

29 August 2023

Star Energy Group plc ("Star Energy" or "the Company" or "the Group")

Acquisition of Croatian Geothermal Development Company

Star Energy is pleased to announce that it has today acquired 51% of the issued share capital of A14 Energy Limited ("A14 Energy"). A14 Energy owns, via its Croatian subsidiary, IGeoPend.o.o. ("IGeoPen"), the Ernestinovo geothermal waters exploration licence in the highly prospective Pannonian Basin in Croatia. The IGeoPen team has deep knowledge and experience of the Croatian energy sector.

This transaction further develops the Company's strategy to transition into a geothermal developer, owner and operator, diversifying regulatory risk and providing an entry into the electricity generation sector.

The geothermal sector is a fundamental component of the energy transition, with the ability to provide long term baseload electricity and heat generation. Star Energy, has decades of experience of sub-surface analysis, onshore drilling, well management and environmental control from its portfolio of oil and gas operations in the UK. These skills and experience, coupled with those of the IGeoPen team, mean that Star Energy is well positioned to deliver geothermal energy in Croatia, a member of the European Union (EU), with a liberalised, well established and attractive energy market.

Transaction Details

The interest in A14 Energy has been acquired by the Company's subsidiary, GT Energy Croatia Limited ("GTEC"), from Peninsula International Pte Ltd ("Peninsula") for a total cash consideration of €1.3 million. Additionally, Star Energy will pay €0.1 million, relating to the provision of cash backed guarantees to the Croatian Hydrocarbon Agency, plus €0.2 million in back costs relating to the ongoing appraisal of the Ernestinovo licence.

In addition, GTEC has entered into a shareholders' agreement with Peninsula in order to jointly develop and submit bids, and thereafter to own, construct and operate geothermal projects in Croatia.

GTEC and Peninsula, through IGeoPen, have jointly submitted three bids for geothermal licences to the Croatian Hydrocarbon Agency as part of the current licencing round and expect the results of the bids by December 2023. A further aggregate amount of up to €1.5 million is payable upon the successful award of these licences.

The re-entry of an existing well on the Ernestinovo exploration licence and the drilling of any new appraisal wells, on the successful award of licences bid for in the current licencing round, will be financed by GTEC and Peninsula through shareholder loans and externally sourced finance. GTEC has agreed to carry Peninsula for up to €13.2 million over the five-year exploration licence period. The GTEC carry is repayable from free cash flow generated from the licences.

Key highlights

- The vast Croatian geothermal resource is well understood, with extensive data available from over 4,000 exploration and appraisal wells drilled during a period of hydrocarbon exploration in Croatia. In addition, 2D and 3D seismic surveys that cover c.20,000km², including the Ernestinovo licence and the three licence areas that the parties have applied for in the current licencing round. All data is available to the licence holder.
- Characteristics are well suited for electricity generation with a geothermal gradient proven to be 60% higher than the European average and electricity can be sold bi-laterally throughout the EU.
- Nearby electricity transmission infrastructure provides immediate access to pan-European power markets.
- The Croatian Government is highly supportive and is actively promoting the sector internationally. The Croatian electricity market is liberalised and well established and it offers an attractive market premium (CfD) for a 12 year period.
- The acquisition brings a small team of highly regarded geothermal and geological experts with a recognised track record in the Croatian energy sector, with key personnel having led the development of Croatia's first geothermal power plant (Velika 1).
- The Ernestinovo licence already has existing wells in situ, one of which will require re-entry and a well test to validate the resource, after which a 20-year development licence will be awarded.
- Bids have been submitted, through IGeoPen, for three further highly prospective licence areas.

Croatia Geothermal Development

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Whilst still in its infancy, interest in geothermal exploration and the development of geothermal projects is growing fast, driven by government support and promotion of the sizable resource potential.

There is currently a single operating geothermal plant, Velika Ciglena, with an installed capacity of 17.5MWe. The Croatian Hydrocarbon Agency estimates that the geothermal potential in Croatia is in excess of 1GW.

