

PROSPEX OIL AND GAS PLC. CORPORATE GOVERNANCE REPORT

To the Shareholders of Prospex Oil and Gas Plc,

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 to gauge action against, the Company has adopted the QCA Corporate Governance Code which is widely recognized. 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.prospexoilandgas.com) with a full index to reporting found on the website.

As non-executive Chair, I have 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 to increase shareholder value through building a sizable oil and gas investment portfolio focusing on high impact onshore, shallow and offshore European opportunities located in working hydrocarbon systems. Building a portfolio can set 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 communication tool is the Company's website, it sets out details of implementation of the strategy including acquisition of a diverse portfolio of assets, participating in the drilling of three wells resulting in two commercial gas discoveries and value enhancing activities in all areas of interest. This frames the shareholder expectation as an investment in a small, but growing, oil and gas investment company.

New information is released via the regulatory new service (RNS) and the website is updated accordingly. The annual general meeting gives a formal forum for two-way communication. In addition, investor presentations, investor meetings and investor conference attendance are opportunities for investor commentary, as are informal communications. The Managing Director, Edward Dawson, 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 work place and appropriate levels of compensation and emoluments. The directors' collective experience in oil and gas businesses, including past experience with deep water drilling and production, had 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 oil and gas activity, but the Company mitigates its risks through careful opportunity review and modelling, thorough due diligence, pursuing assets 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 assessment, including financial modeling to post activity review for the purpose of formalizing learnings from success and opportunities for improvement. No significant expenditure is authorized 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. As the Company proceeds to natural gas production, additional risks will be identified and individuals with the skills and experience required will be retained.

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 many times a year, 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”) and the staff at all levels. Audit committee and remuneration committee functions are reserved for the NEDs. All of the Non-Executive Directors are considered independent 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 and undertakes a skills assessment, recruiting 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 of 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. In the inaugural year, the topic of Board performance was subject to a detailed discussion, although 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 behaviors.*

At this time, with the small staff, everyday interactions are sufficient to communicate throughout the organization 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 NED will work directly with the Company staff to support activity, ranging from negotiating and documenting transaction terms to detailed geological 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 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 MD or the Chair directly using the contact information contained in the website.