

Prospex Energy Plc[#]

BBG Ticker: PXEN LN

Price: £0.06

Mkt Cap: £15.4m

BUY

New European Gas Supply

Exposure to Structural Rise in European Gas Prices

Prospex Energy (PXEN LN) is an investment company with exposure to European gas and power markets. It currently has two key investments: a 37% non-operated interest in near-term gas production in Italy and a 49.9% interest in producing gas-to-power assets in Spain. The rise in gas prices and knock-on impact on power was well advanced before March 2022 but has been compounded by the invasion of Ukraine, prompting a rush to diversify away from Russian gas. Gas and power prices are currently at least ten times above the historic norm and the latest developments with Nordstream 1 suggest prices will remain elevated.

Near Term Italy Gas Production

In Italy, the operating company recently received permitting to proceed with the tie-back to the national gas infrastructure. Selva is an onshore development in the Po Valley, in Northern Italy, where regional gross gas reserves were previously estimated at 16TCF. PXEN has a 37% non-operated interest; net capex of €4.7m would derive peak annual cashflows of €14m net to PXEN using our base case assumptions. We believe that ahead of the receipt of the permitting, the recent funding, the proceeds from which fully fund the attributable capex and allow for contingency, has removed the key risks that the market was discounting, implying a rerate as the project advances to first production in 2023.

Spain Gas to Power

El Romeral in Southern Spain is an operating gas to power plant likely to produce around 22Mwh of power in 2022. YTD revenues have exceeded €2m with the asset level company cash balance rising from €0.4m to €1.1m in the first six months of the year owing to the completion of plant upgrades late last year and rising power prices. The drilling of two further gas production wells is due to increase plant capacity utilisation from c30% to 100%, with a positive impact on cashflows. Our base case DCF valuation is €15m. With further development funded internally from current production, this is a low-risk proposition which underpins the current valuation, although we note that further potential from gas developments, storage and solar are being explored to create additional value.

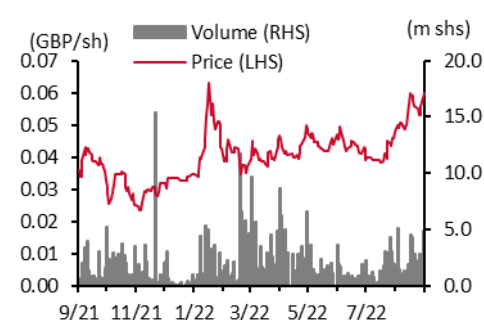
Target Price and Recommendation

PXEN provides timely exposure to European gas and power markets yet our conservative valuation using prices well below current spot levels implies significant upside with a net risked NAV valuation of £66m against a current market capitalisation of £15.4m. **We initiate coverage with a Buy recommendation and 20p/sh. target price**

Company Description

UK-based oil and gas investment company.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	25.0%	27.7%	66.7%
12mn high/low			£0.06/0.02

SOURCE: Eikon, as of 5 September 2022 close.

Market:	LSE
Shares in issue	256.7m
Target Price (£/sh.)	0.20
Free float:	56.5%
Net debt (Dec 2021):	(£0.2m)
Enterprise value:	£15.6m

Major shareholders

Colin Wilson	7.8%
Aidan O'Hara	6.9%
Simon Chantler	5.5%

Oliver O'Donnell, CFA, Natural Resources

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[#]VSA Capital acts as Corporate Broker to Prospex Energy

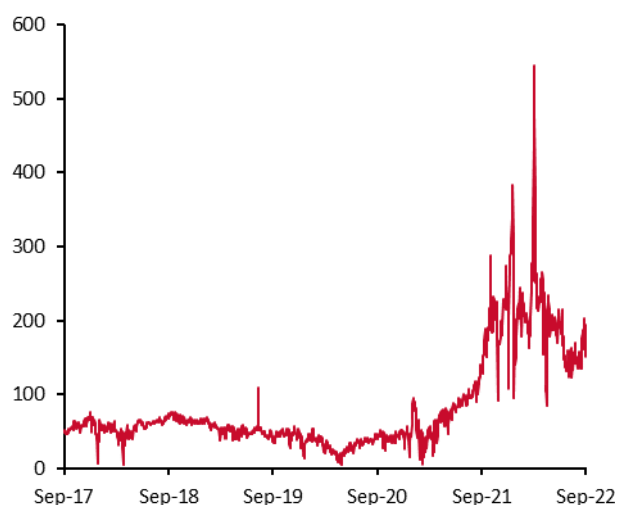
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Investment Case

During the last twelve months, **Prospex Energy (PXEN LN)** has completed a number of major milestones which substantially derisk the stock and we believe position it for a significant rerating. In Spain, where PXEN has a 49.9% interest in the El Romeral assets, investment last year in upgrading the gas to power plant to improve operational efficiency has enabled production to increase from 15 hours per day, six days a week to 24/7 and make the plant ready to receive higher volumes of gas from the planned drill programme. Since April 2022 the plant has been operating 24 hours a day, 7 days a week. We estimate based on data from H1 2022 that full year output of 22MWh is achievable, which is likely to generate revenue of around €4m and equates to around 30% capacity utilisation. We assume that permitting for drilling will be approved in 2023, enabling production ramp up to 100% capacity utilisation or c.60MWh in 2024, generating long term annual cashflow in excess of €1mpa at normal pricing levels and in excess of €5mpa at more than €175/MWh. Royalties and taxes are, however, relatively high and on a net basis our NPV8 value for the asset is €7.5m underpinning PXEN's current market valuation of £15.4m.

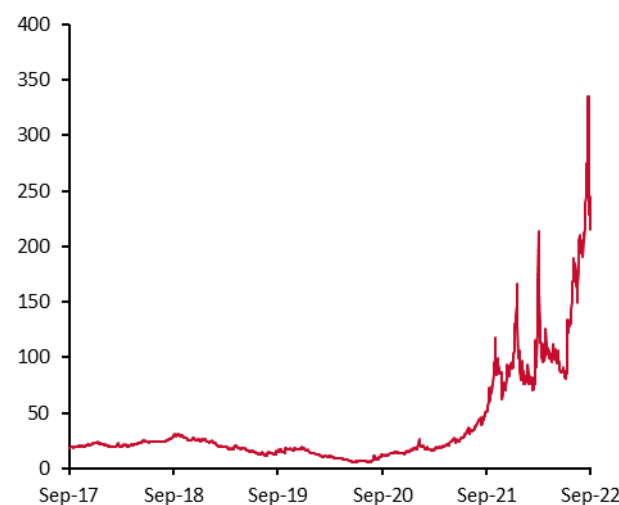
In our view, the main driver for upside in the near-term is the development of the onshore Selva gas project in Italy. A deal in August 2021 to increase PXEN's interest by 20% to 37% was timely and completed in April 2022. Subsequently, the production concession has been approved meaning that the permitting is mostly completed leaving a 12-month baseline seismicity survey to be completed. Data collection commenced in early 2022, meaning that first production is set for early to mid-2023. This low capex onshore development gives exposure to structurally higher gas prices, peak production of 35MMscm (3.8kscfd) which can be maintained for c5 years and free cash flow of up to €15mpa on our current pricing deck. Our NPV8 of €80m on long-term pricing of €60/MWh implies considerable upside for PXEN, while valued on near spot pricing, this increases substantially to close to €300m.

Spain Electricity Baseload (€/MWh)



SOURCE: Eikon, VSA Capital Research.

PSV Italy Gas (€/MWh)



SOURCE: Eikon, VSA Capital Research

Total capex was estimated at €4.65m based on a CPR published in late July which covers the cost of drilling and the construction of a gas production plant, and although PXEN's partner recently announced some potential modest savings of around €0.13m; given the inflationary environment we have left the CPR forecast unchanged. The other key construction requirement is tie-back infrastructure into the Italian national pipeline system. This must be carried by the state company responsible for maintaining the grid, SNAM. A bond of €750k is payable initially to cover the construction costs but is repayable on first gas. PXEN's net capex contribution is therefore likely to be around €1.6m. Our NPV8 is based on pricing of €150/MWh in line with the forward curve for 2024 and 2025, which suggests a gross value of €85m, of which €31m is net to PXEN. Conservatively, this includes the one-year Italian windfall tax (25%) applied to the life of project given the elevated gas price assumptions for years where gas prices exceed €100/MWh.

With the regulatory aspects substantially derisked and the recent fundraise of £1.87m and subsequently £0.5m providing the capital for the development costs including contingencies, these events have not yet, in our view, been reflected in the share price. We expect Selva to be the main driver for a near-term rerating of the share price although note that the management teams in both Spain and Italy have identified additional opportunities to exploit further resources. Furthermore, given the forecasted cashflows, there is a strong possibility of returns to shareholders of PXEN whether through dividends or share buybacks.

Operating Highlights

	2022 F	2023 F	2024 F	2025 F	2026 F
Selva					
Production (100%), mmscfd	0	1.5	3.8	3.8	3.8
Net Income	0	8,970	13,639	13,674	13,705
Capex	(1,750)	(2,550)	(50)	(50)	(50)
FCF	(1,750)	7,065	14,144	14,104	14,070
Production (Net 37%)					
Production (Net 37%)	0	0.6	1.4	1.4	1.4
Net Income	0	3,319	5,046	5,059	5,071
Capex	(648)	(944)	(19)	(19)	(19)
FCF	(648)	2,614	5,233	5,219	5,206
El Romeral					
Production (100%), MWh	22,366	22,366	22,366	61,508	61,508
Net Income	2,151	4,280	2,657	4,545	1,765
Capex	(650)	(50)	(3,050)	(50)	(50)
FCF	1,598	4,314	(253)	4,615	1,818
Production (Net 49.9%)					
Production (Net 49.9%)	11,161	11,161	11,161	30,692	30,692
Net Income	1,073	2,136	1,326	2,268	881
Capex	(324)	(25)	(1,522)	(25)	(25)
FCF	797	2,153	(126)	2,303	907

SOURCE: Company Data, VSA Capital Research

Selva Geology

The Selva project, in which Prospex has a 37% non-operated interest, is an advanced development project in the Po Valley in North-eastern Italy. The licence area is known as Podere Gallina and the focus is Selva, which was operated from the 1950s to 1980s by **ENI**, the Italian oil and gas major. The project has produced approximately 83BCF of gas to date but reinterpretations by Prospex' operating partner **PO Valley Energy (PVE AU)** have indicated that significant gas resources remain to be exploited relatively inexpensively. The Po Valley is a foreland basin in Northern Italy with an area of about 46,000km² that runs 650km east west from the Adriatic Sea. The syncline has filled with sediment from the Alps and Apennines. This depositional activity combined with paleo-eustatic interaction has created the conditions necessary for biogenic gas reservoir development and the deposits are typically gas only although there are instances of small oil components in the reservoirs. A report by the USGS in 1999 estimated that the region had recoverable gas reserves of around 16TCF. The size of the valley and bounding features has enabled the development of large-scale vertically stacked reservoirs.

