REGISTERED NUMBER: 03896382 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2017

for

Prospex Oil And Gas Plc

Prospex Oil And Gas Plc

Contents of the Financial Statements
for the year ended 31 December 2017

	Page
Company Information	1
Chairman's Report	2
Strategic Report	4
Report of the Directors	6
Report of the Independent Auditors	9
Statement of Profit or Loss and Other Comprehensive Income	13
Statement of Financial Position	14
Statement of Changes in Equity	15
Statement of Cash Flows	16
Notes to the Statement of Cash Flows	17
Notes to the Financial Statements	18

Prospex Oil And Gas Plc

Company Information
for the year ended 31 December 2017

DIRECTORS:	E R Dawson Dr. R P Mays W H Smith J N Smith
SECRETARY:	G Desler
REGISTERED OFFICE:	Stonebridge House Chelmsford Road Hatfield Heath Essex CM22 7BD
REGISTERED NUMBER:	03896382 (England and Wales)
AUDITORS:	Adler Shine LLP Chartered Accountants & Statutory Auditor Aston House Cornwall Avenue London N3 1LF

Prospex Oil And Gas Plc

Chairman's Report
for the year ended 31 December 2017

2017 may well have been just the second full year the current management team has been in place at Prospex but that has not prevented considerable progress being made during the year towards delivering on our corporate objective: to build an oil and gas investment company with a growing portfolio of late stage European projects with short timelines to value trigger events, such as drilling. Over the course of the year, Prospex acquired material interests in three core projects, Suceava in Romania, Podere Gallina in Italy and Tesorillo in Spain. We have also participated in the drilling of three new wells, two of which resulted in gas discoveries in Italy and Romania; and, towards the end of the period, we embarked on a programme to de-risk up to 2TCF of gas resources at the Tesorillo Project in Spain.

We have been able to achieve so much in such a short period thanks to our focus on acquiring interests in late stage projects where considerable resources have already been invested. This not only saves the Company significant expense, it also enables us to apply, at low cost, new techniques and technologies to legacy data, thereby accelerating the process of de-risking existing targets or identifying new plays. Depending on the results, high impact drilling activity can then be fast tracked. Our two-out-of-three success rate with the drilling shows that we are able to achieve this without compromising the quality of the technical work undertaken. Furthermore, a successful well does not begin and end with drilling. Flow testing, reserves estimates, additional drilling and first production are among major milestones that typically need to be met before the value of an oil and gas project can be fully realised. A positive well result therefore can lead to a pipeline of near term value trigger events that our shareholders can look forward to.

This is precisely where we are at with our projects in Italy and Romania. Thanks to the success we enjoyed in the second half of 2017 the year ahead will not be short of high impact activity. In 2018 we have already has seen confirmation that the Podere Maiar-1d appraisal/redevelopment well on the Podere Gallina Exploration Permit ('Podere Gallina') in the Po Valley region of Italy is a commercial gas discovery after the testing of two gas bearing reservoirs exceeded expectations. Flow rates were well in excess of the pre-test target of 100,000 scm/day, while methane gas content of 99.1% was recorded at both levels. The permitting process is now underway to bring Podere Maiar-1d into production, and in tandem with this, work is ongoing to generate revised contingent resource and reserve estimates based on analysis of the log and well test results. This includes reservoir engineering to optimise production from the two gas levels over the field life.

Podere Maiar-1d successfully tested the shut-in Selva gas-field, which was previously operated by ENI and historically produced 80+ Bcf of gas between 1960 and 1984. Prior to drilling, the well was targeting contingent resources (2C) of 17 Bcf. In addition to Selva, other targets have been identified on the licence, offering considerable upside of up to 40.6 BCFG of prospective resources as detailed in an historic Competent Person's Report ('CPR'). Contingent resource and reserve estimates, first production and potential follow-up drilling all represent additional value drivers that our shareholders can look forward to at Podere Gallina.

It is a similar story at the Exploration Area of the EIV-1 Suceava Concession in onshore Romania. Here first production from the Bainet gas discovery, which was successfully drilled in Q4 2017 by the Bainet-1 well, is set to commence in Q2 2018. Bainet-1, which was drilled to a total depth of 600m, encountered 9m of reservoir with 8m of net gas pay consisting of a good quality Sarmatian sandstone reservoir, similar to that found in fields producing elsewhere in the concession. During testing, natural gas containing over 99% methane flowed at a rate of approximately 33,000 cubic metres/day through an 8mm choke. Production from Bainet-1, which was completed as a producer and lies close to an existing gas processing plant and associated infrastructure, will represent Prospex's first internally generated revenues. It will also provide the Company with a platform with which to target additional prospects and leads on the concession area.

Our third core project, Tesorillo in Spain, may be less advanced in terms of monetisation, but as with our projects in Italy and Romania, it holds a gas discovery which a CPR has assigned gross unrisked Prospective Resources of 830 billion cubic feet of gas (Best Estimate), with upside in excess of 2 TCF. Clearly these are huge numbers. We are very keen to commence the de-risking process and a fully funded work programme at the 38,000ha project is underway to test known gas bearing sandstone sequences. An Audio Magnetotellurics ('AMT') survey is due to commence in the near term to evaluate the subsurface geology of the licence area and test for resistivity, as a further indicator of the presence of hydrocarbons. As well as holding a historic gas discovery, Tesorillo benefits from being located in a proven hydrocarbon region and has excellent access to nearby infrastructure, offering a fast track route to monetisation.

Prospex Oil And Gas Plc

Chairman's Report
for the year ended 31 December 2017

Financial Review
At the time of our 2016 final results we assigned a carrying value of £3,910,388 to the Company's investment in the Kolo licence in Poland. Following the result of the Boleslaw-1 well in January 2017, the Company took the decision to write down the carrying value of its Investment in Hutton Poland to £1,442,011, resulting in an exploration write-off during the six months to 30 June 2017 of £2,308,500. In April 2018, the Company, together with its joint venture partners, decided not to extend the Kolo Licence into its second 2 year term, as a result the Directors have written down the remaining value investment to zero at the 2017 year end. This has led to a further loss of £1,543,888 in the 6 month period to the end of 2017 bringing the total write down for the Polish investment in the year to £3,852,388.

