

Prospex Oil and Gas Plc / Index: AIM / Epic: PXOG / Sector: Oil and Gas

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**Prospex Oil and Gas Plc ('Prospex' or the 'Company')**

**Conditional Acquisition of up to 49.9% stake in operational gas power project in Spain**

Prospex Oil and Gas Plc, the AIM quoted investment company, is pleased to announce the conditional acquisition of up to a 49.9% indirect stake in El Romeral, an integrated gas production and power station operation located in the Guadalquivir basin in southern Spain ('El Romeral' or 'Project'). El Romeral is comprised of three production licences (together the "Area"), on which three producing wells supply gas, through its own network, to a 100%-owned 8.1 MW power station. In addition, the Area contains two development locations and 11 very-low risk prospects with gross contingent and prospective gas resources of 5Bcf and 90 Bcf, respectively.

Based on current levels of gas production, electricity generation, and revenue per Mwh, the Project generates small amounts of free cash from revenue of c. €800,000 per year. There is the potential to increase the number of generating days at the Project (historically equivalent to five days per week) and in the medium-term increase utilisation of the generation equipment (current 22%) by sourcing new gas supplies from within the Project Area, specifically from its assigned 90 Bcf of very-low risk prospective resources. When gas was not a limiting factor the power station regularly produced c. 60,000 Mwh per annum, which would equate to a revenue of >€4.2 million per annum (based on current revenue per Mwh).

El Romeral is being acquired by Tarba Energia S.L ("Tarba") with funding provided by Tarba's shareholders, Warrego Energy Limited ("Warrego") and Prospex. Warrego will fund the initial consideration of €750,000. Prospex has three months to elect an ownership stake in the Project (up to 49.9%) and refund to Warrego the corresponding proportion of the initial consideration. Warrego will indirectly own the balance of the Project. The acquisition of Prospex's stake is conditional on Prospex securing funding for such investment.

**El Romeral: existing gas production, multiple development opportunities, and an operational power station**

- €€€ Ten wells drilled since 1950s, including seven post-1983 which discovered gas:
  - o Three wells currently producing with gross 2P reserves of 0.30 Bcf
  - o Two shut-in gas wells with low cost workover potential
- €€€ Large dataset of c. 550 km of 2D seismic supported by AVO analysis clearly identifies multiple follow on opportunities
- €€€ Two development locations with 5 Bcf of gross contingent resources (as per 2019 independent reserves and resources report from Netherland Sewell & Associates ("NSAI"))

- €€€ 11 prospects with 90 Bcf of gross, unrisks prospective resources (as per the same NSAI report), thought to have a very low geological risk (Chance of Success >70% in most cases)
- €€€ Profitable El Romeral power station operating 16h/d provides immediate revenues
  - o Constructed in 2001-2002 at an approximate cost of €10 million
  - o Currently operating at c. 22% capacity offering significant upside potential
  - o Consumes c11,000 scm/d in a typical generating day
  - o Generates monthly revenues c. €65,000, via sales to the Spanish electricity grid
  - o Low-cost maintenance contract in place with equipment vendor General Electric

### **Multi-well drilling programme at El Romeral offers low cost, low risk opportunity to substantially scale up production**

- €€€ Planning and permitting process for three well campaign expected to commence in Q1-Q2 2020
- €€€ Shallow low cost wells
- €€€ Low cost route to commercialisation via tie-in to Project-owned power station

### **Acquisition leads to step-up in Prospex's 2020 production profile to five producing gas wells across its portfolio, which could generate over 9,000,000 scm net in 2021**

- €€€ Prospex on track to have interests in five producing gas wells in 2020:
  - o Three existing wells at El Romeral
  - o Bainen-1 well on 50% owned Suceava Concession in Romania which continues to perform in line with average production rate of 15,000 scmpd (530 mscfd) assumed by Joint Venture for 2019 budgeting purposes
  - o Podere Maiar-1 well on 17% owned Podere Gallina licence in Italy which is expected to commence production in 2020 at rates up to 150,000 scmpd (5,300 mscfd), subject to regulatory approvals and installation of production equipment

**Prospex non-executive Chairman, Bill Smith, said,** *"With three producing wells, an 8.1 MW power station and gross reserves, contingent and prospective resources of 0.3 Bcf, 5 Bcf, and 90 Bcf respectively, the El Romeral gas power project not only promises revenues from day one, but also significant upside potential. Located in a proven hydrocarbon region with very low geological risk, it is the substantial development opportunity, specifically the combination of the power station operating at only ~22% capacity and the presence of two undeveloped discoveries and 11 prospects, which excites us most. Based on current and forecasted annual revenue, the economics for Tarba and in turn Prospex are expected to be favourable for an efficient return on investment with major scope for significant upside by exploring the very low risk 11 prospects.*