Po Valley Licence Map

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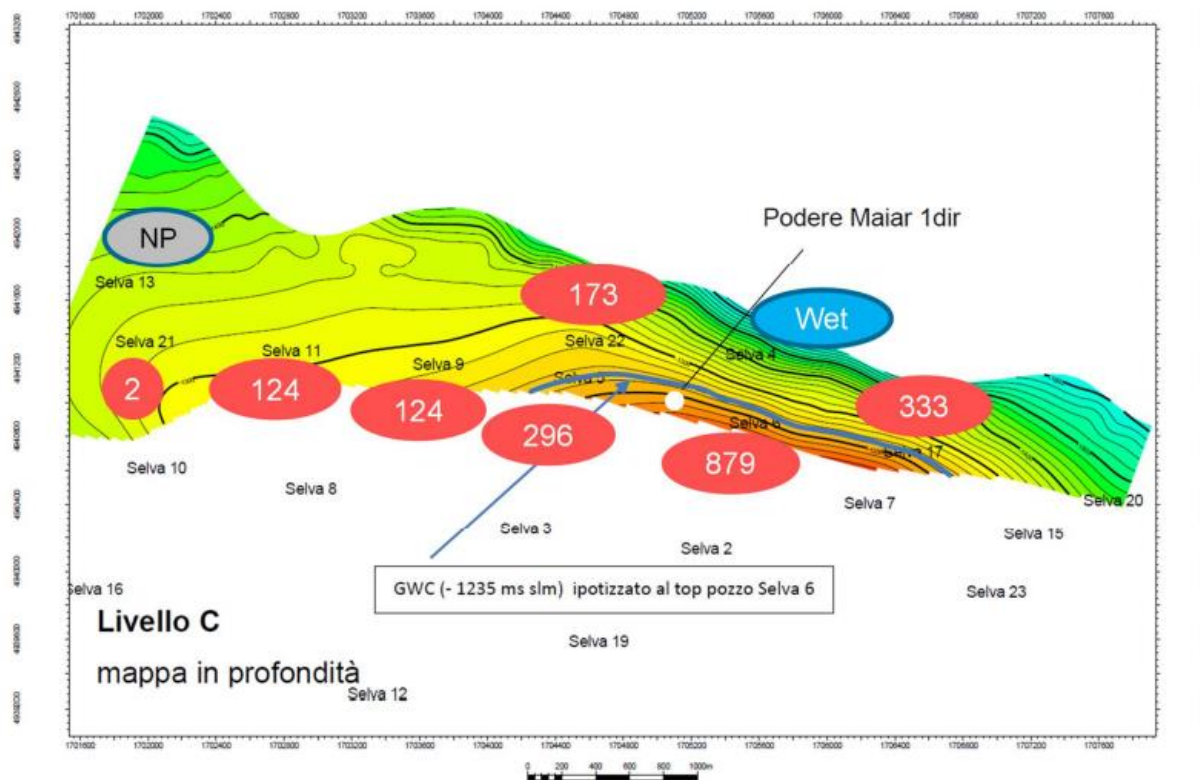
SOURCE: Company data.

At Selva, Miocene and Pliocene reservoir sands host the gas with a combination of thick, good quality sands interbedded with shaley fine-grained sediments. The eastern half of the basin towards the coast where Selva is located is thought to be the best area for reservoir formation in the region. Hydrocarbon shows have been recorded since the 1700s with the first wells drilled in the 1860s although the onshore exploration did not begin in earnest until towards the end of the century with offshore exploration commencing in the 1960s.

A well test of PM-1 was undertaken in January 2018 enabling the reserve volumes to be calculated based off two sand intervals; this successful test paved the way for a development plan and the project economics have substantially benefitted from the transformed fundamentals for the European gas market.

Redeveloping a past producing field is a relatively low risk exercise, but it means that the scale potential is limited making it an ideal target for smaller independents such as PXEN. Historical production was spread across seven wells and the company believes that some of those are analogous for future production from the proposed well sites at PM-1. The 1P-3P reserve estimates align with the range of historic production, with 1P slightly below the Selva-11 and Selva-9 wells which each produced 124mmscm over their well life, although this is based on relatively conservative assumptions that could be exceeded. 2P is aligned with the stronger well performances and 3P with the Selva-6-C which produced 879mmscm, although this is significantly above that achieved historically. The combined C1 and C2 sands have a gross thickness of 62.5m split 22m C1 and 40.5m to C2. C1 and C2 have a respective net to gross of 70% and 63% while porosity and gas saturation are broadly similar across the two with C1 porosity of 22-26% and 65% saturation with 21-25% for C2 and 70% saturation. Assumed recovery factors for 1P to 3P Reserves range from 60-70%.

Historical well Locations in Selva Stratigraphic Trap



SOURCE: Company data.

Summary of Technical Reserves for the Selva Redevelopment Project

Selva	Gross (MMscm)			Gross (BCF)		
	1P	2P	3P	1P	2P	3P
C1 Sand	48	129	209	1.7	4.6	7.4
C2 Sand	69	250	637	2.4	8.8	22.5
Total	117	379	846	4.1	13.4	29.9

SOURCE: Company data, VSA Capital Research.

Further Onshore Prospects

Our DCF valuation focus is based on the Selva reserves, however, we do note that there are additional targets which provide further upside beyond the initially planned wells. The additional targets are known as Selva North and South, Fondo Perino, East Selva and Riccardina. Selva North and South have contingent resources of 8.9BCF and 5.2BCF respectively; these resources were defined off the back of the successful well drilling at the main Selva field in 2017 and are based on the same stratigraphic pinch-out concept. Given this is targeting remaining updip gas and previously produced commercially, these resources are contingent rather than prospective. A relatively high chance of success is applied in the CPR of 60-70%.

Fondo Perino is between the Selva-1 and 23 wells and is the updip gas-bearing level tested on Selva 1, however, the chance of success is just 34% from a geological perspective. East Selva has positive characteristics and is similar to the main Selva reservoirs, however, the estimates are based on limited seismic data compared to the other targets and chance of success is 30-40%.

Riccardina is 5km from the PM-1 test well and was identified by ENI in 2004 and tested although this test encountered water-bearing sands. PVE has reinterpreted the seismic and believe that this test narrowly missed the prospect, hitting the wrong side of a thrust fault that defines the gas boundary. A follow up 3D seismic survey is proposed to better understand this theory, previous seismic understanding is based on 2D seismic alone.

Summary of Gas Prospective Resources

Prospect	MMscm			BCF		
	Low	Best	High	Low	Best	High
East Selva	824.1	985.6	1,149.8	29.1	34.8	40.6
Riccardina	367.2	1,097.8	3,651.5	13.0	38.8	128.9
Fondo Perino	288.9	413.5	580.6	10.2	14.6	20.5

SOURCE: Company data, VSA Capital Research.

Selva Economics and Restart Plan

PXEN has a non-operated 37% interest in the Selva project and announced the acquisition of a further 20% from United Oil and Gas in August 2021 for €2.1m to increase its position from 17%. The timing of this transaction before the start of the European energy crisis has put PXEN in a strong position, having minimised its entry costs to the project. The deal completed in April 2022 and the operating partners are fully funded to take the project into production.

Our production forecasts are based on the 2022 CPR, updating the 2019 CPR. These indicate initial production levels of about 36.5MMscm per annum with a 14-year life of reservoir. Peak production is expected to be sustained for five to six years before dropping at a decline rate of around 10%.

Even though the CPR was recently updated, gas prices have continued to increase as Russia has withdrawn gas from the Nordstream 1 pipeline indefinitely. This has had a transformational impact on the future cashflows expected from Selva when compared to a few years ago. Whilst cost inflation has pushed capital and operating costs higher in the latest CPR versus the 2020 update, these are in line with industry norms in the current environment. Costs per annum were forecast at €0.3mpa and now stand at €0.6mpa. After year four, it is expected that compression will be required, adding an additional €0.03/m³. Development costs are assumed at €4.3m on a gross basis with abandonment costs of €2.7m at the end of life; the former is ahead of the latest guidance from PVE the operating partner but given the uncertainty over cost inflation in the current environment we have retained the CPR estimate. Given the projected cash flows, this has limited impact on the valuation, however, the reduction in costs does likely strengthen the funding position for the companies. The bulk of spending is on a fully automated gas plant and other surface facilities as well as the grid connection, although the latter is paid for via a bond with SNAM of €0.757m which the Joint Venture recently paid. This bond is refundable at first gas.

The CPR assumes a long-term gas price of €0.363/m³ equivalent to €40/MWh approximately, however, spot prices have risen from a pre-2020 trading range of €10-30/MWh to over €350/MWh in recent months and are expected to go higher through this Winter. We have used the following pricing but have assumed that the one-year windfall tax of an additional 25% of corporation tax is rolled forward whenever prices are above €50/MWh.

