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SOCO International plc

(“SOCO” or, together with its subsidiaries, the “SOCO Group”)

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION REGARDING SOCO INTERNATIONAL PLC

## REPOSITIONING SOCO

### *Proposed Acquisition of Merlon*

20 September 2018

#### Key Highlights

- SOCO reaches agreement to acquire Merlon Petroleum El Fayum Company (“**Merlon**”)
- Approximately US\$215 million purchase price, to be paid in cash and new SOCO shares
- Merlon holds a 100% operated working interest in the El Fayum concession in Egypt
- Producing and free cash flow generating oil concession with tangible development upside from discovered resources, as well as exploration prospectivity
- Operated platform for SOCO to build a material business in Egypt and MENA

SOCO International plc is pleased to announce that it has agreed to acquire Merlon Petroleum El Fayum Company for approximately US\$215 million (the “**Proposed Transaction**”). Merlon is a privately owned oil and gas company with a 100% operated working interest in the onshore El Fayum concession in Egypt. The consideration will be satisfied through the payment of approximately US\$136 million in cash and the issue of c.66 million new SOCO shares, representing 19.75% of SOCO’s current issued share capital. SOCO will also arrange for the repayment of Merlon’s net debt, which was approximately US\$22 million as at 31 December 2017.

The acquisition of Merlon is a significant step forward in SOCO’s stated objective of expanding and diversifying its resource base to create a full-cycle, growth orientated E&P company of scale. The El Fayum concession is located in the low-cost and highly prolific Western Desert, c.80 km south west of Cairo and in proximity to local energy infrastructure. The acquisition is expected to add immediate cash generative production and incremental 2P (net) working interest reserves of 24 mmbbls and 2C (net) working interest resources of 37 mmbbls. Merlon produced 7,859 bopd (net) in 2017, with the potential to increase production levels to a target in excess of 15,000 bopd (net) by 2023 through the recovery of its discovered 2P reserves and 2C resources. In addition, the El Fayum concession will provide SOCO with nearly 1,570km<sup>2</sup> of exploration acreage (of which c.70% is covered by existing 3D seismic) with multiple, identified exploration prospects in proven petroleum systems, as well as a large underexplored area in the northern portion of the concession.

SOCO views Merlon as a highly strategic platform to enable future organic and inorganic growth in Egypt and the wider Middle East & North Africa (“**MENA**”) region. The Merlon team that will become part of SOCO has a proven ability to create and realise value and has evolved Merlon from being an exploration-focused entity into a production and development business. Their experience in Egypt and their regional relationships will be significant assets for, and highly complementary to SOCO.

SOCO will finance the cash component of the consideration and the redemption of Merlon’s net debt through its existing cash and liquid investments (US\$129 million as of 30 June 2018) and unutilised capacity under a new US\$125 million Reserve Based Lending (“**RBL**”) facility, which was announced on 17 September 2018. Merlon is free cash flow positive on a standalone basis and SOCO anticipates that the growth investment required for developing Merlon’s 2C resources will be primarily funded by the cash flows generated from the El Fayum concession. As such SOCO expects that it will continue to maintain a robust balance sheet and free cash flow outlook following completion of the acquisition, which will allow SOCO to maintain and further underpin its policy of regular distributions of excess free cash flow to its shareholders.

### Strategic Rationale for the Transaction

The Proposed Transaction will:

- Complement and diversify SOCO’s existing Vietnam-focused portfolio and add a material hub of operated onshore oil production in the prolific Western Desert in Egypt
- Build scale through incremental 2P (net) working interest reserves of 24 mmbbls, 2C of 37 mmbbls and expected average production of 6,500 – 7,000 bopd (net) in 2018
- Increase SOCO’s through-cycle financial resilience through Merlon’s low cost resource base
  - 2017 opex / bbl of US\$6/bbl
  - Full-cycle 2P + 2C NPV10 breakeven of c.US\$34/bbl
- Enhance SOCO’s organisational capabilities through the addition of Merlon’s team
  - Jason Stabell, Merlon’s President & CEO will join SOCO and will continue to have responsibility for managing the Egyptian business within SOCO, alongside the Merlon team
  - An operating platform for further growth in Egypt and the wider MENA region
- Provide tangible production growth, re-setting SOCO’s growth trajectory
  - Targeting over 15,000 bopd (net) production by 2023, from discovered reserves and resources
  - Scalable, low-risk development profile: infill drilling, workovers and waterflood expansion
- Enhance exploration optionality and upside potential within SOCO’s portfolio
  - Multiple prospects and leads with un-risked OIIP resource potential of >500 million boe
  - Historic exploration success rate on concession in excess of 50%
- Be immediately accretive to SOCO’s operating cash flow per share
- Result in a conservative pro-forma leverage level of <0.5x June 2018 LTM Net Debt / EBITDAX, thereby preserving financial flexibility to deliver the combined portfolio’s upside, as well as maintain SOCO’s policy of regular cash distributions of excess free cash flow to shareholders