In August the Company announced its entry into Romania with an investment in the Exploration Area of the EIV-1 Suceava Concession. Notwithstanding the positive well result obtained, and the near-term prospect of revenues, the Board have decided to keep the carrying value of this asset at its cost of £1,062,687 at the year end conservatively awaiting for production to start.

The entry into the Po Valley has got off to a flying start. Based on the drilling results of the Podere Maiar well and the better than expected flow results in January, the Board have revalued the Italian investment, which cost £500,000 upward by £1,642,947. This represents a conservative allocation of the expected value that the Board expects to ultimately realise.

The Company's Spanish investment - The Schuepbach Energy Espania S.r.l share acquisition announced in late December - was completed in January 2018. As a result, no value has been attributed in the 2017 accounts. With the positive reinvigoration of the project the directors expect a significant uplift in valuation over future periods as the project progresses.

In January 2018, the Company raised £1.2million via an oversubscribed placing of 200,000,000 ordinary shares at a price of 0.6 pence per New Ordinary Share to fully fund the Company's 2018 basic work programmes across its portfolio. This includes the successful flow testing of the Podere Maiar well in Italy in Q1 2018; the planned commencement of production at the Bainet gas discovery in Romania in Q2 2018; and work to further delineate the gas discovery at Tesorillo in Spain, including the upcoming AMT Survey.

Outlook
Few junior oil and gas companies can lay to claim to having drilled three new wells in three different jurisdictions over a 12 month period, two of which resulted in commercial gas discoveries. Thanks to the efforts of the executive team, who came on board with the intention of applying their proven expertise and experience within the sector to build a leading oil and gas investment company, Prospex can. Furthermore, following the progress made during the year under review, Prospex has an excellent platform in place with which to expose shareholders to multiple value trigger events in the year ahead, including the commencement of the Company's first internally generated cash flows once the Bainet gas discovery comes on line in Q2 2018.

With over 2TCF of gas resources our existing portfolio of investments already has significant company-making potential. However, we continue to evaluate additional assets that match our investment criteria: low cost, undervalued, late stage projects located in proven European hydrocarbon jurisdictions where considerable legacy data is accessible and importantly where short timelines to production have been defined. I look forward to providing further updates on our progress during what promises to be an exciting period for Prospex and our shareholders, one in which we are confident that the disconnect that has opened up between our market valuation and the underlying value of our portfolio will begin to close.

Finally, I would like to take this opportunity to thank the management team, our advisers and of course our shareholders for their support of the Company during the period.

Bill Smith
Non-Executive Chairman
7 June 2018

Strategic Report
for the year ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

PRINCIPAL ACTIVITY
The principal activity of the Company is that of an Investment Company.

STRATEGY
The Company's Investing Policy is to invest in and/or acquire companies and/or projects within the natural resources and/or energy sector with potential for growth and/or income. The Company may also directly apply for new exploration licences or invest in existing licences. It is anticipated that the geographical focus will primarily be Europe. However, investments may also be considered in other regions should the directors consider that valuable opportunities exist and returns can be achieved.

BUSINESS REVIEW
A review of the development and performance of the Company, including important events, progress during the year and likely future developments, can be found in the Chairman's Statement.

In summary:
- administrative expenses, before bad debt provision for continuing operations for the year rose to £1,003,630 (2016: gain - £778,093)
- bad debt provision against amount due from subsidiary undertaking - £1,543,888 (2016 - £nil)
- unrealised loss arising on financial assets at fair value through profit or loss was £613,723 (2016: £2,345.557)
- net loss after taxation from continuing operations was £3,161,241 (2016: Profit - £1,567,464)
- as at 31 December 2017, the Company had cash and cash equivalents of £850,060 (2016: £466,413)

KEY PERFORMANCE INDICATORS
The business Key Performance Indicator ('KPI') monitored by the Board is focussed on managing the investing activities of the Company. The financial KPI is to ensure that there is adequate funding in place to cover the Company's investing activities and holding company costs.

PRINCIPAL RISKS AND UNCERTAINTIES
The Board regularly reviews the risks to which the Company is exposed and seeks to minimise the effects of these risks through careful monitoring of the risks on an ongoing basis.

The principal risks and uncertainties which the Company face include:

Early stage investments in the natural resources sector carry a high level of risk and uncertainty, although the rewards can be outstanding. At this stage there can be no certainty of outcome and, in addition, there is often a lack of liquidity in the Company's investments that are either unquoted or quoted on AIM, such that the Company may have difficulty in realising the full value in a forced sale. Accordingly, a commitment to invest is only made after thorough research into both the management and the business of the target, both of which are closely monitored thereafter.

<u>Organisational</u>
The Company is highly dependent on the Directors. Whilst the board will continue to ensure that the Directors are appropriately incentivised, their services cannot be guaranteed, and the loss of their services to the Company may have a material adverse effect on the performance of the Company. In addition, the competition for qualified personnel in the oil and gas industry can be intense and there can be no assurance that the Company will be able to attract and retain all personnel necessary in the required jurisdictions for the future development and operation of its business.

CORPORATE GOVERNANCE
The Board is committed to maintaining high standards of corporate governance. While Prospex Oil and Gas Plc does not formally comply with an official corporate governance code, the Board has implemented appropriate measures including the establishment of Audit and Remuneration Committees (detailed below) to ensure that the Company adheres to a standard which is practicable for a Company of its size and stage of development.

As a result of recent changes to the AIM Rules for Companies, the Board is currently reviewing which corporate governance code to apply to the Company on a comply or explain basis as required by 28 September 2018.

The Board is committed to creating value for shareholders; determining strategy, investment and acquisition policy; approving significant items of expenditure; and considering significant financing and legal matters.

The Board has referred certain responsibilities to the Board Committees, which operate within defined terms. The current composition and responsibility of Board Committees is as follows:

Remuneration committee
The Remuneration Committee consists of William Smith and Richard Mays who also chairs the committee, and 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 consists of Richard Mays and William Smith, who also chairs the committee, and 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

ON BEHALF OF THE BOARD:

E R Dawson - Director

Date: 7 June 2018

Prospex Oil And Gas Plc

Report of the Directors
for the year ended 31 December 2017

The directors present their report and financial statements for the year ended 31 December 2017.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2017.

