

Prospex Energy Plc

Corporate governance for the year ended 31 December 2021

Corporate Governance is a term used to describe the methods by which your Board of Directors set the strategic aims of the Company, provide leadership to achieve the goals and manage the risks the Company faces. Whilst there is a significant body of regulation which pertains to Corporate Governance, fundamentally your Board believes good governance is based on integrity of people and process, setting the right goals, having the right people and tools to achieve the goals and acting in a disciplined fashion to understand and manage risks inherent in the business. This is a way of life, not an abstract set of rules imposed by regulators.

To assist the Board in reporting to shareholders and to provide a framework against which to gauge action, the Company has adopted the QCA Corporate Governance Code which is widely recognised. We believe that the governance practices at Prospex are aligned with the ten principles of good governance set out in the Code, but where there are variations, this report will explain the differences. Some elements of the reporting are found in the Annual Reports of the Company sent to all shareholders and others on the Company's website (www.prospex.energy) with a full index to reporting found on the website.

As non-executive Chair, Bill Smith has responsibility for leadership of corporate governance and in conjunction with management, establishing appropriate agendas for Board meetings, ensuring that the executives and the Board are fully engaged in appropriate aspects of strategy development, decision making, risk analysis and overall implementation.

The Ten Principles in relation to Prospex

Principle 1 - Establish a strategy and business model which promote long term value for shareholders.

The Corporate strategy is evolving as your Company recognises opportunities in the energy sector, with a focus on natural gas as a transition fuel away from more concentrated greenhouse gas emission from other fuels used to generate electricity. The strategy of building a sizable natural gas and electricity generating investment portfolio focuses on high impact onshore and shallow offshore European opportunities located in working hydrocarbon systems with offtake markets primarily in electricity generation. Other energy opportunities are of interest as the Company aligns with government and regulatory goals of GHG reduction while supporting industry and consumers. Building a portfolio presents a number of challenges, including geological selection, whilst the team are experienced, the nature of the business that includes an element of exploration is inherently risky; the number of opportunities are finite and in developing the value opportunities are exposed to a number of political and commercial risks that have to be navigated.

Principle 2 - Seek to understand and meet shareholder needs and expectations.

The primary information sharing tool is the Company's website. This frames the shareholder expectation as an investment in a small, but growing, energy investment company. New information is released via the regulatory new service (RNS) and the website is updated accordingly. In addition, direct access for shareholders to the management and Board through email and electronic meetings has increased. Updated investor presentations, investor meetings and investor conference attendance are opportunities for investor commentary, as are informal communications. The Chief Executive Officer, Mark Routh, is the primary contact with the overall investment community.

Principle 3 - Take into account wider stakeholder and social responsibilities and their implications for long term success.

While the principal focus of a listed company is to enhance value for its investors, Prospex has positive engagement with a wide and diverse set of stakeholders and is involved in socially responsible activities. One of the primary social benefits is to increase access to energy, including electrical power when natural gas is used to generate electricity, for those regions in which the Company operates. Environmental protection is a key element in all development decisions and extensive consultation with residents and regulators is undertaken prior to any work. Hydrocarbon exploration and development is a highly regulated business in all jurisdictions and in all active investments Prospex or the Joint Venture Operator maintain good relations with all regulatory authorities. Corporate Social Responsibility opportunities are sought and enabled, formally through community projects and informally through employment of local residents and contractors. As a small but growing Company, it is very important to attract and retain highly skilled and dedicated employees and contractors with a combination of a hard working but pleasant workplace and appropriate levels of compensation and emoluments. The directors' collective experiences in oil and gas businesses, including past experience with deep water drilling and production, have embedded a safety-oriented culture.

Principle 4 - Embed effective risk management, considering both opportunities and threats, throughout the organisation.

Risk is inherent in all aspects of natural gas exploration and development activity and the Company is not the formal joint venture operator in any of its investments at this time but maintains active engagement with the Operator. The Company mitigates its risks through careful opportunity review and modelling, thorough due diligence, pursuing investments in areas with stable governments with appropriate fiscal regimes and selecting investments with a variety of risk/reward exposure. A focus on value creation permeates all corporate activities from initial business development review, to detailed geological and economic assessment including financial modelling, to post activity review for the purpose of formalising learnings from success and opportunities for improvement. No significant expenditure is authorised without formal Board review, either in an annual budget or on a case-by-case basis for larger projects. Joint venture partners and key suppliers are subject to extensive review for experience, integrity and ability, not simply on a low-cost basis.

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Corporate governance - continued for the year ended 31 December 2021

Principle 5 - Maintain the Board as a well-functioning, balanced team led by the Chair.

Non-executive directors with diverse back grounds and experience form the majority on the Board of Directors. As the Company is in a stage of rapid development, the directors meet frequently, with formal meetings at least once per calendar quarter. Given the small size of the Board, there is frequent communication among the Board members and between each Non-Executive Director ("NED"). Audit committee and remuneration committee functions are reserved for the NEDs. Alasdair Buchanan is the Non-Executive Director that is considered independent as recommended by the QCA Code.

Principle 6 - Ensure that between them the directors have the necessary up to date experience, skills and capabilities.

The Board discusses its own performance, responds to the stakeholders as appropriate and recruits to fill needs as required. The website has detailed information about each director's education, experience and skills. The current group of directors collectively have international oil and gas experience in more than 10 countries and executive or director roles in more than a dozen listed companies.

Principle 7 - Evaluate Board performance on clear and relevant objectives, seeking continuous improvement.

A desire for continuous improvement pervades all aspects of Prospex. A Board review of its own performance and composition are on the Board agenda at least once per year albeit that no formal review process was followed, keeping in mind that each of the directors is or has been NED of other businesses and thus has maturity and experience in such reviews. At the same time and from time to time, a skills analysis discussion is undertaken with recognition that, as the Company grows in complexity, additional skills will be required. However, Prospex does not currently have written criteria of board performance nor expectations.

Principle 8 - Promote a corporate culture that is based on ethical values and behaviours.

With a small staff, everyday interactions are sufficient to communicate throughout the organisation that integrity is a cornerstone of the Company, and no unethical behaviour will be tolerated. As the Company grows, this ethos will be maintained with enhancement through formal policies. Internal financial controls in place are appropriate for a company the size and complexity of Prospex but will be added to as the business grows.

Principle 9 - Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

Each NED brings a specific skill set and experience which is important for the Company to achieve its objectives. On a regular basis, the NEDs will work directly with the Company staff to support activity, ranging from negotiating and documenting transaction terms to detailed technical review of prospective investment opportunities. Given the size of the Company and the size of the Board, the functions of Audit Committee and Remuneration Committee are maintained by the Board as a whole led by an individual NED. As the Company grows, formal committee structures and defined term of reference for the Committees will be developed.

Principle 10 - Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The website is the main repository of information about the Company's current activity in each project area and also includes the current and past Annual Reports which describe the work of the Company and the Board. With the adoption of the QCA Code, future Annual Reports will include a summary of the activity of the main committees including the Audit Committee and the Remuneration Committee. Any interested party seeking more information or to express a view is invited to contact the CEO or the Chair directly using the contact information contained on the website and access for shareholders to the management and Board through email and electronic meetings has increased.

Remuneration Committee

The Remuneration Committee consisting of the non-executive directors, chaired by Richard Mays, is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for any executive directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors.

Audit Committee

The Audit Committee consisting of the non-executive directors chaired by Bill Smith, provides a forum for reporting by the Company's external auditors. The Committee is responsible for reviewing a wide range of matters, including half-year and annual results before their submission to the Board and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work and discusses the nature, scope and results of the audit with the external auditors. The Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.