There are good in-country grid connections. The Croatian Transmission System Operator (HOPS) owns and operates the entire Croatian transmission network (400kV, 220kV, 110kV) and is independent and non-discriminatory towards all transmission system users.

The operator of the Croatian electricity market (HROTE) runs tenders that award a CfD for electricity generation from renewable sources. The market premium contract is awarded for a 12-year period. Alternatively, electricity can be sold bilaterally throughout the EU.

Croatian Geology

There was intense oil and gas exploration and production in the northern part of Croatia (the Pannonian Basin) in the second half of the 20th century which yielded a substantial amount of deep geological, geophysical and hydrodynamic information, including 2D and 3D seismic acquisition covering an area of c.20,000km². Some 4,000 deep wells have been drilled and a large number of geothermal reservoirs were discovered giving well test data that demonstrates excellent temperature and permeability which are considered to be critical elements to a successful geothermal project. Due to the very large data set, the geological risk is assessed as low.

Ernestinovo Licence

The exploration licence covers 76.7km² with a commitment to re-enter an existing well, due 8 April 2024. GTEC's carry is a maximum of €1.47 million for the well re-entry. A conceptual programme for the Ernestinovo-3 workover well has been submitted and the work programme is on schedule to be completed as planned, satisfying the licence commitment. The licence has excellent data from three deep exploration wells drilled in the 1990s.

Based on preliminary heat reserves and well productivity estimates, the Company's internal assessment forecasts the potential for a first phase development of a 10MW electricity generation plant utilising five to six wells producing and re-injecting geothermal brine.

The proposed plant would connect into the Ernestinovo HOPS substation - a major substation with 400kV transmission lines to Zagreb, Hungary, Serbia and Bosnia, and local distribution lines at 110 kV and 85kV - and sell electricity on either a market premium arrangement (CfD) or bilaterally.

There is upside potential for plant extension (an additional 5 to 10 MW) upon permit area extension (subject to tender) and potential for heat for green-houses and milk processing plants as the area is predominantly agricultural.

Geothermal Licence Bids

Licensing is through the Croatian Hydrocarbon Agency. An initial five-year exploration licence is granted, followed by the development licence (subject to fulfilling licence obligations during the exploration phase).

A new licensing round, with six licences available, was announced on 28 December 2022. The parties have participated in the licensing round, submitting three bids in the Drava depression geological region (located in the southwestern area of the Pannonian basin), the same region in which the Ernestinovo licence is located.

The Croatian Hydrocarbon Agency has communicated that it has received 16 offers from a total of 11 companies (including our bids) and the results of the round are expected by the end of 2023.

Star Energy Chief Executive Officer, Chris Hopkinson commented:

"We are very pleased to announce our first overseas investment in geothermal as we look to build momentum in this part of our business.

Whilst the business has, and continues to build, a material pipeline of business opportunities in the UK, we identified a significant opportunity in Croatia which will allow faster development and diversification of Star Energy's geothermal interests.

The Croatian government is actively promoting the sector with a focus on electricity production which should allow accelerated development.

The acquisition brings with it a small, but highly respected team with years of experience in Croatia including developing the Velika 1 power plant and we look forward to working with them bringing complementary skills from our existing business.

This is an important next step in our strategy to transition over time into a significant player in the geothermal market and to deliver future value for our shareholders."

Dragutin Domitrovic, Director of A14 Energy, added:

Dragutin Dominkovic, Director of A14 Energy, added.

"We are excited to be working with the team at Star Energy. The combination of our understanding of Croatia's geology and Star Energy's successful track record of operating projects onshore will be mutually beneficial to both companies. This represents a significant opportunity to accelerate the development of geothermal projects in Croatia."

A short presentation can be found at: <https://www.starenergygroupplc.com/investors/reports-publications-presentations>

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About IGeoPen and A14 Energy

IGeoPen is a newly incorporated entity which was formed to acquire the Ernestinovo licence and is the operator of the project.

IGeoPen comprises a small team with extensive knowledge and experience of the Croatian energy sector.

A14 Energy is a newly incorporated holding company and holds 100% of the issued share capital of IGeoPen.

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