The results for the year are set out on page 13.

EVENTS SINCE THE END OF THE YEAR
Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

E R Dawson
Dr. R P Mays
W H Smith
J N Smith

The Directors of the Company held the following beneficial interests in the ordinary shares of the Company:

	2017 No. of shares	2016 No. of shares
Edward Dawson	2,639,344	2,639,344
Richard Mays	2,811,474	2,811,474
William Smith	9,139,344	9,139,344
James Smith	4,000,000	-

Share options
The Directors of the Company held share options granted under the Company share option scheme, as indicated below. No share options were exercised during the year. Full details of the share options held are disclosed in note 22 to the financial statements.

	2017 No. of shares	2016 No. of shares
Edward Dawson	24,322,148	7,381,875
Richard Mays	14,720,508	4,325,340
William Smith	14,720,508	4,325,340
James Smith (appointed 23 December 2016)	11,831,168	1,436,000
	65,594,332	17,468,555

FINANCIAL INSTRUMENTS
The company's financial risk management objectives and policies are set out in note 17 to the financial statements.

GOING CONCERN
In common with many investment companies, the Company raises finance for its investments, as and when required.

The Directors prepare annual budgets and cash flow projections that extend beyond 12 months from the date of this report.

DIRECTORS' INSURANCE
The Directors and officers of the Company are insured against any claims against them for any wrongful act in their capacity as a Director, officer or employee of the Company, subject to the terms and conditions of the policy

SUBSTANTIAL SHAREHOLDINGS
The Company has been notified of the following voting rights as a shareholder of the company as at 29 May 2018:

	No. of ordinary shares	% of issued share capital
B Hale	38,720,900	3.20%

The market value of the Company's shares at 31 December 2017 was 0.56p and the high and low share prices during the period were 2.65p and 0.30p respectively.

CREDITOR PAYMENT POLICY
The company's current policy concerning the payment of trade creditors is to:
- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year-end represented 20 days' purchases.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. In preparing each of the Company financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

Report of the Directors
for the year ended 31 December 2017

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Adler Shine LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

E R Dawson - Director

Date: 7 June 2018

Report of the Independent Auditors to the Members of Prospex Oil And Gas Plc

Opinion

We have audited the financial statements of Prospex Oil And Gas Plc (the 'company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow and Notes to the Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified were:

Going concern
Area of focus
Refer to Note 2 to the financial statements for the directors' disclosures of related accounting policies, judgements and estimates. The Directors have concluded that the Company has sufficient cash resources and cash inflows to continue its activities for not less than twelve months from the date of approval of these financial statements and have therefore prepared these financial statements on a going concern basis.

Management produces a cash flow forecast based on the board plans.

The key judgment within the cash flow forecast that we particularly focused on are:

o The continued availability of funding.
o Cash outflows expected from investing activities
o Flexibility of the investment programme

How our audit addressed the area of focus
We assessed the reasonableness and support for the judgments underpinning management's forecast.

We considered the reasonableness of the assumptions within management's proposed cost reduction actions.

Our conclusion on management's use of the going concern basis of accounting is included in the going concern section of the report.

Valuation of Investments
Area of focus - Fair Value of PXOG Marshall Limited
The fair value of the investments that are not traded on the active market is determined using the valuation techniques such as NPV analysis. During the year Prospex Oil and Gas acquired 17% working interest in the Podere Gallina Exploration Permit in the Po Valley region of Italy, a proven play in a prolific hydrocarbon region - up to 40.6 BCFG of prospective resources. A total gain of £1,642,947 was recognised on this investment for the year ended 31.12.2017.

Management utilised an NPV model to calculate the increase in value of this investment as of the year ended 31.12.2017.

How our audit addressed the area of focus
We obtained a copy of the NPV model used and a copy of CPR report provided by CGG to calculate the increase in valuation of investment.

We reviewed the documentation in respect of the investment made. We gained an understanding of the key assumptions and judgements underlying the model. We reviewed 2 different NPV calculations made as the Well can be drilled via 3 different ways which would then have 3 different outputs. We assessed the appropriateness of the methodology applied and tested the mathematical accuracy of the models.

We considered the increase in the valuation of investment in the financial statements of the company to be reasonable.

Area of focus - Fair Value of PXOG County Limited - Hutton Poland Investment
The company's investment in Kolo Licence in Poland was written off completely as of the year ended 31.12.2017.

How our audit addressed the area of focus
This is in line with the Board Of Directors' valuation report provided to us and the fact that no oil was found.

Area of focus - Fair Value of PXOG Massey Limited
In August 2017, a 50% working interest was acquired in the exploration area of the Suceava license from Raffles Energy, who are the block operator. We agreed and concluded that this investment should be recognised at cost due to the fact that the operator is relatively opaque at this point regarding potential production volumes.

How our audit addressed the area of focus
We reviewed announcements made to AIM and agreed payments made to Raffles Ltd for the 50% interest in Suceava Concession.

Valuation of warrants and share options
Area of focus
The company granted warrants and share options during the year to advisers and shareholders on a placing of ordinary shares and for services provided resulting in a charge of £170,354 and £10,142, against the Statement of Profit or Loss and share premium respectively.

Management utilised a Black Scholes option pricing model to calculate the charge which required the use of assumptions and judgements.

How our audit addressed the area of focus.
We obtained a copy of the model used to calculate the share-based payments charge.

We reviewed the documentation in respect of the warrants and the share options. We gained an understanding of the key assumptions and judgements underlying the model. We assessed the appropriateness of the methodology applied and tested the mathematical accuracy of the models.

We considered the charge provided in the financial statements of the group and company to be reasonable.

Our application of materiality
Materiality for the Company was £72,000 (2016: £62,000) based on an average of 5% of adjusted loss before tax and 2% of net assets (2016: based on 5% of adjusted loss before tax and 2% on net assets).

Loss before tax is the key metric, we believe, as it is most commonly used by the shareholders as a body in assessing the Company's performance. In the case of Prospex, the value of its investments and assets are also key as the Company is still in the development stage. We therefore considered that materiality weighted on the loss for the year but which also considered the net assets of the Company to be reasonable.