VSA Italy Gas Price Assumption (€/Mwh)

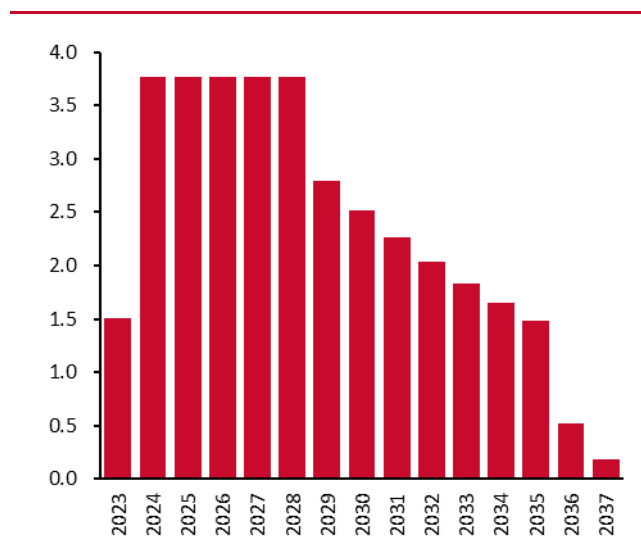
2023	2024	2025	2026	2027
200.0	150.0	150.0	80.0	60.0

SOURCE: Company data, VSA Capital Research.

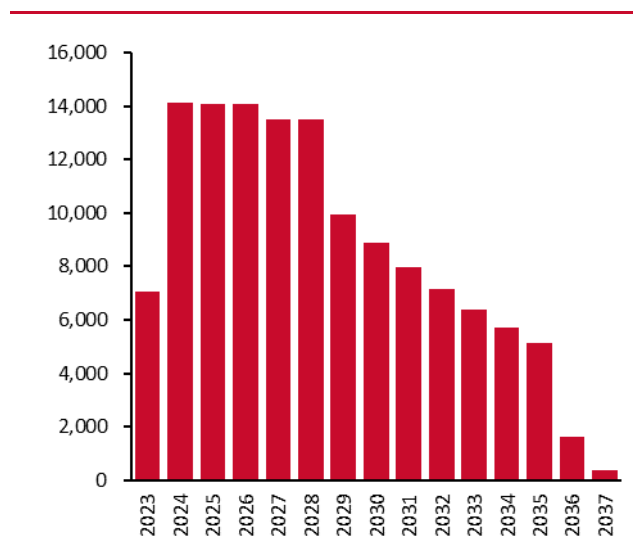
The field development is designed to produce at a maximum rate of 150,000scmpd (5.3mmscf/day), however, subsequent analysis has indicated that targeted production of around two thirds of this will enable effective reservoir management in the early phases of production and correlates with our peak production forecast that is sustained between year two and six.

Therefore, the development implies impressive cash generation potential from the project with average cashflow of €13mpa for the first five years. Using an 8% discount rate, this implies a post-tax NPV of €58m which net to PXEN is €21m, which from upfront capex of just €4.3m is an impressive return.

Production Chart, Mscfd



FCF Chart, €m



SOURCE: Company data, VSA Capital Research.

The current timeline indicates potential for first gas in late H1 2023. The suspended Podere Maiar-1 well drilled in 2017 will be connected to the SNAM gas grid. Given the established hydrocarbon province and history of production, there is strong infrastructure in the local area. All that is required is a 1,000m 4-inch pipeline to tie into Italy’s national grid. Due to this being national infrastructure, the work must be carried out by SNAM, the state infrastructure operator, according to the Italian gas network code.

Permitting and environmental approval are completed with the production concession granted in July 2022. There is a requirement to establish a 12-month baseline of local seismicity. In January, PVE completed three shallow monitoring boreholes, one at 141m and two at 10m depths. The monitoring system was operational by mid-February which was the start of the 12-month period. This work was funded 100% by PVE and PXEN has funded its share of the costs on delivery of the Production Concession at the end of July 2022. We see limited risk around the final environmental approval.

On 21 January 2022, the INTESA (the agreement) for the Selva Malvezzi concession was sent by MITE (Ministry for Ecological Transition) to the Emilia Romagna Region (the Regional Government). This pre-award for the intergovernmental agreement was the penultimate step for the approval of the Production Concession as it incorporates preliminary decisions on environmental approval. The final step was the award of the Production Concession, now complete. SNAM will complete the tie-in now the PC is awarded, and this combination is the key to timing of first production currently expected in early to late H1 2023.

We have undertaken a sensitivity analysis of the Selva project based on a range of gas prices, highlighting the value potential which remains to be unlocked at current spot prices all the way down to past historical norms. At below €100/MWh we assume that the windfall tax is no longer implemented as prices approach historically normal levels.

Selva NPV Sensitivity

Gas Price, €/MWh	40	100	150	200	250	300	350
100% NPV8, €m	25	73	106	140	173	206	239
37% NPV8, €m	10	28	40	53	65	77	89

SOURCE: Company data, VSA Capital Research.

Italy Pitesai and Other Italian Assets

In early 2022, the Italian Government published its Pitesai plan (Plan of Sustainable Energy Transition of Suitable Areas). This sets out new rules on oil and gas exploration and production activities: it bans new exploration and production activity and limits further advancement of projects, both onshore and offshore, deemed to be in unsuitable areas for development. Clearly in the longer term, a move to renewable energy decouples the economy from reliance on Russian

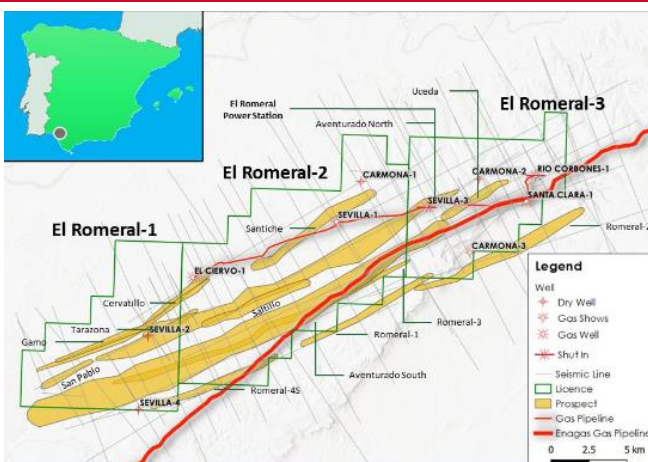
gas and decorrelates economic performance from fossil fuel pricing. However, we would not rule out a softening of this stance to ease the short-term pressures on pricing and energy security whilst the energy transition is at an early stage as EU members have committed to halting reliance on Russian gas by 2024. The most advanced projects such as Selva are unaffected, as indicated by the award of the PC in July, however, there is some heightened permitting risk associated with the development pipeline.

The impact on Prospex of this is limited in the near-term as the Selva field was large enough and suitably advanced to be unaffected. The operator is, however, reviewing the overall 506km² licence package as there are areas within this such as Cemballina which have been reported in previous CPRs but are located in areas now considered unsuitable for drilling. The potential reduction in the licence area to just 81km² contains a number of the original upside onshore opportunities near to Selva. Cemballina is the only one entirely impacted, reducing the gross resources by just 3BCF. Some of the targets at Cadelbosco are affected and have been removed from the resource definitions as well. Although this creates an element of uncertainty, the reduction in licence area would lead to annual savings of €140k in taxation.

El Romeral: Geology

El Romeral is a gas-to-power project located in Southern Spain close to Carmona. Oil and gas have been found in a handful of sedimentary basins in Spain of which the Guadalquivir is one, where El Romeral is located. This basin hosts El Romeral and produces only gas hosted in turbidite sediments. The El Romeral licence area consists of three blocks (El Romeral 1,2,3) on the upper to middle slopes of the Basin. The Basin is bounded by mountains to the North and South and their formation triggered gravitational flows of sediment towards the West into the Atlantic. The basin widens progressively to the West and the channels along which the turbidites flowed were relatively constrained, particularly in the areas on the modern-day Iberian Peninsula. The submarine history is relatively complex with various depositional events associated with Atlantic inflows into the Mediterranean and paleo outflows. The paleo outflows in particular are thought to be responsible for the deposition of turbidite sands that now form the reservoirs bounded by submarine shale levees and channels which form the traps and their subsequent migration also forming the seals. As a result, the nature of the gas is biogenic. Given the complex depositional and erosional history and tectonic bounding of the basin, the individual reservoirs are typically small in a global sense but in our view, are ideally suited to development by an independent group such as Prospex and its partners. These reservoirs typically average 7m in thickness with a range of between 1-33m while average porosity and gas saturation are 30% and 55% respectively.

Licence Location



Guadalquivir Basin



SOURCE: Company data, wikimedia commons.

Reserves

Category	Gross 100% Gas Reserves	
	MMSCM	BCF
Proved Developed Producing	3.15	0.11
Total Proved (1P)	3.15	0.11
Probable	5.31	0.19
Proved + Probable (2P)	8.46	0.30
Possible	3.61	0.13
Proved + Probable + Possible (3P)	12.07	0.43

SOURCE: Company data, VSA Capital Research.

Exploration commenced in the 1950s although it was not until the 1980s when **Chevron** undertook 2D seismic that serious progress was made with commercial gas discoveries made by drilling in 1983 (El Ciervo, which remains in production) with subsequent discoveries made thereafter including Sevilla 1 which is also still in production. **Repsol** acquired the licence in 1994 and made further discoveries before vending out to POGESA; Repsol discovered the Santa Clara 1 well which is also still in production. The relatively small nature of the individual reservoirs meant that development for the majors was not a priority but makes them an attractive proposition for a junior E&P group. Indeed, the scale has been the key hurdle for development given that these are relatively low risk prospects. In total, twelve wells have been drilled of which five have proven commercial gas discoveries and two were technical successes where gas discovered overlying water has been considered sub-commercial. The first five holes were drilled before 2D seismic was completed and we view them as unsophisticated wildcat holes which are not representative of rigorous exploration approaches conducted in the modern era. Excluding these means that the success rate on drilling is over 70% from a commercial perspective.

Well Production History

Well Name	Production History	Status	Cumulative Production (MSCM)	May 2019 Production MSCM
El Ciervo-1	2002-Current	Producing	107,297	98
Santa Clara-1	2002-Current	Producing	31,213	19
Sevilla-1	2002-Current	Producing	15,605	96
Sevilla-3	2002-2008	Shut-in: water inflow 2008	22,391	0
Rio Corbones-1	2012-2017	Shut-in: early water breakthrough	8,084	0

SOURCE: Company data, VSA Capital Research.

The combination of historic drilling and 2D seismic has been sufficient to determine limited Proven and Probable Reserves as well as contingent resources. The former total about 8.46mmscm (0.3 BCF) on a gross 2P basis while the latter 2C estimate for Discovered OGIP is 6BCF, both on a 100% basis. The 2P reserves have supported current production to date and could maintain current output for a number of years. There are up to 7.3BCF in 2C resources. This is predominantly from Romeral 4S, updip of Sevilla 4 while updip of Sevilla 2 is 1.7BCF which is also known as Tarazona.