The Proposed Transaction is subject to shareholder and regulatory approvals and is expected to complete in H1 2019.

#### **Ed Story, President and Chief Executive Officer of SOCO, commented:**

*“We are delighted to have reached an agreement to acquire Merlon. We have high regard for the business that Merlon has established in Egypt and are excited that Jason and his team are joining SOCO. In addition to providing a high quality, free cash flow generating oil concession with significant development upside and exploration optionality, Merlon creates a new hub for our business in Egypt, which we will utilise to support further growth not only in Egypt but also the wider MENA region, both organically and through additional*

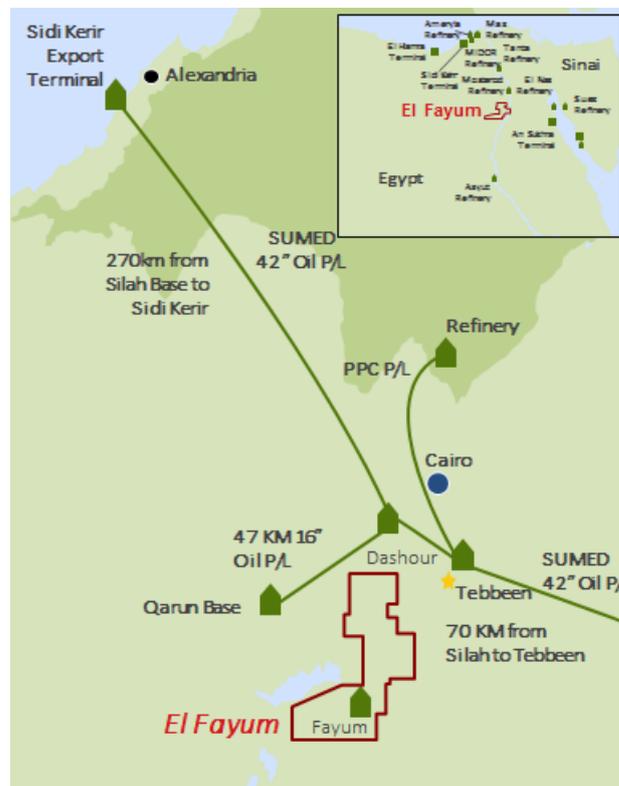
M&A. This accretive, high quality transaction represents a significant step in the reshaping of SOCO as a Full Cycle, Growth Orientated E&P.

SOCO will, as a result of the Proposed Transaction, offer shareholders strong cash flow from an enhanced and diversified portfolio of producing assets, material organic and continued inorganic growth potential, underpinned by regular distributions of excess free cash flow under a strong management team.”

**Jason Stabell, President and Chief Executive Officer of Merlon, commented:**

“The Merlon team and I are looking forward to joining SOCO. We are excited about SOCO’s strategic vision and the opportunity to continue developing the El Fayum concession as well as SOCO’s business in Egypt and the MENA region. As part of SOCO we will be in a stronger position to accelerate value capture from the El Fayum concession than we would be able to on a standalone basis. We look forward to continuing our longstanding and successful partnership with the government of Egypt and the EGPC. Our confidence in the value creation potential from this combination is shared by our existing owners who will retain meaningful exposure to this story through an equity interest in SOCO.”