Other information
The directors are responsible for the other information. The other information comprises the information in the Annual Report, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report of the Independent Auditors to the Members of Prospex Oil And Gas Plc

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Darsh Shah (Senior Statutory Auditor)
for and on behalf of Adler Shine LLP
Chartered Accountants & Statutory Auditor
Aston House
Cornwall Avenue
London
N3 1LF

Date: 7 June 2018

Prospex Oil And Gas Plc

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	Notes	**2017** **£**	2016 £
CONTINUING OPERATIONS			
Revenue	4	**-**	-
Administrative expenses		**(2,547,518)**	(778,093)
OPERATING LOSS		**(2,547,518)**	(778,093)
Finance costs	6	**(613,723)**	-
Finance income	6	**-**	2,345,557
(LOSS)/PROFIT BEFORE INCOME TAX	7	**(3,161,241)**	1,567,464
Income tax	8	**-**	-
(LOSS)/PROFIT FOR THE YEAR		**(3,161,241)**	1,567,464
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(3,161,241)**	1,567,464
Earnings per share expressed in pence per share:	9		
Basic		**(0.58)p**	0.96p

Prospex Oil And Gas Plc (Registered number: 03896382)

Statement of Financial Position
31 December 2017

	Notes	2017 £	2016 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	10	**429**	849
Investments	11	**2,426,789**	2,540,312
Loans and other financial assets	12	**1,062,587**	1,601,888
		3,489,805	4,143,049
CURRENT ASSETS			
Trade and other receivables	13	**149,231**	31,766
Cash and cash equivalents	14	**850,060**	466,413
		999,291	498,179
TOTAL ASSETS		**4,489,096**	4,641,228
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	**5,835,587**	5,107,779
Share premium		**8,862,779**	6,740,144
Merger reserve		**2,416,667**	2,416,667
Capital redemption reserve		**43,333**	43,333
Retained earnings		**(12,735,116)**	(9,754,371)
TOTAL EQUITY		**4,423,250**	4,553,552
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	**65,846**	87,676
TOTAL LIABILITIES		**65,846**	87,676
TOTAL EQUITY AND LIABILITIES		**4,489,096**	4,641,228

The financial statements were approved by the Board of Directors on 7 June 2018 and were signed on its behalf by:

E R Dawson - Director

Statement of Changes in Equity
for the year ended 31 December 2017

	Note	Share capital	Share premium	Merger reserve	Capital redemption reserve	Retained earnings	Total
		£	£	£	£	£	£
Balance at 1 January 2016		2,657,234	6,732,714	2,416,667	43,333	(11,391,424)	458,524
Changes in equity							
Loss for the year		-	-	-	-	1,567,464	1,567,464
Issue of shares		2,450,545	70,455	-	-	-	2,521,000
Costs of shares issued		-	(63,025)	-	-	-	(63,025)
Equity-settled share-based payments		-	-	-	-	69,589	69,589
Balance at 31 December 2016		5,107,779	6,740,144	2,416,667	43,333	(9,754,371)	4,553,552
Changes in equity							
Loss for the year		-	-	-	-	(3,161,241)	(3,161,241)
Issue of shares	15	727,808	2,372,193	-	-	-	3,100,001
Costs of shares issued		-	(239,416)	-	-	-	(239,416)
Equity-settled share-based payments		-	(10,142)	-	-	180,496	170,354
Balance at 31 December 2017		**5,835,587**	**8,862,779**	**2,416,667**	**43,333**	**(12,735,116)**	**4,423,250**

Share capital
Represents the nominal value of the issued share capital.

Share premium account
Represents amounts received in excess of the nominal value on the issue of share capital less any costs associated with the issue of shares.

Merger reserve
Represents the difference between the nominal value of the share capital issued by the Company and the fair value of the subsidiary at the date of acquisition.

Capital redemption reserve
A reserve into which amounts are transferred following the redemption or purchase of the company's own shares.

Retained earnings
Represents accumulated comprehensive income for the year and prior periods.

Prospex Oil And Gas Plc

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Cash generated from operations	1	**(972,151)**	(577,235)
Net cash from operating activities		**(972,151)**	(577,235)
Cash flows from investing activities			
Purchase of fixed asset investments		**(1,504,787)**	(1,796,543)
Net cash from investing activities		**(1,504,787)**	(1,796,543)
Cash flows from financing activities			
Share issue		**3,100,001**	2,521,000
Costs of shares issued		**(239,416)**	(63,025)
Net cash from financing activities		**2,860,585**	2,457,975
Increase in cash and cash equivalents		**383,647**	84,197
Cash and cash equivalents at beginning of year	2	**466,413**	382,216
Cash and cash equivalents at end of year	2	**850,060**	466,413

The notes form part of these financial statements

Notes to the Statement of Cash Flows
for the year ended 31 December 2017

1. **RECONCILIATION OF (LOSS)/PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS**

	2017	2016
	£	£
(Loss)/profit before income tax	**(3,161,241)**	1,567,464
Depreciation charges	**420**	425
Loss/(gain) on revaluation of investment	**613,723**	(2,345,557)
Equity-settled share based payments	**170,354**	69,589
Bad debt provision	**1,543,888**	-
	(832,856)	(708,079)
(Increase)/decrease in trade and other receivables	**(117,465)**	124,143
(Decrease)/increase in trade and other payables	**(21,830)**	6,701
Cash generated from operations	**(972,151)**	(577,235)

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Year ended 31 December 2017

	31.12.17	**1.1.17**
	£	**£**
Cash and cash equivalents	**850,060**	**466,413**

Year ended 31 December 2016

	31.12.16	1.1.16
	£	£
Cash and cash equivalents	466,413	382,216

1. **STATUTORY INFORMATION**

Prospex Oil And Gas Plc is a private company, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

The presentation currency of the financial statements is the Pound Sterling (£).

Prospex Oil and Gas Plc is registered in England and Wales and is quoted on the AIM Market of the London Stock Exchange Plc. The Company's registered number and registered office address can be found on the Company Information page.