Romeral-4 (Sevilla 4) is a net 1.8m of gas-bearing sandstone with a gas water contact estimated at 721m, and gas production has been tested at a relatively low daily rate of 253kscf/d (7.2msc/d) with a contingent resource of 111.5mmscm. The contingent estimate is based on a maximum area of 994 acres and the most conservative based on an area of 420 acres. Tarazona is a similar target with a thickness of 1.8m net gas-bearing sandstone again overlying water but with a smaller area of 222 to 493 acres.

The company believes that two wells could quickly enable production of 25,000smc/d which would be converted into electricity and sold based on the existing terms. However, we note that there is potential to connect to a gas pipeline enabling Prospex to sell gas directly in addition to electricity. The two wells could be drilled in 2024 subject to permitting, however, their precise location has yet to be determined as in addition to these most advanced resources the licence area also contains 11 mapped structures which have net thicknesses of up to 1.8m also on a P90 basis.

Unrisked Gross 100% Contingent Gas Resources

Contingent Area	MMSCM			BCF		
	Low Estimate (1C)	Best Estimate (1C)	High Estimate (2C)	Low Estimate (3C)	Best Estimate (2C)	High Estimate (3C)
Romerl-4 Sur	57.7	93.1	138.8	2.0	3.3	4.9
Tarazona	30.0	48.9	74.5	1.1	1.7	2.6
Total	87.7	142.0	213.3	3.1	5.0	7.5

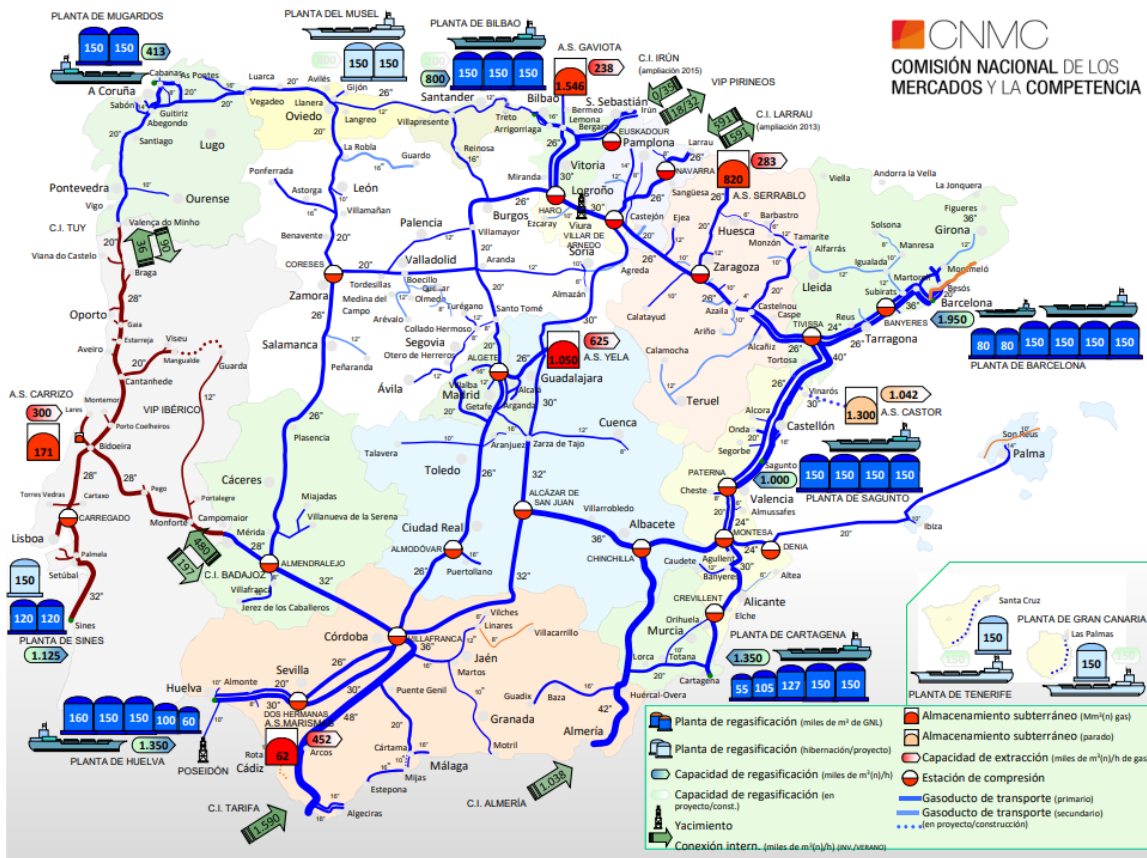
SOURCE: Company data, VSA Capital Research.

El Romeral Economics

Prospex Energy holds 49.9% of the El Romeral gas-to-power project in Spain with ASX-listed **Warrego Energy** holding the balance. In addition to the licence area described above, a plant with three gas-fired turbines was built in 2001 and has been operational since. One of the three turbines is mothballed. It has a capacity of around 60MWh of which currently around 30% is used consistently and cost around €10m to construct, financed by the prior owners. The plant sells electricity into the Spanish grid at spot market prices and recent reporting has shown that it is operating profitably with the cash reserve rising from €0.4m to over €1.1m during 2022 YTD.

The drilling of the proposed two wells should enable the power plant to be fully utilised and we estimate gross development costs to be around €3m, assuming some inflation since the 2019 CPR. Spain has a well-developed gas infrastructure network, but Tarba is fortunate that a 26" Enagas pipeline passes through the licence area. This results in an NPV of €15m on a 100% basis meaning that the attributable €7.5m accounts for a significant proportion of PXEN's current valuation. We do see upside opportunities which are not currently modelled such as a solar farm development, gas storage potential and additional gas resources.

Spanish National Gas Network



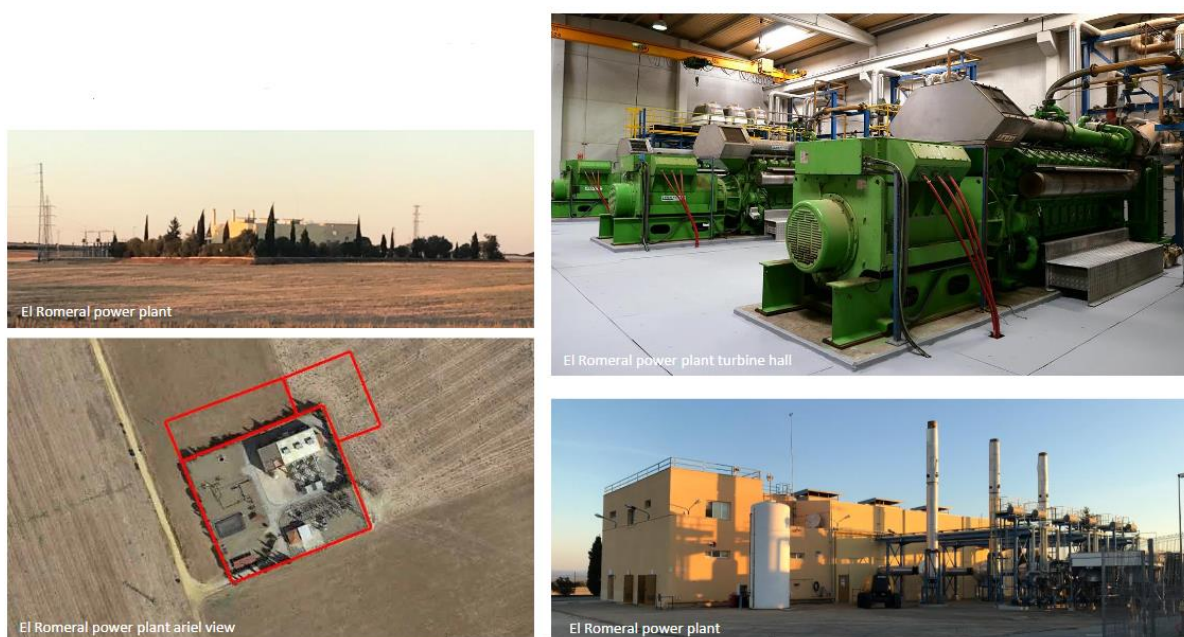
SOURCE: Company data.

Capex is therefore largely related to the cost of drilling gas wells, given they are to relatively shallow depths, sub-900m. There is already around 25km of existing gas infrastructure linking the three producing wells to the power plant and consequently the total tie-in required is likely to be limited with the areas largely accessible from existing agricultural roads.

Since the acquisition by Tarba in March 2021, of which Prospex owns 49.9% with its partner Warrego Energy owning the balance, Prospex has driven an overhaul of the performance at El Romeral. There are three generators at the power plant of which two are currently operating alternately. The third turbine could be recommissioned subject to the additional wells being successfully drilled.

Permitting for the wells has been submitted on the proposed wells, however, there is no prescribed date for a government response. We have assumed some time in 2023 with first production in 2024.

El Romeral Plant



SOURCE: *Company data.*

We note, however, that in 2021, Spain passed the Act on Climate Change and Energy Transition effective from May 21, 2021. This prevents the government from issuing new permits for oil and gas concessions but means that existing permits are valid until 2042. Until that time, licences which are already issued remain unchanged from a legal perspective. We conservatively assume first gas in 2024 allowing for additional permitting time, but given the high gas prices and energy crisis, permitting may receive higher priority than in normal times.

Operating costs are based on the 2019 CPR, management guidance and recent performance. In the CPR, operating costs were based on actual results achieved by POGESA during its tenure as owner/operator. Costs include operating the well, and gas production facilities as well as conversion to electricity. Decommissioning is guided to about €0.86m but we assume €1m in our model. Our assumption for operating costs is for around €1.4mpa at the current rate of production of which around half is fixed costs, we assume that the overall cost will increase to around €2.1m as capacity ramps up to 100% utilisation. At current power prices, which have risen dramatically across Europe, this implies significant profitable cash flow generation, with upside opportunities that can be funded internally. Our forecast for 2023 is that the project could produce €4m in free cash flow thereby fully funding the expansion programme.

