PROSPEX ENERGY PLC

Prospex Energy plc – The Plan for the Future

To all Prospex Energy Shareholders.

I am writing to you all to outline my plans and vision for Prospex Energy which builds on solid foundations.

Company forward-plan and strategy

Prospex is focused on upstream gas developments & production and electricity generation in North-West Europe.

We are an energy company, not an oil company, with the ambition to expand our portfolio with further gas-to-power projects and in time, blue hydrogen initiatives.

The company will target appraisal and development assets not exploration. We will be evaluating assets already in production for acquisition at fair market value.

There is an updated corporate presentation on our website which has further detail on the assets and the company.

Deal Activity

Prospex's current portfolio is a springboard for further growth opportunities. Organic growth is already happening and corporate acquisitions will also be considered.

Currently all our assets are onshore. We would look at offshore gas projects - access to infrastructure for gas export is key.

Investment and acquisition size will vary according to the available production linked financing. We will leverage the optimum debt levels, common practice in this industry, in order to increase returns to shareholders with minimal risk. We are looking at onshore asset divestments in Germany, Romania and elsewhere.

The company is talking to debt financiers and others in order to limit the use of equity and shareholder dilution.

The company is open to deals involving farm-ins or farm-outs, but the basis of any evaluation is to 'start with the rocks.' The rocks must be of sufficient quality and the reservoirs must deliver a commercial rate of gas, for any investment to make a positive return. This technically led strategy will be the key to our success.

Spain

In Spain, the El Romeral gas to power station (Prospex 49.9% working interest) is in production and is selling electricity into the Spanish grid. Recently, wholesale electricity prices in Spain have risen significantly to exceed €120/MWhr. This is an unprecedented price increase. Consequently, we are looking to optimise the power plant and upgrade the three El Romeral production wells to boost gas production with low cost, quick well workovers and interventions which achieve a return on investment within weeks or months. We have a long list of infill wells to drill on several identified discoveries and prospects in the licence. Since 1983, the strike rate for gas wells at El Romeral is 100% - all wells drilled on the licence discovered gas. We are currently generating a gross revenue of more than €110,000 per month from the gas to power plant at El Romeral.

At Tesorillo (Prospex 15% working interest), subject to securing the necessary finance, we intend to drill an appraisal well on the licence once we complete the necessary permitting and Environmental Impact Assessments. We are confident of commercial gas flows given the 1957 discovery well flowed gas to surface. In 1956/7 this well took over a year to drill to a shallow depth of 1,200m. By deploying modern drilling techniques an appraisal well here could be completed in less than a month and at a gross cost of about €1million.

Seismic reprocessing of existing 2D seismic data is underway and further seismic survey acquisition is being costed and designed.

Any Joint Venture partnership relies strongly on mutual trust and co-operation. We are working closely with Warrego Energy to deliver continuity and a clear aligned strategy and direction. There is no conflict of interest, simply strength in collaboration.

There are ongoing delicate discussions with the Spanish authorities at both local and national level on the status of the Tesorillo permit and these are best conducted by an aligned and united Joint Venture.

Italy

The Selva field in Italy is heading for first gas 1H 2022. The planned 20% acquisition of Selva from UOG raises our share in the licence to 37% and is a great deal for us. The acquisition cost is equivalent to just under $8/Boe. The proposed acquisition simply reimburses UOG its holding value. We did not pay a premium. When Prospex acquired its original 17% it was by a farm-in transaction to fund the development well at 'ground-floor' level. Since then, the Environmental Impact Assessment has been fully approved and the field now has independently verified proven reserves. The environmental approval, achieving proven reserves and the current increase in gas prices mean that the Selva asset is far more valuable now than it was in 2019. Such near-term production is a good candidate for debt financing and the company is engaging with its advisers to secure a financing package. There is a suspended well at Selva (one of seven drilled in the structure) which flowed gas to surface and our 37% share of the independently verified 2P gas reserves is 5 billion cubic feet.

Financing gas developments is always a balance between raising debt and equity. Financing acquisitions from near-term cash flow from a producing asset is commonplace in our industry. We intend to borrow against our near-term revenues at an appropriate level. The value of our expected 37% share of production from the Selva field in Italy is €10.2m (Jan 2019 CPR NPV10 at €0.2/scm) and we need to raise a further €2m for the proposed 20% acquisition and €1.8m for our 37% share of the working capital to get the gas to market. This represents a total funding requirement of €3.8m. The loan to value ratio of 2.6 is comfortable. The CPR economics are calculated with a gas price of €0.2/scm which is equivalent to 47p/therm. Gas prices are currently more than double that. At current gas prices the value our share in Selva also more than doubles.

We expect to be in production from the Selva field in Italy in H1 next year. We await the approval of the final production concession by Italy's Economic Development Ministry before spending commences on the installation of a fully automated gas plant and a 1 km pipeline to connect the plant to the grid.

Italy is in a similar situation to Spain in that it has to import over 90% of its natural gas demands, (60 BCM annually.) The EU has publicly stated that as part of its energy strategy it needs to reduce its reliance on Ukrainian and Russian gas exports. In fact, Europe is building or planning to build €87 million worth of gas infrastructure in a continued expansion of pipelines and LNG terminals. A lot of this has the option to be used with blended hydrogen into the gas grid (at least up to 20%) without any significant reworking of the infrastructure, so this will become the transition fuel of choice going forward. Switching to blended gas would have a major impact on the greenhouse gas emissions from traditional coal burning countries such as Germany, Poland, Romania, Austria, Czech Republic, Hungary, Greece, Latvia, Slovakia and Slovenia.

ESG

Gas is a transition fuel and is a key part of the ESG agenda.

Spain is Europe's largest importer of LNG – for every 100 tonnes of LNG imports from the USA, we calculate that there are 31 tonnes of carbon dioxide emitted to the atmosphere in the process of liquification, transportation and regasification and that is even before the gas is used for heating or power generation.

At the moment there is a shortage of energy supply in Europe. Electricity and gas prices are at an all-time high. Energy derived from local indigenous onshore gas developments is the optimum choice while renewables catch up in the energy transition process.

The EU still has a high dependency on gas within its energy mix and this cannot be quickly phased out. In fact, gas usage has been increasing since 2015 as coal fired power stations are phased out. The trajectory is quite clear for the European economy.

Outlook

The outlook for Prospex is extremely positive. With an increasing income stream from the current production already in our portfolio and a significant boost to our near-term production forecast with the recent proposed acquisition to increase our share in the Selva field by 20% we are well positioned to grow this company to multiples of its current valuation.

I look forward to your support in the coming months and I intend to maintain an open and constructive dialogue with all shareholders.

Yours faithfully

Mark Routh
CEO
Prospex Energy plc
www.prospex.energy

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