2. **ACCOUNTING POLICIES**

Basis of preparation
The Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, (IFRSs) and International Financial Reporting Interpretations Committee ('IFRIC') interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company financial statements have been prepared under the historical cost convention or fair value where appropriate.

Preparation of consolidated financial statements
Subsidiaries include all entities over which the Company has the power to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date on which control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses on income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The Company is an investment entity and, as such, does not consolidate the investment entities it controls. The Company's interests in subsidiaries are recognised at fair value through profit and loss.

Going concern
The current economic environment is challenging and the Company has reported an operating loss for the year. These losses are expected to continue in the current accounting year to 31 December 2018.

The Company regularly carries out fund-raising exercises in order that it can provide the necessary working capital and investment funds for the Company. As detailed in note 19, since the year end, the Company has raised £1.2m before expenses, through the issue of new ordinary shares.

The Board expects to continue to raise additional funding as and when required to cover the Company's investments, primarily from the issue of further shares.

As such, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Property, plant and equipment
Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Computer equipment - 25% per annum on reducing balance

continued...

2. **ACCOUNTING POLICIES - continued**

Investments
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement within 'other gains/(losses) - net' in the period in which they arise.

Financial instruments
Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The principal financial assets of the company are loans and receivables, which arise principally through the provision of goods and services to customers (e.g. trade receivables) but also incorporate other types of contractual monetary asset. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Company's loans and receivables are recognised and carried at the lower of their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered possible.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Equity comprises the following:
- Share capital represents the nominal value of equity shares;
- Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- Profit and loss reserve represents retained deficit;
- Other reserve represents the capital redemption reserve arising on redemption of shares in previous years and own share reserve.

continued...

2. **ACCOUNTING POLICIES - continued**

Taxation
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Trade and other payables
Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Hire purchase and leasing commitments
Rentals paid under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Employee benefit costs
The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

Equity-settled share-based payment
The Company makes equity-settled share-based payments. The fair value of options granted is recognised as an expense, with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The fair value of the options granted is measured based on the Black-Scholes framework, taking into account the terms and conditions upon which the instruments were granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Accounting standards issued but not yet effective and/or adopted
As at the date of approval of these financial statements, the following standards were in issue but not yet effective. These standards have not been adopted early by the company as they are not expected to have a material impact on the company's financial statements.

The International Financial Reporting Interpretations Committee has also issued interpretations which the company does not consider will have a significant impact on the financial statements.

continued...

2. **ACCOUNTING POLICIES - continued**

		Effective date (period beginning on or after)
IFRS 1	Amendments resulting from Annual Improvements 2014-2016 cycle (removing short-term exemptions)	01/01/2018
IFRS 2	Amendments - Classification and measurement of share-based payments transactions	01/01/2018
IFRS 3, IFRS 11, IAS 12, IAS 23	Amendments resulting from Annual Improvements 2015-2017 cycle	01/01/2019
IFRS 4	Amendment - applying IFRS 9 "Financial Instruments" with IFRS 4 “Insurance Contracts”	01/01/2018
IFRS 9	Financial instruments - incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition	01/01/2018
IFRS 9	Amendment - Prepayment features with negative compensation	01/01/2019
IFRS 10/ IAS 28	Amendments - Sale or contribution of assets between an investor and its associate or joint venture	01/01/2018
IFRS 15	Revenue from contracts with customers, and the related clarifications	01/01/2018
IFRS 16	Leases - recognition, measurement, presentation and disclosure	01/01/2019
IFRS 17	Insurance contracts	01/01/2019
IAS 19	Amendment - Plan Amendment, Curtailment or Settlement	01/01/2019
IAS 28	Amendments resulting from Annual Improvements 2014-2016 cycle (clarifying certain fair value measurements	01/01/2018
IAS 28	Amendment - Long term interests in Associates and Joint Ventures	01/01/2019
IAS 40	Transfers of investment property - Amendment	01/01/2018

The International Financial Reporting Interpretations Committee has also issued interpretations which the company does not consider will have a significant impact on the financial statements.

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3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial information in conformity with IFRS requires the use of certain critical accounting estimates that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from these estimates. The estimates and underlying assumptions are as follows:

Investment entities
The judgements, assumptions and estimates involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are the fair valuation of the investment and the assessment regarding investment entities. The investment portfolio is held at fair value. The Directors review the valuations policies, process and application to individual investments.

Entities that meet the definition of an investment entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit and loss. The Board has concluded that the Company continues to meet the definition of an investment entity as its strategic objective of investing in portfolio investments for the purpose of generating returns in the form of investment income and capital appreciation remains unchanged.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date". Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement. The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date. The largest investment in the portfolio, however, is represented by an unquoted investment.

Impairment of assets
The Company is required to test, on an annual basis, whether its non-current assets have suffered any impairment. Determining whether these assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact on the carrying value of the respective assets.

Recoverability of other financial assets
The majority of the Company's financial assets represent loans provided to its subsidiary, which are associated with funding of mineral exploration and development projects. The recoverability of such loans is dependent upon the discovery of economically recoverable reserves, the ability of the Company to maintain necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposition thereof.

Share based payments
The estimates of share based payments requires that management selects an appropriate valuation model and make decisions on various inputs into the model including the volatility of its own share price, the probable life of the options before exercise, and behavioural consideration of employees.

Deferred tax assets
Deferred taxation is provided for using the liability method. Deferred tax assets are recognised in respect of tax losses where the Directors believe that it is probable that future profits will be relieved by the benefit of tax losses brought forward. The Board considers the likely utilisation of such losses by reviewing budgets and medium-term plans for the Company. The Directors have decided that no deferred tax asset should be recognised at 31 December 2017. If the actual profits earned by the Company differs from the budgets and forecasts used then the value of such deferred tax assets may differ from that shown in these financial statements.

 continued...

4. **SEGMENTAL REPORTING**

The Company is an Investing Company. The results for this continuing operation, all of which were carried out in the UK, are disclosed in the Income Statement. The net assets as at 31 December 2017 as shown on the Statement of Financial Position all relate to the Investment activity.