Wholesale Power Prices, Spanish Base Load (€/MWh)



SOURCE: Eikon, VSA Capital Research.

El Romeral had been in a Catch 22 situation for the last few years of running below capacity and generating limited income only when power prices were high enough, thereby delaying the investment needed to improve efficiency and output. However, in 2021, the company made the necessary investment to install new remote monitoring and control systems, which was completed in December. This meant reduced manual intervention and gave management the ability to have the optionality to operate on a 24/7 basis, switching between the two operational generators as required.

Although completed in late 2021, as prices were rising, optimisation of reservoir understanding was required given the long history of production to ensure that the appropriate balance between maximising near-term earnings and maintaining the reservoir life was achieved. Consequently, between December and March while this process was undertaken, capacity utilisation increased only to 24/6. Since April, the plant has been operating on a 24/7 basis with management confident that this will not deplete the reservoir too aggressively. The completion of this upgrade work has been a vital step in enabling the company to take full advantage of the increase in power pricing. The plant is now operating at 30% of capacity and greater gas volumes are now necessary to increase capacity utilisation subject to permitting and the drilling of two new wells.

Regular reporting has shown that Tarba's cash position has increased from €0.4m to over €1.1m YTD on the back of higher gas prices and the completion of plant upgrades. Although the price in late 2021 and Q1 2022 exceeded €300/MWh, spot prices dropped briefly after the implementation of a gas price cap in Spain but have subsequently recovered with the cap only succeeding in moderating price increases so far. The gas price cap limits the price at which gas producers can sell to electricity producers and as a result, there has not been direct intervention in the power market. PXEN is therefore in a stronger position than a simple gas producer as it retains exposure to the freely floating power price. The average of €200/MWh YTD is 180% above the average price in March to August 2021 of €71/MWh when El Romeral was acquired and enables El Romeral to be strongly cashflow positive and justifies maximising capacity utilisation, and c300% above the 2019 average spot power price of €49/MWh. Our forward assumptions are based on the forward curve, and after elevated pricing in 2023 and 2024, we assume that prices normalise to around €80/MWh in the long term.

Tarba received shareholder loans from the operating partners to fund the acquisition which had a total nominal value of €0.75m. B shares were created in Tarba to allow for the different share ownerships in El Romeral and Tesorillo, which are also held and operated through Tarba. Repayments were made due to the strong performance over the past 12 months, with €0.3m repaid in December 2021 and the balance of €0.14m repaid in April 2022. Prospex received a net share of 49.9% of this, corresponding to the shareholding agreed at the time of acquisition. This means that the loan balance has been cleared and future cashflows will be focused in the near-term on developing the two wells needed to take the company up to full power generation capacity at the power plant.

Whilst El Romeral currently provides a valuable income stream, our current valuation broadly supports the value of PXEN currently. Consequently, management is exploring opportunities to create value at El Romeral beyond those near-term opportunities described. These include gas storage opportunities, using the natural characteristics of the depleted reservoirs as well as directly tying new gas reservoirs into the existing national gas network to enable Tarba to generate gas sales as well electricity sales.

With Prospective Resources of 90BCF, even realising a percentage of these could prove a valuable addition, particularly given the company's market capitalisation today. Currently, our valuation for these prospects is heavily risked given that the focus of the company is the near-term targets. The prospective resources consist of targets across 11 mapped structures which have similar characteristics to proven wells in the licence area. These are undrilled but have been identified using the 2D seismic that has historically been undertaken within the licence area.

El Romeral Gross 100% Prospective Gas Resources

Prospect	Unrisked (MMSCM)			Unrisked (BCF)		
	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)
Aventurado Norte	415.2	707.2	1,109.5	14.7	25.0	39.2
Aventurado Sur	341.4	580.9	913.0	12.1	20.5	32.2
Cervatillo	31.1	50.8	77.8	1.1	1.8	2.7
Gamo	46.3	79.3	125.0	1.6	2.8	4.4
Rio Corbones Oeste (Uceda)	39.9	85.6	162.1	1.4	3.0	5.7
Romeral-1 Sand 1	117.5	263.1	522.7	4.1	9.3	18.5
Romeral-1 Sand 2	17.0	70.5	216.6	0.6	2.5	7.6
Romeral-2 Sur Sand	128.8	257.3	455.1	4.5	9.1	16.1
Romeral-2 Upper Sand	18.7	40.4	79.9	0.7	1.4	2.8
Romeral-3	43.3	85.0	150.9	1.5	3.0	5.3
Saltillo	86.6	180.4	328.2	3.1	6.4	11.6
San Pablo	23.9	38.4	57.4	0.8	1.4	2.0
Santiche	59.4	102.5	160.6	2.1	3.6	5.7
Total	1,369.2	2,541.3	4,358.8	48.3	89.7	153.9

SOURCE: Company data, VSA Capital Research.

In addition to exploiting the remaining gas targets, there is potential to build a short sub 5km pipeline linking the previously shut in Sevilla-3 and Rio Corbones-1 wells with the 26" Enagas pipeline. These produced but were shut-in in 2008 and 2017 respectively, so they could be injected with gas and used as gas storage facilities. This could provide additional income particularly if gas price volatility remains high, however, if market prices stabilise or fall then this could become a challenging strategy to implement profitably. We do note, however, that **Naturgy**, which previously operated the El Romeral licence area also operates the Viura project in Northern Spain where it has rolled out gas storage projects reinjecting gas into depleted reservoirs.

As well as gas-related strategies, the company also recently announced the rollout of solar projects. The first project, installing panels on the roof of the plant, was small-scale and deployed at a cost of €50,000. It enables El Romeral plant to limit turbine-generated electricity used for running the operation in daylight hours, freeing up greater capacity for sales; year one energy generation is targeted at 66MWh. This will be of long-term benefit but with a short payback more noticeable in the current phase where capacity is running below target utilisation rates and margins are lower. The second project presents a more significant commercial opportunity and FEED studies, paid for out of recent cashflow, are being undertaken to determine the viability of a 5MW solar field. The costs total around €50,000 for these studies and an EIA is also underway. Aside from boosting revenues and providing diversification benefits, these projects could reduce the company's carbon footprint which would likely enhance the company's credentials when it comes to future permitting etc. The nature of the power plant's connection to the grid means that even as capacity utilisation of the plant is increased, there is scope to generate additional power and sell it into the grid.

European Energy Prices

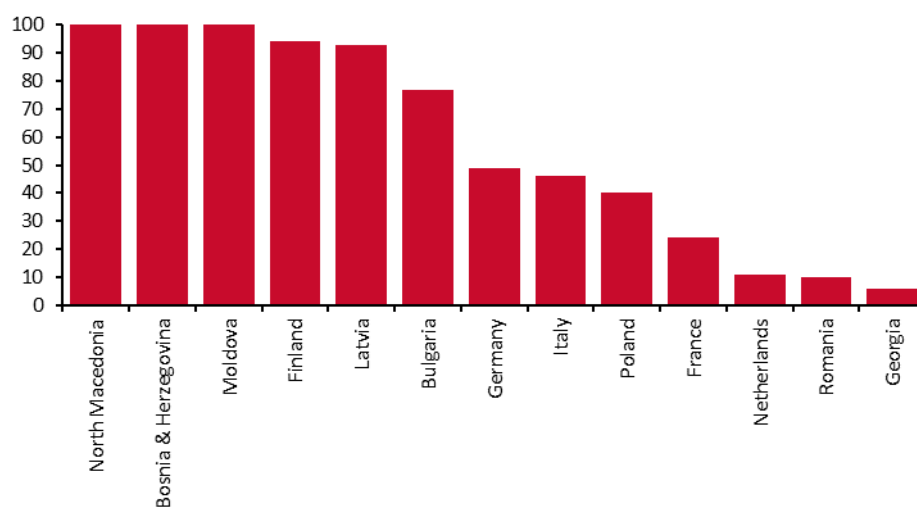
The disruption to global energy markets caused by lockdowns in response to COVID-19 put energy markets in a vulnerable position. This vulnerability meant that after Russia invaded Ukraine and flows of gas and oil to Europe were disrupted, prices have risen sharply as buyers have sought to secure gas in anticipation of shortages. The Dutch benchmark gas price is up 185% YTD to €240/MWh, at least ten times the prior ten-year average, with seasonal summer demand weakness being offset by a reduction in flows along the Nordstream 1 pipeline from Russia, and stronger demand as gas users seek to lock in supplies anticipating upcoming shortages. Russia has now shown that it intends to make things difficult with the announcement that gas flows will halt until collective Western sanctions are lifted.

In H2 2021, average household electricity prices in the EU increased sharply YoY by around 11%. This average has been masked by differences in government policy, but benchmark prices have continued to rise and this winter prices are expected to rise considerably further as the seasonal demand comes into play. Government intervention is near certain although the form and duration that it will take is as yet unknown. The aim appears though to be to separate power and gas price trends; caps, fixed pricing and extended windfall taxes all remain options.

The global increase in oil, gas and electricity prices post COVID-19 lockdown has put unprecedented pressure on Europe's power infrastructure and with capacity closures in the early stages in lockdown unable to reopen and respond to the unlocking of global economies, inventories were drawn down rapidly, quickly flipping energy markets into deficit. This combined with a focus on a green recovery prompted a greater focus on natural gas in particular, which is seen as a transitional energy source due to its relatively lower carbon footprint but a reliable and consistent source until batteries can be reliably linked to solar and wind etc. The increase in power costs has been compounded by the reliance of the EU on Russia gas imports and the war in Ukraine and the interlinked nature of Europe's gas and power markets mean that although Spain itself does not receive imports directly from Russia it has been impacted and power prices have risen dramatically.

Global natural gas demand grew 4.6% in 2021 YoY, more than double the decline in 2020, due to the bounceback from COVID-19 lockdowns being stronger than expected. In Europe, unusually limited wind meant that wind power generation put increased pressure on natural gas-fired electricity plants to make up the shortfall. This was further compounded by the "green recovery" narrative which favoured gas over coal as a transition energy, particularly in Europe where carbon credits disincentivise coal-fired electricity generation in particular. Indeed, the EU has determined that natural gas is a green transitional energy alongside nuclear and renewables. Although a relatively minor factor, rising carbon prices pushed fossil fuel prices higher too, including gas.

