining) their statement that they consider the Proposed PVO Transaction and/or readmission of Saffron's shares to trading on AIM to be in the best interests of the Saffron shareholders or their recommendation that the Saffron shareholders approve the Proposed PVO Transaction and/or readmission, or publicly states an intention to change their voting intention in respect of any Ordinary Shares held by them;



- (iv) by Po Valley Energy if a conditional placing is not completed by Saffron through the allotment and issue of new Ordinary Shares to raise a minimum amount of £10 million by 30 April 2018;
 - (v) by Saffron, in the event of a PVO Material Adverse Change;
 - (vi) by Saffron at any time before 8.00 am on 26 March 2018 if any Po Valley Energy Director or the board of directors of Po Valley Energy, excluding any Po Valley Energy directors excluded from recommending and voting thereon, publicly changes (including by attaching qualifications to) or withdraws (including by abstaining) their statement that they consider the Po Valley Capital Reduction and/or the Proposed PVO Transaction to be in the best interests of the Po Valley Energy shareholders or their recommendation that the Po Valley Energy shareholders approve the Po Valley Capital Reduction, or publicly states an intention to change their voting intention in respect of any Po Valley Energy shares held by them; and
 - (vii) by Saffron, in the event that Po Valley Energy makes any disclosure against the Po Valley Energy warranties prior to PVO Completion which causes or constitutes or is reasonably likely to cause or constitute a PVO Material Adverse Change;
- (f) Po Valley Energy has given various warranties to Saffron concerning (among other things) its capacity to enter into the PVO Agreement and related documents, the share capital, business and assets of PVO, litigation and tax;
 - (g) Saffron has given certain warranties to Po Valley Energy, for the benefit of the Po Valley Energy shareholders, concerning (amongst other things) its capacity to enter into the PVO Agreement and related documents, its share capital, litigation and tax;
 - (h) Po Valley Energy has provided certain indemnities in the PVO Agreement to Saffron in respect of specific identified liabilities, including in respect of plugging wells and rehabilitating related land. Po Valley Energy also undertakes to enter into a reasonably standard form tax covenant (the "PVO Tax Covenant") on PVO Completion;
 - (i) under the PVO Agreement, no warranty claim can be brought unless it is for an amount at least equal to £15,000, and until the party bringing the claim has a claim or basket of claims exceeding £150,000;
 - (j) the liability of each of Po Valley Energy and Saffron under the PVO Agreement, and (in the case of Po Valley Energy only) the PVO Tax Covenant, is limited to £1,500,000;
 - (k) Po Valley Energy and Saffron have undertaken pursuant to the PVO Agreement that on completion of the Proposed PVO Transaction, PVO and Po Valley Energy will enter into a royalty deed in a form to be agreed between Po Valley Energy and Saffron (the "Royalty Deed"), pursuant to which PVO would be required to procure that 5% of the total proceeds of natural gas sales relating to the gas field known as Podere Maiar-1 or any other well drilled on the Podere Gallina license shall be paid in arrears to Po Valley Energy. In addition, Po Valley Energy undertakes and agrees that Saffron shall be permitted to deduct, from any and all payments made under the Royalty Deed, an amount equal to any agreed claim brought by Saffron against Po Valley Energy which may be outstanding at the date any such royalty payment is due for payment in accordance with the terms of the Royalty Deed, in any event up to a maximum total amount of £750,000; and
 - (l) Po Valley Energy undertakes pursuant to the terms of the PVO Agreement not to take any steps to initiate any insolvency proceedings in respect of itself for a period of two years following completion of the Proposed PVO Transaction.