5. **EMPLOYEES AND DIRECTORS**

	2017	2016
	£	£
Wages and salaries	**283,879**	192,665
Social security costs	**30,088**	19,015
Other pension costs	**13,500**	9,000
	327,467	220,680

The average number of employees during the year was as follows:

	2017	2016
Directors	**4**	5

6. **NET FINANCE COSTS**

	2017	2016
	£	£
Finance income:		
(Loss)/gain on revaluation of investments	**(613,723)**	2,345,557

7. **(LOSS)/PROFIT BEFORE INCOME TAX**

The loss before income tax (2016 - profit before income tax) is stated after charging/(crediting):

	2017	2016
	£	£
Other operating leases	**31,927**	16,815
Depreciation - owned assets	**420**	425
Auditors' remuneration	**16,250**	16,250
Foreign exchange differences	**(10,752)**	4,584
Bad debt provision against amounts due from subsidiaries	**1,543,888**	-

8. **INCOME TAX**

Analysis of tax expense
No liability to UK corporation tax arose for the year ended 31 December 2017 nor for the year ended 31 December 2016.

continued...

8. **INCOME TAX - continued**

Factors affecting the tax expense
The tax assessed for the year is higher (2016 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2017	2016
	£	£
(Loss)/profit before income tax	**(3,161,241)**	1,567,464
(Loss)/profit multiplied by the standard rate of corporation tax in the UK of 19.250% (2016 - 20%)	**(608,539)**	313,493
Effects of:		
Non-deductible expenses	**330,280**	15,768
Depreciation add back	**81**	85
Tax losses not utilised	**164,720**	139,765
Unrealised chargeable gains	**113,458**	(469,111)
Tax expense	**-**	-

There is no provision for UK Corporation Tax due to adjusted losses for tax purposes, subject to agreement with HM Revenue and Customs. The deferred asset of approximately £686,000 (2016: £578,000) arising from the accumulated tax losses of approximately £4.0m (2016: £3.4m) carried forward has not been recognised but may become recoverable against future trading profits.

9. **EARNINGS PER SHARE**

The (loss)/earnings and number of shares used in the calculation of earnings per ordinary share are set out below:

	2017	2016
	£	£
Basic		
(Loss)/profit for the financial period	**(3,161,241)**	1,567,464
Weighted average of ordinary shares	**44,580,539**	163,085,489

There was no dilutive effect from the options and warrants outstanding during the period (note 22).

 continued...

10. **PROPERTY, PLANT AND EQUIPMENT**

	Compute equipme £
COST	
At 1 January 2017	
and 31 December 2017	**1,699**
DEPRECIATION	
At 1 January 2017	**850**
Charge for year	**420**
At 31 December 2017	**1,270**
NET BOOK VALUE	
At 31 December 2017	**429**
At 31 December 2016	849

11. **INVESTMENTS**

	Shares in group undertakings	Investments Listed	Investments Unlisted	Totals
	£	£	£	£
COST OR VALUATION				
At 1 January 2017	**2,308,600**	**131,712**	**100,000**	**2,540,312**
Additions	**500,200**	**-**	**-**	**500,200**
Revaluations	**(665,553)**	**51,830**	**-**	**(613,723)**
At 31 December 2017	**2,143,247**	**183,542**	**100,000**	**2,426,789**
NET BOOK VALUE				
At 31 December 2017	**2,143,247**	**183,542**	**100,000**	**2,426,789**
At 31 December 2016	2,308,600	131,712	100,000	2,540,312

The company's investments at the Statement of Financial Position date in the share capital of companies include the following:

PXOG County Limited
Registered office: England & Wales
Nature of business: Investment entity

Class of shares:	% holding
Ordinary	100.00

	2017	2016
	£	£
Aggregate capital and reserves	**(13)**	3,910,475
(Loss)/profit for the year	**(3,852,501)**	2,308,500

continued...

11. **INVESTMENTS - continued**

PXOG Massey Limited
Registered office: England & Wales
Nature of business: Investment entity

	%
Class of shares:	holding
Ordinary	100.00

	2017
	£
Aggregate capital and reserves	(48,323)
Loss for the year	(48,423)

PXOG Marshall Limited
Registered office: England & Wales
Nature of business: Investment entity

	%
Class of shares:	holding
Ordinary	100.00

	2017
	£
Aggregate capital and reserves	2,142,947
Profit for the year	1,642,947

PXOG Muirhill Limited
Registered office: England & Wales
Nature of business: Investment company

	%
Class of shares:	holding
Ordinary	100.00

	2017
	£
Aggregate capital and reserves	100
Profit for the year	Nil

continued...

11. **INVESTMENTS - continued**

Investments are recognised and de-recognised on the date when their purchase or sale is subject to a relevant contract and the associated risks and rewards have been transferred. The Company manages its investments with a view to profiting from the receipt of investment income and capital appreciation from changes in the fair value of investments.

All investments are initially recognised at the fair value of the consideration given and are subsequently measured at fair value through profit and loss.

Unquoted investments, including both equity and loans are designated at fair value through profit and loss and are subsequently carried in the statement of financial position at fair value. Fair value is determined in line with the fair value guidelines under IFRS.

In accordance with IFRS 10, the proportion of the investment portfolio held by the Company's unconsolidated subsidiaries is presented as part of the fair value of investment entity subsidiaries, along with the fair value of their other assets and liabilities.

The holding period of the Company's investment portfolio is on average greater than one year. For this reason the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss and are not consolidated in accordance with IFRS10.

These entities hold the Company's interests in investments in portfolio companies. The fair value can increase or reduce from either cash flows to/from the investment entities or valuation movements in line with the Company's valuation policy.

The fair value of these entities is their net asset values.

The Directors determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. At each reporting period, they consider whether any additional fair value adjustments need to be made to the net asset values of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary.

12. **LOANS AND OTHER FINANCIAL ASSETS**

	Loans to group undertakings £
At 1 January 2017	**1,601,888**
New in year	**1,062,587**
Repayment in year	**(58,000)**
Other movement	**(1,543,888)**
At 31 December 2017	**1,062,587**

continued...