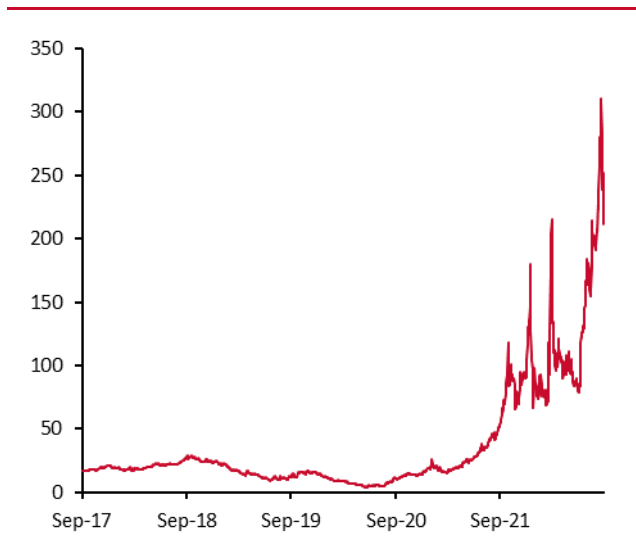
European Reliance on Russian Gas (%)



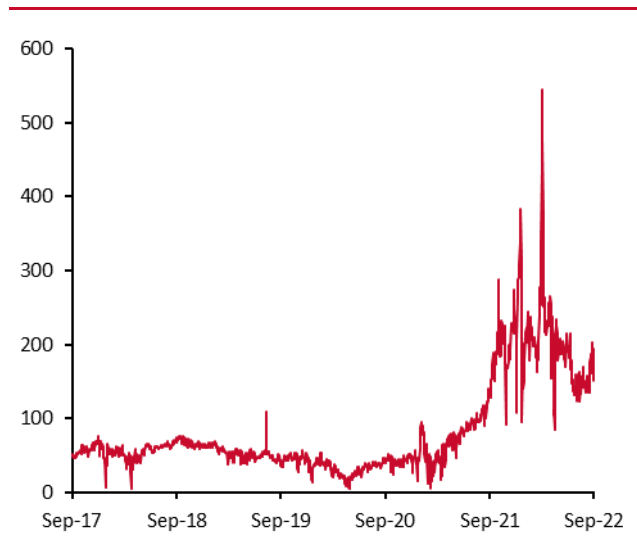
SOURCE: Eurostat, VSA Capital Research.

European energy markets are highly connected and although countries like Spain which has strongly developed LNG infrastructure and unlike countries such as Italy, does not depend on Russia for direct imports of natural gas, the fact that countries across Europe are trying to minimise their use of Russian oil and gas has an immediate knock-on impact on the wider market. Russia is Europe’s largest provider of natural gas and up until the start of 2022, the EU had been pushing Russia to increase its supplies to ease the price rises described above. The chart below shows the range of nations that are dependent on Russia for natural gas, with the bloc as a whole reliant on Russia for around 40% of supply. However, in light of recent events, EU members have committed to reducing Russian gas usage putting greater pressure on supply and providing significant incentive to develop domestic projects. The EU has committed to reducing its imports of Russian gas by two thirds by 2024, which would leave a gap of 100bcm/yr to be filled.

Dutch TTF Gas Prices (€/MWh)



Spanish Electricity Base Load Prices (€/MWh)



SOURCE: Eikon, VSA Capital Research.

Chinese LNG buyers had been reducing their market activity in 2022 with annual demand expected to decline but with droughts and reduced availability of hydroelectric power, electricity shortages are being experienced in China which could lead to greater competition for LNG over the balance of the year, providing a further source of upward pressure on pricing in the near-term.

This is also likely to be compounded by the fact that efforts by Governments to ameliorate the impact on households have been focused on the cost alone; rebates, caps and other bill reductions likely lead to the same or stronger levels of demand maintaining upwards pressure on pricing whereas the only way of normalising pricing is to bring on new supply. Demand destruction from rationing for industry or residential use could lead to lower pricing and is an option for governments although likely to be unpopular.

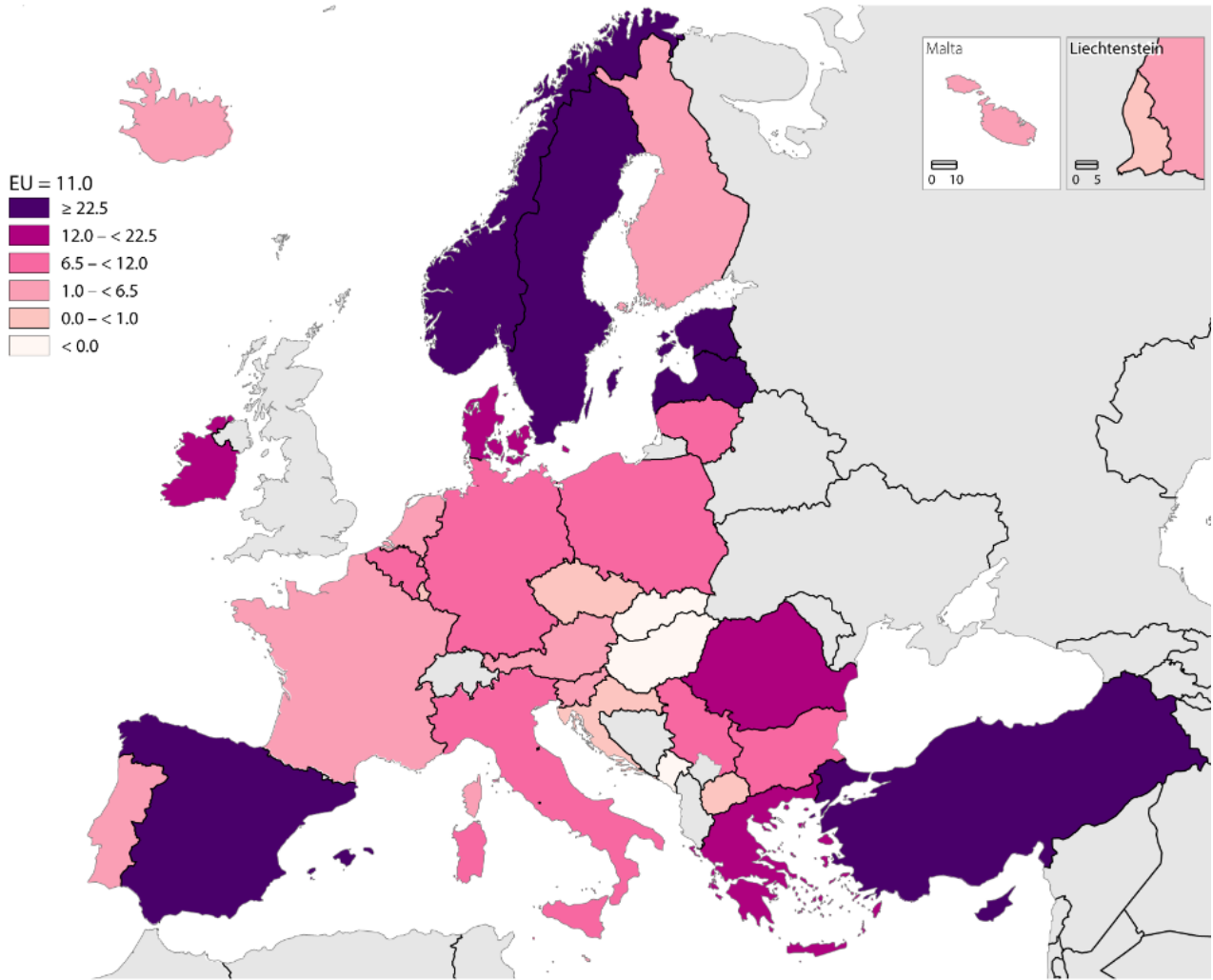
Spain

The Spanish and Portuguese governments, given the interlinked nature of their power markets, announced a joint ruling for a year-long cap on the price of gas used for power generation that came into effect from June 14; capping gas prices to be used in power generation for the day ahead market at an average of €48.8/MWh for one year. During the first six months the limit is €40/MWh but rising to €70/MWh. So far this has only succeeded in moderating the increase in electricity prices rather than capping them. Power prices have averaged over €200/MWh YTD with costs continuing to rise post the cap implementation in June and, despite a stabilisation of pricing in June and July, pricing in August has rallied indicating that prices could rise further still into Winter. Typically, power prices trade at a premium to gas prices although the current scenario is a by-product of government policy. Government policy is difficult to predict and is likely to be the single most important factor driving gas prices over the next few years.

Spain does have the highest number of LNG terminals in Europe with seven and has no direct exposure to Russian gas. This means that Spain is perhaps in a better position than countries to the East, however, the knock-on impacts across

Europe of countries trying to secure alternative supplies will continue to put upward pressure across the board in the short to medium-term.

Change in Electricity Prices for European Household Consumers, 1H21 vs 1H22 % (local currency)

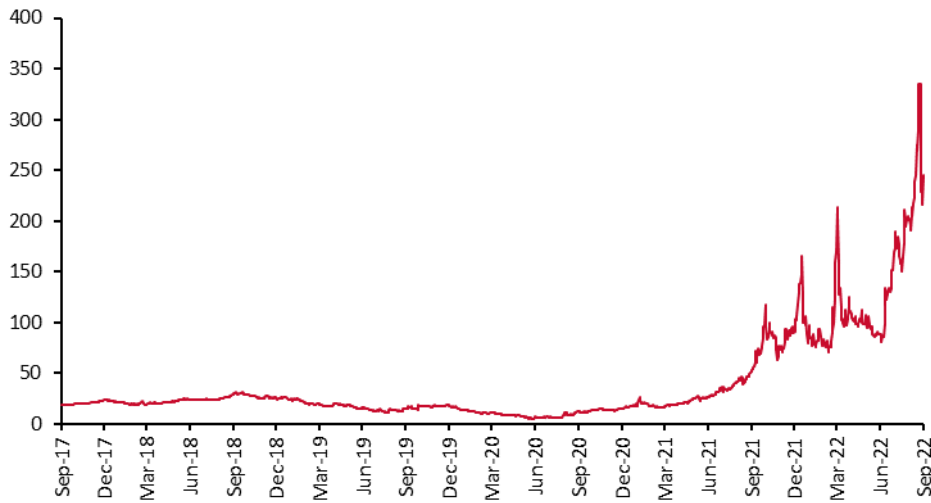


SOURCE: Eurostat.