**Location of El Fayum Concession in Egypt**



**A conference call for investors and analysts will be held today at 9.30 a.m. (BST)**

Dial-in: 0800 358 9473 or +44 (0) 33 3300 0804, PIN: 77676633#

Audience URL: <http://arkadinemea-events.adobeconnect.com/ec1yjj8c4ic7/event/registration.html>

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## **Overview of Proposed Transaction and Key Terms**

The Proposed Transaction will be structured as an acquisition of the entire issued and to be issued share capital of Merlon for approximately US\$215 million (the “**Equity Purchase Price**”). The consideration for the Equity Purchase Price will be settled through the payment of approximately US\$136 million in cash and the issue to Merlon shareholders of c.66 million new SOCO shares (representing 19.75% of SOCO’s current share capital and a value of approximately US\$79 million) (the “**Share Consideration**”). As part of the Proposed Transaction, SOCO will arrange for the repayment of Merlon’s existing debt facilities.

Merlon’s President and Chief Executive Officer, Jason Stabell, will join SOCO and will continue to have responsibility for managing the Egyptian business within SOCO, alongside the Merlon team. The Merlon team has extensive knowledge and experience of operating in Egypt, and strong relationships with relevant regional regulatory authorities. Their experience will be invaluable to ensure operational continuity and support SOCO’s future growth efforts in-country and within the broader MENA region. SOCO is reviewing the existing organisational structure of Merlon with a view to developing a detailed integration plan by the time of completion.

As part of the Proposed Transaction, Mr. Stabell will receive a portion of his consideration entitlement in new SOCO shares that will be subject to staggered lock-ups over a 12 month period. The remaining Share Consideration will be distributed pro-rata amongst the remaining Merlon shareholders. Funds managed by Yorktown Energy Partners, which is the largest shareholder of Merlon with a c.72% ownership interest, will retain a c.12% ownership interest in SOCO at completion.

## **Overview of Merlon**

Merlon is a private E&P company incorporated in the Cayman Islands and headquartered in Houston, Texas. Merlon owns a 100% working interest in the El Fayum concession in the Western Desert in Egypt. The El Fayum concession covers an area of 1,826km<sup>2</sup> and is located c.80 km south west of Cairo. Merlon was established in 2004.

The Western Desert is one of Egypt's most productive hydrocarbon regions. Despite its maturity, the Western Desert continues to be a very prospective region, with Wood Mackenzie estimating that the basin still holds one billion boe (83% oil) of risked prospective resources. Further, the Western Desert is renowned as a low cost exploration region, with Wood Mackenzie estimating the average well cost over the last 10 years to be US\$3.8 million per well and with wells often being drilled for less than US\$1 million.

El Fayum is located in the Gindi Basin geologic province in close proximity to several other large productive fields. The concession holds 11 oil fields and is operated by Petrosilah, a 50 / 50 JV between Merlon and Egyptian General Petroleum Company ("EGPC"), as required by Egyptian law. The concession was awarded to Merlon in 2004 under a Production Sharing Contract ("PSC") and the first field (Silah) came onstream in 2009 followed by 11 field opening exploration discoveries over 2009 – 2010. The majority of development is concentrated in the Greater Silah Area. The El Fayum concession is expected to have remaining 2P (net) working interest reserves of 24 mmbbls and 2C (net) working interest resources of 37 mmbbls. Working interest daily production averaged approximately 7,859 bopd (net) in 2017. Production from the concession is trucked c.70 km to the Tebbeen pumping station where it enters the pipeline network and is transported to the Cairo refinery.

Merlon retains a significant prospect inventory with identified exploration targets in the southern and northern parts of the El Fayum concession.

### **Financial Information Related to the Assets Included in the Proposed Transaction**

As at 31 December 2017, the value of the gross assets included in the Proposed Transaction totalled US\$240 million. The profit before tax attributable to the assets included in the Proposed Transaction totalled US\$8 million in the twelve months to 31 December 2017.

In the twelve months to 30 June 2018, Merlon received payments in lieu of oil sales from EGPC totalling c.US\$61 million, and had an outstanding receivables balance of c.US\$35 million as of 30 June 2018. The outstanding receivables balance, net of payables, was c.US\$11 million as of 30 June 2018.

### **Financing**

SOCO will finance the cash portion of the Proposed Transaction through a combination of existing cash and liquid investments and unutilised capacity under its RBL facility. As of 30 June 2018, SOCO had cash and liquid investments of US\$129 million. On 17 September 2018, SOCO announced that it had signed a committed RBL facility of US\$125 million against its existing assets in Vietnam. SOCO's RBL facility also has an accordion feature of US\$125 million, and it expects to move the assets acquired as part of the Proposed Transaction into the RBL borrowing base post completion and upsize the financing capacity available to it under the RBL.