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	£	£
Current:		
Amounts owed by group undertakings	**113,364**	-
Rent deposit	**2,026**	2,026
VAT	**28,408**	19,458
Prepayments and accrued income	**5,433**	10,282
	149,231	31,766

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

14. CASH AND CASH EQUIVALENTS

	2017	2016
	£	£
Bank accounts	**850,060**	466,413

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value. All of the Company's cash and cash equivalents are at floating rates of interest.

 continued...

15. **CALLED UP SHARE CAPITAL**

	2017 Number	2016 Number	**2017 £**	2016 £
Allotted, issued and fully paid				
Ordinary shares of 0.1p each	**1,013,593,136**	-	**1,013,593**	-
Ordinary shares of 1p each	**-**	285,785,836	**-**	2,857,858
Deferred shares of 0.1p each	**942,462,000**	942,462,000	**942,462**	942,462
Deferred shares of £24 each	**54,477**	54,477	**1,307,459**	1,307,459
Deferred shares of 0.9p each	**285,785,836**	-	**2,572,073**	-
			5,835,587	5,107,779

In February 2017, the Company undertook a Share Capital Reorganisation whereby each Existing Ordinary Share of £0.01 was subdivided into one New Ordinary Share of £0.001 and one New Deferred Share of £0.009.

In February 2017, the Company raised £850,000, before expenses, via a placing of 170 million new ordinary shares of £0.001 each (as reorganised by the share capital reorganisation) ("New Ordinary Shares") at a price of 0.5 pence per New Ordinary Share. The net proceeds of the Placing went towards the Company's ongoing evaluation of a number of potential projects, in line with its strategy to build a portfolio of investments in the European oil and gas sector, and be used for general working capital purposes.

In September 2017, the Company raised £650,000, before expenses, via a placing of 185,714,300 ordinary shares of £0.001 each at a price of 0.35 pence per New Ordinary Share. The net proceeds of the Placing would help fund the Company's share of the 2017 work programme at the Suceava Concession ('Suceava') in North East Romania. In addition, the funds would go towards the ongoing evaluation of a number of potential projects, in line with the Company's strategy to build a portfolio of investments in the European oil and gas sector, as well as for general working capital purposes.

In November 2017, the Company raised £1.6million, before expenses, via a placing of 372,093,000 ordinary shares of £0.001 each at a price of 0.43 pence per New Ordinary Share). The net proceeds of the Placing were to be used to satisfy the Consideration to acquire a 17% working interest in the Podere Gallina Exploration Permit in the Po Valley region of Italy for a total consideration payable of approximately EUR1.15 million and for general working capital purposes.

continued...

16. **TRADE AND OTHER PAYABLES**

	2017	2016
	£	£
Current:		
Trade creditors	**28,681**	53,123
Social security and other taxes	**11,362**	9,138
Accruals and deferred income	**25,803**	25,415
	65,846	87,676

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

continued...

17. **FINANCIAL INSTRUMENTS**

The principal financial instruments used by the Company, from which financial instrument risk arises are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

A summary of the financial instruments held by category is provided below:

	2017	2016
Financial assets	**£**	£
Loans and receivables:		
Trade and other receivables	**5,433**	31,766
Cash and cash equivalents	**850,060**	466,413
	855,493	498,179
Financial liabilities		
Trade and other payables	**90,178**	87,676

Financial risk management
The Company's activities expose it to a variety of risks including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company manages these risks through an effective risk management programme and through this programme, the Board seeks to minimise potential adverse effects on the Company's financial performance.

The Board provides written objectives, policies and procedures with regards to managing currency and interest risk exposures, liquidity and credit risk including guidance on the use of certain derivative and non derivative financial instruments

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its receivables and its cash deposits. It is Company policy to assess the credit risk of new customers before entering contracts. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk and interest rate risk
Liquidity risk arises from the Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Board regularly receives cash flow projections for a minimum period of 12 months, together with information regarding cash balances monthly.

The Company is principally funded by equity and invests in short-term deposits, having access to these funds at short notice. The Company's policy throughout the period has been to minimise interest rate risk by placing funds in risk free cash deposits but also to maximise the return on funds placed on deposit.

All cash deposits attract a floating rate of interest. The benchmark rate for determining interest receivable and floating rate assets is linked to the UK base rate.

Foreign currency exposure
The Company has no exposure to foreign currency risk.

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18. **RELATED PARTY DISCLOSURES**

Included in loans to group undertakings is an amount of £1,543,888 (2016: £1,601,888) due from PXOG County Limited, the company's wholly owned subsidiary. At the year end, a provision of £1,543,888 (2016: £nil) was made against this balance.

Included in loans to group undertakings is an amount of £1,062,587 (2016: £nil) due from PXOG Massey Limited, the company's wholly owned subsidiary.

Included in trade and other receivables is an amount of £113,350 (2016: £nil) due from PXOG Marshall Limited, the company's wholly owned subsidiary.

During the year, there were consultancy fees of £18,000 (2016: £15,200) charged by Sallork Legal and Commercial Consulting Limited ("Sallork") and included in trade payables at the year-end is £6,674 (2016: £nil) owing to Sallork. Richard Mays is a director and shareholder of Sallork.

Included in trade and other payables are the following balances due to Directors as at 31 December 2017.

	2017	2016
	£	£
Edward Dawson	**-**	13,660

19. **EVENTS AFTER THE REPORTING PERIOD**

Placing
In January 2018, the Company, raised £1,200,000, before expenses, via a placing of 200,000,000 ordinary shares of £0.001 each (the "New Ordinary Shares") at a price of 0.6 pence per New Ordinary Share.

The net proceeds of the Placing should ensure Prospex is fully funded for its basic 2018 work programmes across its portfolio of investments in late stage European onshore oil and gas projects.

20. **ULTIMATE CONTROLLING PARTY**

In the opinion of the Directors, there is no ultimate controlling party.

21. **SHARE-BASED PAYMENT TRANSACTIONS**

Share options
At 31 December 2016 and 31 December 2017 outstanding awards to subscribe for ordinary shares of 1p each in the Company, granted in accordance with the rules of the share option scheme, were as follows:

	Shares under options	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
31 December 2016			
Brought forward	3,903,516	9.10	11.86
Granted	20,728,545		1.03
Lapsed	-		
Carried forward	24,632,061	3.59	2.74

continued...