Italy

Italy has its own benchmark for gas prices, the Punto di Scambio Virtuale which is organised and managed by SNAM. The price is closely correlated to the European Dutch TTF benchmark although the spread does fluctuate. Given Italy’s relatively high direct dependence on Russian gas imports and efforts to bring in greater volumes of LNG, this has meant the Italian premium has increased. This premium has made it harder for traders to fill Italian gas storage sites and Italy’s gas storage capacity utilisation is around 10% lower YoY which will likely make next Winter more of a challenge with potentially even higher premiums over TTF. Around 40% of Italy’s 70BCMpa of gas consumption comes from Russia via Austria, we also note that Gazprom owns a significant proportion of the infrastructure which links into Italy. However, Italy has three LNG terminals which means that it does have the ability to land LNG directly into the country giving greater optionality for diversifying its Russian dependence.

PSV Italy Gas Prices (€/MWh)



SOURCE: Eikon, VSA Capital Research.

As well as energy bill discounts and reduction in petrol rebates to directly support end users, the Italian Government has implemented additional urgent energy tax measures. A 10% tax is applied to Fiscal Year 2022 profits for companies which experienced a YoY increase in revenue of €5m or more and are involved in the sale of electricity, power, natural gas and oil. The tax is not deductible against other state taxes. Although touted as a one-off bill, we would anticipate that this could well be extended for at least another year.

Valuation

Our valuation is based on a sum of the parts methodology using DCF-based valuations for the producing and near-producing assets. These results are used to derive analogue-based valuations for the adjoining prospects in both Spain and Italy. To the advanced projects, we have applied risk factors to reflect time to production, funding risks and permitting. To the more prospective projects, we have applied conservative risk factors of 10% to reflect their stage of development relative to the near-production or producing assets in Italy and Spain respectively, and the fact that the operators have indicated limited intent to develop the assets beyond the reserves in the short to medium-term.

Our analysis is based on near-term pricing significantly above historic averages due to the dramatic increase in spot pricing and the major structural changes that have impacted the market over the past two years and long-term pricing modestly higher than historic averages. Sensitivity analysis shows the considerable upside from sustained high pricing; however, our analysis shows that PXEN currently prices in little of the upside, with our base case for Selva using long-term pricing of €60/MWh implying a risked value of 9.8p/sh., highlighting the value to be unlocked as first production approaches. In the current environment, little of the upside is priced in.

The key production assets at Selva and El Romeral are the core drivers of value. The market has, in our view, largely priced in the value at El Romeral which, with current revenue generation, is easier for the market to process. However, this means that Selva is almost entirely discounted despite being a simpler proposition and, due to the lack of price cap and lower overriding royalties, is ultimately a stronger creator of value for PXEN shareholders. The upside at Selva is clear in relation to the current valuation, while El Romeral provides a stable basis to support the company going forward, although we note that there are some further upside opportunities which could be realised.

We do not currently include Tesorillo in our valuation, given that there is no current guidance from the Spanish Government as to when the suspension may be reviewed.

We do note that investment companies tend to trade at a discount to NAV not least because in this case PXEN is not an operator. As a result, we have applied a 15% discount to factor both the investment company status and lack of control. Being an investment company, we do not forecast group level financials as redistribution of asset level cash is based on agreement with the other operating partners.

Valuation Summary, £'000

NAV			Unrisked	Equity	Net	CoS	Net	EMV	EMV	Net	Net risked
Asset Name	Stage	Timing	BCF	%	unrisked	%	risked	€/mscf	€m	unrisked	per/sh (GBP)
					BCF		BCF			€m	
Selva	Near Production	H1 2023	12.2	37%	4.5	90%	4.0	6.8	27	31	9.8
Selva North & South	Contingent Resources	TBD	8.9	37%	3.3	20%	0.7	6.8	4	22	1.6
Fondo Perino	Contingent Resources	TBD	9.2	37%	3.4	20%	0.7	6.8	5	23	1.6
East Selva	Contingent Resources	TBD	21.9	37%	8.1	20%	1.6	6.8	11	55	3.9
Riccardina	Contingent Resources	TBD	24.4	37%	9.0	20%	1.8	6.8	12	61	4.4
El Romeral	Producing / Development	Production	5.3	49.9%	2.6	85%	2.2	2.8	6	7	2.3
El Romeral	Resources	TBD	89.8	49.9%	44.8	10%	4.5	1.4	6	64	2.3
El Tesorillo	Suspended Licence	N/A	0.0	15%	0.0	0%	0.0	0.0	0.0	0.0	0.0
Adjustments	SG&A (£m)								(6.7)		(2.6)
	Debt (£m)								(2.5)		(0.8)
	Cash (£m, YE22)								1.3		0.5
Total									66.8		23.0
								DLOC			20.0

SOURCE: Company Data, VSA Capital Research.

The company recently undertook a financing round raising gross proceeds of £1.87m via the issue of unsecured convertible loan notes, which should substantially cover the costs of the development of Selva. They are convertible at 4.25p/sh. at any time and interest is payable quarterly and compounded monthly. This was followed by an announcement in early September that a further £0.5m was raised in the form of Convertible Loan notes with a conversion price of 5.5p/sh with 15% interest on the same payment terms as the earlier loans.

The loan principal for both convertibles is to be paid in three tranches in September 2023, December 2023, and March 2024 which should be possible in cash given the outlook for the underlying assets and targeted first production at Selva in H1 2023. In addition to the costs associated with the development of Selva, the company has outstanding loans totalling £321k payable in equal instalments of £107,226 every six months to December 2023.

We also note that there are a significant number of options and warrants close to or in the money currently. The exercise at the end of August of 3p/sh. and 2.25p/sh. warrants netted the company an additional £99,401. The outstanding share capital after this exercise was 256.7m shares. In the last accounts at December 2021 there were 1.925m warrants exercisable at 2.25p/sh. and 25m at 3p/sh. both expiring March 2023. There are also warrants exercisable at 10p/sh. as well as options expiring in June 2023 with an exercise price of 4p/sh and Directors options at 5p/sh. This represents considerable additional cash which could support PXEN in the near term particularly given our view that the share price should re-rate as first gas at Selva approaches.

Our twelve-month target price is 20p/sh. implying 233% upside potential.

Risks

- **Commodity Prices.** The company is primarily exposed to natural gas and electricity prices and unexpected changes to commodity prices are likely to affect our valuation. Governments are likely to step in and cap pricing in the current environment.
- **Political Risk.** Changes to the political regime and energy codes in Italy and Spain would potentially alter the risk profile.
- **Macro Risk.** Unexpected moves in the GBPEUR and higher than expected inflationary pressure may significantly impact the company's earnings.
- **Operational Risk.** The potential for delays and operating issues are an inherent industry risk.
- **Permitting Risk.** Only the seismic survey remains outstanding for Selva. At El Romeral, the current operations are fully permitted but an EIA and permitting must be approved for a wider campaign of drilling. There is no guidance as to when the Tesorillo permit may be reinstated.
- **Construction and Execution Risk.** As a non-operated interest, PXEN does not have control over the construction process and this a risk.
- **Financing Risk.** Access to financing is a perennial challenge for junior E&P companies.

Peer Comparisons

Name	Ticker	Market Cap (GBP m)	EV (GBP m)	Share Price Perf (% YTD)	Jurisdiction(s)	Revenue 2021 (GBP m)	EBITDA 2021 (GBP m)	Net 2P Reserves (bcf)
Aminex PLC	AMNX.L	42.1	38.4	66.7	Tanzania	0.1	(1.1)	0.0
Angus Energy PLC	ANGSA.L	70.5	82.5	319.2	UK	0.0	(2.4)	16.2
Chariot Ltd	CHARC.L	180.1	163.6	165.2	Morocco	NULL	(4.5)	0.0
Diversified Energy Company PLC	DEC.L	1,107.4	2,140.0	24.7	US	744.7	497.9	0.0
Echo Energy PLC	ECHOE.L	5.0	28.6	(51.4)	Argentina, Bolivia	8.1	(2.7)	0.0
Enwell Energy PLC	ENWE.L	67.7	(11.8)	(39.7)	Ukraine	89.7	59.1	222.0
Indus Gas Ltd	INDII.L	457.4	1,152.1	8.2	India	35.2	33.9	515.7
log PLC	IOG.L	157.7	240.8	(16.4)	UK	NULL	10.5	141.1
Kistos Plc	KIST.L	463.8	531.8	36.6	Netherlands	89.7	71.5	95.2
Parkmead Group PLC	PMG.L	71.4	47.8	55.7	UK, Netherlands	3.6	(0.1)	0.0
Prospex Energy PLC	PXEN.L	15.4	15.6	76.5	Spain, Italy	NULL	(0.8)	2.4
Savannah Energy PLC	SAVES.L	411.4	752.1	40.0	Nigeria, Niger	137.3	97.1	0.0
SDX Energy PLC	SDX.L	18.3	16.4	(6.8)	Egypt, Morocco	39.8	18.9	0.0
Serica Energy PLC	SQZ.L	1,044.2	941.2	58.9	UK	514.1	415.4	0.0
Sound Energy PLC	SOU.L	26.8	43.9	(32.6)	Morocco	0.0	(1.3)	0.0
Victoria Oil & Gas PLC	VOG.L	10.0	20.5	NaN	Cameroon, Russia	9.7	2.4	115.0
Wentworth Resources PLC	WEN.L	45.0	21.2	11.9	Tanzania	17.6	9.3	83.6

SOURCE: Eikon, Company data, VSA Capital Research.

Financial Model Summary

Commodity Price Assumptions

Pricing Assumptions, €/MWh

	2023	2024	2025	2026	2027
Spain Power	350	250	175	100	80
Italy Gas	350	250	150	80	60

SOURCE: Eikon, VSA Capital Research.