### **Steps to Completion**

Under the UK Listing Rules the Proposed Transaction will require the approval of SOCO's shareholders. SOCO will in due course send a circular to its shareholders convening a general meeting to receive their approval as well as setting out further information on the Proposed Transaction and on Merlon. The SOCO board is unanimous in its recommendation of the Proposed Transaction and intends to recommend unanimously in the circular that the SOCO shareholders vote in favour of the Proposed Transaction and the resolutions at the general meeting.

The SOCO directors holding SOCO shares have irrevocably committed to vote in favour of the Proposed Transaction at the general meeting of SOCO shareholders. At the date of this announcement, these SOCO shares taken together represented approximately 16% of SOCO's issued share capital.

SOCO has agreed to pay Merlon a break fee of US\$3.8 million if the SOCO board amends, qualifies, adversely modifies or withdraws its recommendation or if SOCO shareholders do not approve the Proposed Transaction.

The Proposed Transaction is also subject to Egyptian regulatory approvals and is expected to be completed in H1 2019.

### NOTES TO EDITORS

SOCO is an international oil and gas exploration and production company, headquartered in London and traded on the London Stock Exchange. SOCO has exploration, field development and production interests in Vietnam.

SOCO holds a 30.5% working interest in the Te Giac Trang Field of Block 16-1, which is operated by the Hoang Long Joint Operating Company. Block 16-1 is located in the shallow water Cuu Long Basin, offshore southern Vietnam.

SOCO holds a 25% working interest in the Ca Ngu Vang field of Block 9-2, which is operated by the Hoan Vu Joint Operating Company. Block 9-2 is located in the shallow water Cuu Long Basin, offshore southern Vietnam.

SOCO holds a 70% working interest in and is designated operator of Blocks 125 & 126, located in the moderate to deep water Phu Khanh Basin, offshore central Vietnam.

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This announcement is an advertisement and not a prospectus and has been prepared solely for the purpose of the Proposed Transaction.

This announcement contains certain forward-looking statements that are subject to risk factors and uncertainties associated with the oil and gas exploration and production business generally and specifically with the business, operations and financial position of the SOCO Group. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "may", "aims", "targets", "prospects", "outlooks", "potential", "possible", "forecasts", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts.

These forward looking statements are subject to risks, uncertainties and assumptions regarding SOCO's present and future business strategies and the environment in which SOCO will operate in the future including, among other things, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather-related impacts, wars and acts of terrorism, development and use of technology, acts of competitors, the repercussions of the UK's referendum vote to leave the European Union, future capital expenditures and acquisitions and other changes to business conditions. In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this announcement reflect SOCO's current view with respect to future events and are subject

to risks relating to future events and other risks, uncertainties and assumptions relating to SOCO and its operations, results of operations and growth strategy.

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Except as explicitly stated, neither the content of SOCO's nor Merlon's website, nor any website accessible by hyperlinks on SOCO's or Merlon's website is incorporated in, or forms part of, this announcement.

### Sources of Information and Bases of Calculation

1. The Equity Purchase Price of approximately US\$215 million has been calculated as the aggregate of:
  - a. the cash consideration which will be paid to Merlon shareholders of approximately US\$136 million; and
  - b. the value of the Share Consideration of approximately US\$79 million.
2. The Equity Purchase Price of approximately US\$215 million is stated before any transaction or assignment fees which may be payable by SOCO in connection with the Proposed Transaction.
3. The value of the Share Consideration of approximately US\$79 million has been calculated by reference to:
  - a. c.66 million new SOCO shares which will be issued to Merlon shareholders;
  - b. the arithmetic average of the daily volume-weighted average price for a SOCO ordinary share for the 20 trading days ended 17 September 2018; and
  - c. the £:\$ exchange rate on each of the 20 trading days ended 17 September 2018.
4. The expected remaining 2P (net) working interest reserves of 24 mmbbls and 2C (net) working interest resources of 37 mmbbls of the El Fayum concession are based on SOCO management estimates. The circular which will be sent by SOCO to its shareholders for the purpose of convening a general meeting to seek their approval for the Proposed Transaction will contain a competent person's report on Merlon's remaining reserves and resources.
5. Unless otherwise stated all exchange rates and prices for SOCO shares are derived from Bloomberg.