21. **SHARE-BASED PAYMENT TRANSACTIONS (continued)**

31 December 2017	Shares under options	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	24,632,061	3.59	2.74
Granted	71,226,149	3.00	0.52
Lapsed	(204,400)		
Carried forward	95,653,810	2.80	0.78

All options were exercisable at the year end. No options were exercised during the year.

The following share-based payment arrangements were in existence at the year-end.

Options	**Number**	**Expiry date**	**Exercise price**	**Fair value at grant date**
1. Granted 30 April 2012	40,000	30/04/2022	125.0p	47.5p
2. Granted 16 April 2015	2,847,116	15/04/2025	3.05p	1.94p
3. Granted 16 April 2015	812,000	15/04/2018	3.05p	1.94p
4. Granted 22 September 2016	1,434,209	22/09/2019	1.00p	0.53p
5. Granted 22 September 2016	13,694,336	22/09/2019	1.00p	0.31p
6. Granted 22 September 2016	4,164,000	22/09/2019	1.10p	0.29p
7. Granted 23 December 2016	1,436,000	23/12/2019	1.10p	0.53p
8. Granted 13 November 2017	71,226,149	13/11/2020	0.52p	0.29p

The fair value of remaining share options has been calculated using the Black Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Options	**Grant date share price**	**Exercise price**	**Expected volatility**	**Expected option life**	**Risk-free interest rate**
1. Granted 30 April 2012	175.0p	125.0p	32.0%	3.5 years	0.24% - 0.43%
2. Granted 16 April 2015	4.0p	3.05p	71.5%	3 years	0.71%
3. Granted 16 April 2015	4.0p	3.05p	71.5%	3 years	0.71%
4. Granted 22 September 2016	1.7p	1.00p	71.0%	3 years	0.10%
5. Granted 22 September 2016 *	1.7p	1.00p	71.0%	3 years	0.10%
6. Granted 22 September 2016 *	1.7p	1.10p	71.0%	3 years	0.10%
7. Granted 23 December 2016 *	2.5p	1.10p	79.0%	3 years	0.28%
8. Granted 13 November 2017	0.51p	0.52p	96.8%	3 years	0.56%

continued...

* These options vest once the share price of the Company has closed at 5p or higher for 5 consecutive trading days.

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the above options are equity settled and the charge for the year is £170,354 (2016: £69,589).

Warrants
At 31 December 2017, outstanding warrants to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the warrant instruments issued by Prospex, were as follows. There are no comparatives as no warrants were in existence prior to this year. Following the year end, the company which was granted these warrants entered Administration, at which point the warrants lapsed.

		Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	-		
Granted	8,500,000	2.00	1.25
Lapsed	-		
Carried forward	8,500,000	1.14	1.25

All warrants were exercisable at the year end.

The following warrants were in existence at the year end.

Warrants	**Number**	**Expiry date**	**Exercise price**	**Fair value at grant date**
1. Granted 20 February 2017	8,500,000	21/02/2019	1.25p	0.22p

The fair value of the remaining warrants has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Options	**Grant date share price**	**Exercise price**	**Expected volatility**	**Expected option life**	**Risk-free interest rate**
1. Granted 20 February 2017	0.52p	1.25p	98.0%	2 years	0.13%

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date.

All of the warrants are equity settled and the charge for the year is £10,142 (2016: £nil). As the warrants relating to the charge were all in consideration of shares issued during the year, it has been taken directly to equity and charged against the share premium as costs in respect of the issue of shares.

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22. **DIRECTORS' EMOLUMENTS**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Company, including all directors of the Company.

	2017	2016
	£	£
Directors' emoluments	**147,333**	97,665
Benefit in kind	**4,200**	4,200
Pension contributions	**12,350**	9,000
	163,883	136,759

	Salaries and fees	Benefit in kind	Pension contributions	2017	2016
	£	£	£	£	£
Edward Dawson	111,333	4,200	12,350	127,883	93,950
William Smith	12,000	-	-	12,000	8,500
Richard Mays	12,000	-	-	12,000	8,000
James Smith (appointed 22 December 2016)	12,000	-	-	12,000	415
	147,333	4,200	12,350	163,883	110,865

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2016: 1).

The Directors interests in share options as at 31 December 2017 are as follows:

Director	**Options at 31 December 2017**	**Exercise price**	**Date of grant**	**First date of exercise**	**Final date of exercise**
Edward Dawson	680,212	3.05p	14/04/2015	14/04/2015	14/04/2025
Edward Dawson	971,663	1.00p	22/09/2016	22/09/2016	22/09/2019
Edward Dawson *	4,438,000	1.00p	22/09/2016	22/09/2016	22/09/2019
Edward Dawson *	1,292,000	1.10p	22/09/2016	22/09/2016	22/09/2019
Edward Dawson	16,940,273	0.52p	13/11/2017	13/11/2017	13/11/2020
Richard Mays	541,726	3.05p	14/04/2015	14/04/2015	14/04/2025
Richard Mays	20,196	1.00p	22/09/2016	22/09/2016	22/09/2019
Richard Mays *	2,327,418	1.00p	22/09/2016	22/09/2016	22/09/2019
Richard Mays *	1,436,000	1.10p	22/09/2016	22/09/2016	22/09/2019
Richard Mays	10,395,168	0.52p	13/11/2017	13/11/2017	13/11/2020
William Smith	541,726	3.05p	14/04/2015	14/04/2015	14/04/2025
William Smith	20,196	1.00p	22/09/2016	22/09/2016	22/09/2019
William Smith *	2,327,418	1.00p	22/09/2016	22/09/2016	22/09/2019
William Smith *	1,436,000	1.10p	22/09/2016	22/09/2016	22/09/2019
William Smith	10,395,168	0.52p	13/11/2017	13/11/2017	13/11/2020
James Smith *	1,436,000	1.10p	23/12/2106	23/12/2106	23/12/2019
James Smith	10,395,168	0.52p	13/11/2017	13/11/2017	13/11/2020

* These options vest once the share price of the Company has closed at 5p or higher for 5 consecutive trading days.

The options awarded to Richard Mays are held in the name of Sallork Limited, a company he owns and controls.