Taxes & Royalties

Italy's and Spain's corporate tax rates for oil and gas companies are 24% (IRES) and 25%. In Italy, onshore production is subject to an additional regional income tax of 3.9% known as IRAP. Italy has also announced a one-year windfall tax of an additional 10% which could be extended beyond fiscal year 2022 and we assume this is the case when prices are above €100/MWh.

Selva is subject to a 10% royalty with an annual royalty free allowance of 25mmscm.

El Romeral is subject to a royalty of 16% to the vendors on new wells drilled; this impacts production as output rises from 30% to 100% capacity utilisation.

Spain's Government has announced it is implementing a windfall tax on the profits of energy companies although details are yet to be released.

El Romeral is subject to a 7% tax on electricity production and a 3% hydrocarbon production tax based on a reference price which is currently €92/MWh.

Operational Snapshot

El Romeral

- Expansionary capex of €3m gross internally funded and VSA estimate for cost of two wells with around €0.7m in 2022 for the completed upgrades as well as solar initiatives.
- Annual operating expenses likely to be around €1.4mpa at the current run rate of which roughly €0.7m are fixed costs. We anticipate opex rising to c€2mpa at 100% capacity utilisation.
- Approximately 5BCF is forecast to be produced over the life of project, we do not include prospective resources in our operational model.
- We assume an increase from 30% of capacity to utilisation to full capacity in 2025 after the drilling of two wells.
- Abandonment costs of €0.86m.

Selva

- Upfront capex of €4.3m not including a €0.76m bond payable to SNAM, refundable on first gas.
- Approximately 13.3BCF is forecast to be produced over the life of project, we do not include prospective resources in our operational model.
- Operating costs are expected to be €0.6mpa with a compression charge of €0.03/m³ from year four onwards.
- Decommissioning and abandonment costs are forecast at €2.7m.

Operational Snapshot

	2022 F	2023 F	2024 F	2025 F	2026 F
Selva					
Production (100%), scf	0	1.5	3.8	3.8	3.8
Net Income	0	8,970	13,639	13,674	13,705
Capex	(1,750)	(2,550)	(50)	(50)	(50)
FCF	(1,750)	7,065	14,144	14,104	14,070
Production (Net 37%)	0	0.6	1.4	1.4	1.4
Net Income	0	3,319	5,046	5,059	5,071
Capex	(648)	(944)	(19)	(19)	(19)
FCF	(648)	2,614	5,233	5,219	5,206
El Romeral					
Production (100%), MWh	22,366	22,366	22,366	61,508	61,508
Net Income	2,151	4,280	2,657	4,545	1,765
Capex	(650)	(50)	(3,050)	(50)	(50)
FCF	1,598	4,314	(253)	4,615	1,818
Production (Net 49.9%)	11,161	11,161	11,161	30,692	30,692
Net Income	1,073	2,136	1,326	2,268	881
Capex	(324)	(25)	(1,522)	(25)	(25)
FCF	797	2,153	(126)	2,303	907

SOURCE: Company data, VSA Capital Research.

Appendix 1

Board of Directors

Mark Routh, Chief Executive Officer

Mark is a Petroleum Engineer with more than 40 years' experience in the oil & gas industry, covering executive management, commercial/asset management, area management and technical roles. Mark spent eight years as CEO/Chairman of AIM-listed Independent Oil & Gas plc. He has more than 15 years' experience as a Board director in executive and non-executive roles in both private and listed companies. Prior to founding CH4 Energy in 2002, he served 10 years with Hess, six years with BP and five years with Schlumberger in Southeast Asia and the North Sea. Mark has an MSc in Petroleum Engineering from Imperial College.

Mark is currently Non-Executive Director of Warrego Energy Ltd. Warrego merged with ASX listed Petrel Energy Limited by way of a reverse takeover in March 2019.

Bill Smith, Non-Executive Chairman

Bill is a Canadian solicitor with 40 years of experience in corporate finance and is a director of a number of listed and private companies including: Orca Exploration Group (TSXV); Mosaic Capital Corporation (TSXV); and PFB Corporation (TSX). He was a senior partner of McCarthy Tetrault LLP in Canada and was subsequently Executive Vice President of two listed international oil companies and a listed investment firm. He has extensive experience including a number of start-up ventures in the oil and gas sector.

Richard Mays, Non-Executive Director

Richard is a solicitor in Scotland and has extensive industry, commercial and legal experience. He is VP and General Counsel at Canadian Overseas Petroleum Limited (TSX and FTSE) and has leadership and senior management experience of other LSE listed companies, including DEO Petroleum plc and Oilexco North Sea Limited. He has also served as Executive Chairman of Peppercoast Petroleum plc and Black Star Petroleum plc. Formerly Professor and Deputy Dean of the Aberdeen Business School.

Alasdair Buchanan, Independent Non-Executive Director

Alasdair has a BSc in Chemical Engineering and over 40 years of experience in the upstream oil and gas sector. Most recently he was Global Energy Director at Lloyds Register and was COO and a director of Senergy Group plc. Alasdair was a non-executive director of Warrego Energy from 2012-2019 prior to its public listing on the ASX. Alasdair worked for Halliburton for three years in Aberdeen and Texas, most recently as Vice President UK and worked for BJ Services for 28 years both in the UK and internationally.

Key Personnel

Carlos Venturini, Exploration Manager

Petroleum geoscientist (BSc) with an MSc in structural geology and near 40 years experience in G&G, interpretation and prospect generation gained with Schlumberger, ENI, Sipetrol, and from his own Libya-based consultancy working for Petrobras, GDF, OMV amongst others. He has worked in more than 30 basins, and 3 continents and he is an expert in Mediterranean and African petroleum geology.

Grant R. Glanfield, Group Head of Finance

Grant has 35 years' experience in a broad range of financial, project and general management roles in Energy and Finance. In Energy specifically, gas exploration, production, and electricity generation including onshore sites in the United Kingdom, Spain, Italy, Romania, Poland, and Ukraine. General day-to-day management of financial and management reporting, tax, company secretarial, commercial, insurance and operational aspects.

Peter Elliot, Business Development

Peter holds a degree in geology and an MSc in Petroleum Geology. He has 30 years' experience in the international oil and gas industry working in new ventures and business development, most recently building oil company JVs in Europe and West Africa, including Romania, Senegal AGC, Liberia and Equatorial Guinea. He has also managed exploration contracts and work programmes.

Appendix 2

Historical Financials

Profit & Loss , £'000 December Year End

	2020	2021
Continuing Operations		
Other Operating Income	247,143	86,604
Administrative Expenses	(972,193)	(891,676)
Operating Loss	(725,050)	(805,072)
Gain/(loss) on revaluation of investments	(1,121,815)	3,076,415
	(1,846,865)	2,271,343
Finance Income	91,362	109,618
Finance Costs	(50,989)	(80,771)
Profit/(loss) Before Income Tax	(1,806,492)	2,300,190
Income Tax	-	(40,394)
Profit/(Loss) for the Year	(1,806,492)	2,259,796
Earnings/(Loss) per Share		
Basic Earnings/(Loss) Pence per Share	(2.10)	1.61
Diluted Earnings/(Loss) Pence per Share	(2.10)	1.61

SOURCE: Company data, VSA Capital Research.

Balance Sheet, £'000 December Year End

	2020	2021
Non-Current Assets		
Property, Plant and Equipment	-	-
Investments	3,620,890	6,697,305
Loans and Other Financial Assets	-	-
Trade and Other Receivables	989,645	1,225,570
	4,610,535	7,922,875
Current Assets		
Trade and Other Receivables	917,058	841,502
Cash and Cash Equivalents	220,618	220,060
	1,137,676	1,061,562
Total Assets	5,748,211	8,984,437
Shareholders' Equity		
Called up Share Capital	7,035,589	7,124,355
Share Premium	10,185,819	11,599,333
Merger Reserve	2,416,667	2,416,667
Capital Redemption Reserve	43,333	43,333
Fair Value Reserve	-	6,067,267
Retained Earnings	(14,965,030)	(18,748,005)
Total Equity	4,716,378	8,502,950
Non-Current Liabilities		
Interest-bearing Loans and Borrowings	579,998	247,232
Deferred Taxation	-	40,394
	579,998	287,626
Current Liabilities		
Trade and Other Payables	164,262	52,892
Interest-bearing Loans and Borrowings	287,573	140,969
	451,835	193,861
Total Liabilities	1,031,833	481,487
Total Equity and Liabilities	5,748,211	8,984,437

SOURCE: Company data, VSA Capital Research.

Cashflow Statement, £'000 December Year End

	2020	2021
Cash outflow from Operations	(1,106,861)	(941,242)
Cashflows from Investing Activities		
Interest paid	(51,664)	(106,722)
Net Cash Outflow from Investing Activities	(51,664)	(106,722)
Cashflows from Financing Activities		
New Loan Notes	265,000	-
Bank Loan (Repayment)/Receipt	49,632	(7,238)
Loan (Payment)/Repayments	304,661	(56,294)
Share Issue	720,000	1,165,838
Cost of Shares Issued	(29,537)	(54,900)
Net Cash Inflow from Financing Activities	1,309,756	1,047,406
(Decrease)/Increase in Cash and Cash Equivalents	151,231	(558)
Cash and Cash Equivalents at Beginning of Year	69,387	220,618
Cash and Cash Equivalents at End of Year	220,618	220,060

SOURCE: Company data, VSA Capital Research.

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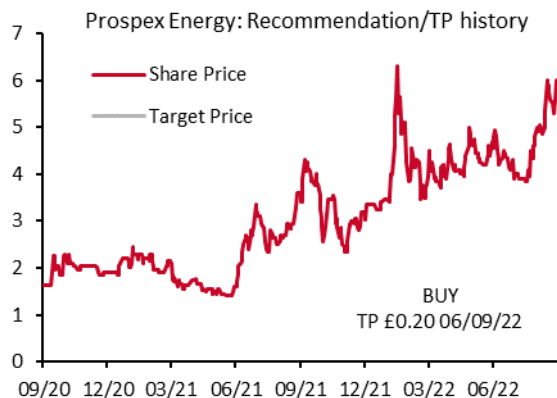
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Recommendation and Target Price History



Valuation basis

Our valuation is derived from a risked NAV for the producing assets and analogue derived resource valuations for the contingent resources..

Risks to that valuation

Commodity prices, political risk, execution risk, financing risk.

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