*"Our expected 2020 production profile, subject to completing the investment in the Project, will be centred on five gas wells in three projects in Romania, Spain and Italy, once the Selva field comes on stream. This would represent a fivefold increase on 2019 and, combined, we anticipate these five wells have the ability to produce over 9,000,000 scm net to Prospex over the course of 2021.*

*With our joint venture partner, we plan to apply for permits for three new wells at El Romeral in 2020. At the same time, we will continue our technical work programme to de-risk the independently estimated 830 Bcf gross prospective resources (best estimate) at the Tesorillo project in Spain.*

*"We have been saying for some time that we believe our current market cap represents a fraction of Prospex's underlying value. Our asset base could soon include an interest in a gas power station and associated infrastructure which cost ~€10 million to install, material interests in four producing gas wells, and a stake in a fifth well in Italy which is expected to be brought online in 2020. The value case behind Prospex is, in our view, very clear."*

### **Further Information on the Project and the El Romeral Licence Area**

The El Romeral project includes the licences, the power station and local infrastructure. The El Romeral licences are located in southern Spain, in the Guadalquivir basin, in the province of Seville. It comprises the production permits El Romeral-1, 2 and 3 that cover an area of approximately 310 km<sup>2</sup>. The El Romeral exploitation licences were awarded in 1994 and are valid until 2024, with the right to be extended for a further two 10-year periods until 2044.

Modern era exploration over the Area started in earnest in the 1980s when Chevron and Repsol acquired c. 550 km of high quality 2D seismic in successive campaigns. This dataset and the AVO analysis derived from it generated 20 prospects. The average depth of a prospect is c. 700m. To date, seven prospects have been drilled leading to seven gas discoveries of which five were deemed commercial and put on production. In 2002, four wells; El Ciervo-1, Sevilla-1, Sevilla-3, Santa Clara-1, started delivering gas to the El Romeral power station. In 2007, Rio Corbones-1 was drilled, and became the fifth well to be tied to production in 2012. Currently three wells are still on production: El Ciervo-1, Santa Clara-1 and Sevilla-1.

Included in the Project are 25 km of local gas pipeline connecting the production sites to the El Romeral power station. This will provide the infrastructure back bone for potential future tie-ins, with the average, as the crow flies, less than 3.5 km from infrastructure.

At the core of the power station there are three Jenbacher gas engine generators. The power station operates today at c. 22% of its nameplate capacity requiring only one engine at a time to be run. Of the three engines in place, two are used regularly, the third will require some remedial work to return to service. Today the primary limitation on electricity production is the volume of gas produced by the three wells, which can currently only support one engine running c. 16 hours a day. When gas was not a limiting factor the power station regularly produced c. 60,000 Mwh per annum, which would equate to a revenue of >€4.2 million per annum (based on current revenue per Mwh).

The licence area has excellent remaining prospectivity, with the 11 prospects identified having an aggregate of 90 Bcf gross best estimate and two proven undeveloped discoveries; Sevilla-2 and Sevilla-4 with 5 Bcf gross 2C contingent resources.

## Reserves and Resources Report

To support the acquisition, Tarba commissioned an independent reserves and resources report to NSAI (the "NSAI Report"). NSAI evaluated the El Romeral Licence Area and estimated reserves and resources as at 30 June 2019, as per the table below. The NSAI Report considers the prospects of the El Romeral Licence Area very low risk opportunities for gas discoveries.

Gas reserves from three producing fields; El Ciervo-1, Santa Clara-1 and Sevilla-1:

Gross Gas Reserves (BCF)		
1P	2P	3P
0.11	0.30	0.43

Contingent Resources for two development locations in the El Romeral Licence Area; Romeral-4 Sur and Tarazona:

Gross Unrisked Contingent Resources (BCF)			
	1C	2C	3C
Romeral-4S	2.0	3.3	4.9
Tarazona	1.1	1.7	2.6
<b>Total</b>	<b>3.10</b>	<b>5.01</b>	<b>7.53</b>

Unrisked and Risked Prospective Gas Resources, based on risk factor Pg, for the remaining 11 identified prospects in the El Romeral:

Prospect	Gross Prospective Gas Resources (BCF)						Risk Factor Pg
	Unrisked			Risked			
	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)	
Aventurador Norte	14.7	25.0	39.2	11.0	18.7	29.4	0.75
Aventurador Sur	12.1	20.5	32.2	9.0	15.4	24.2	0.75
Cervatillo	1.1	1.8	2.7	0.9	1.5	2.2	0.81
Gamo	1.6	2.8	4.4	1.4	2.4	3.8	0.85
Rio Corbones Oeste (Uceda)	1.4	3.0	5.7	1.2	2.6	4.9	0.85
Romeral-1 Sand 1 <sup>1</sup>	4.1	9.3	18.5	3.7	8.4	16.6	0.9
Romeral-1 Sand 2 <sup>1</sup>	0.6	2.5	7.6	0.3	1.2	3.8	0.5
Romeral-2 Sur Sand 2 <sup>2</sup>	4.5	9.1	16.1	3.7	7.4	13.0	0.81
Romeral-2	0.7	1.4	2.8	0.5	1.0	2.0	0.7

Upper Sand <sup>2</sup>							
Romeral-3	1.5	3.0	5.3	1.2	2.4	4.3	0.81
Saltillo	3.1	6.4	11.6	2.5	5.2	9.4	0.81
San Pablo	0.8	1.4	2.0	0.6	1.0	1.5	0.75
Santiche	2.1	3.6	5.7	1.5	2.5	4.0	0.7
<b>Total</b>	<b>48.3</b>	<b>89.7</b>	<b>153.9</b>	<b>37.5</b>	<b>69.6</b>	<b>119.0</b>	

**Note 1: Romeral-1 Sand 1 and Romeral-1 Sand 2 are considered one prospect**

**Note 2: Romeral-2 Sur Sand and Romeral-2 Upper Sand are considered one prospect**

### **Asset Purchase Agreement**

Tarba has entered into an Asset Purchase Agreement with Petroleum Oil and Gas España SA ('Petroleum'), a subsidiary of Naturgy Energy Group SA, to acquire El Romeral for an initial consideration of €750,000. Deferred consideration of €250,000 will be paid on the subsequent drilling of each of the next three wells and split pro rata as per the respective stakes of Warrego and Prospex. The effective date is 16 July 2019. The acquisition will complete on the transfer of licences to Tarba which are subject to customary regulatory approval.

Tarba will fund the acquisition with support from its two shareholders, Warrego, and PXOG Muirhill, a wholly owned subsidiary of Prospex. Tarba will pay the initial consideration on or before 30 days from today's announcement and an application for the transfer will be made shortly afterward. Warrego and Prospex have entered into an agreement whereby Warrego will fund the initial consideration and Prospex has 90 days to elect to take a proportion of the Project up to 49.9% and fund Tarba accordingly. Such investment by Prospex is conditional upon Prospex sourcing the necessary funding.

When Petroleum acquired the Project in 2006, it granted the vendors, at that time, rights to a share of future revenues derived on future commercial discoveries in the Area. These vendors retained the right to 16% of future revenue derived from any further commercial discoveries in the Area. These obligations will transfer to Tarba. For clarity the previous sellers do not receive payments on current production, as these wells were already discovered and producing prior to Petroleum's acquisition in 2006.

### **Warrego and Prospex Agreement**

Warrego and Prospex have entered into a Supplemental Agreement to the existing Shareholders' Agreement ("SHA") announced 19 December 2017. The Supplemental Agreement covers the financing of the El Romeral acquisition, whereby Prospex has up to 90 days to elect to take up to a 49.9% stake in the Project through the issue of a second class of shares of Tarba, B shares. The El Romeral Project will be for the benefit of the B shares and Tarba's existing Tesorillo project will be for the benefit of the ordinary shares. Prospex currently owns 15% of the ordinary shares and has the option to increase its stake in the ordinary shares to 49.9%. Warrego owns the balance of the ordinary shares. Under the original terms of the SHA, the parties agreed to fund their share of the costs going forward in line with their respective proportional ownership. This principle of the original SHA will be maintained under the Supplemental Agreement with the partners funding both

projects in line with their respective proportional ownership whether ordinary or B shares. The SHA contains usual industry standard provisions for sole risk, default and for the day to day operations.

In addition, under the agreement Warrego will pay Prospex £75,000 towards historic due diligence costs up to 13 June 2019. Costs after this date will be borne equally and settled up within 30 days of this announcement.

### **Qualified Person sign off**

Carlos Venturini, Fellow of the Geological Society of London, Exploration Manager has reviewed and approved the technical information contained within this press release in his capacity as a qualified person, as required under the AIM Rules.

*This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.*

**\* \* ENDS \* \***

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### **Notes**

Prospex Oil and Gas Plc is an AIM quoted investment company focussed on high impact onshore and shallow offshore European opportunities with short timelines to production. The Company's strategy is to acquire undervalued projects with multiple, tangible value trigger points that can be realised within 12 months of acquisition and then applying low cost re-evaluation techniques to identify and de-risk prospects.

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