REGISTERED NUMBER: 03896382 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2018

for

Prospex Oil And Gas Plc

Contents of the Financial Statements
for the year ended 31 December 2018

Prospex Oil And Gas Plc

Company Information
for the year ended 31 December 2018

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 2018

The discovery of commercial hydrocarbon accumulations, the commencement of production, the generation of first revenues, the acquisition of an interest in a high impact project - All are key objectives for any oil and gas company, let alone a junior investment company such as Prospex Oil & Gas. It is therefore noteworthy that Prospex's 2018 report card includes all the above: a commercial gas discovery at the Selva field on the Podere Gallina permit, Italy; the commencement of gas production and first revenues at the Bainet field on the Suceava Concession, Romania; and the acquisition of a further 12.5% interest in the large Tesorillo gas project, Spain, on which there is an historic discovery and 830Bcf of gross unrisked prospective resources.

Success on the ground has been reflected in the Company's full year financial results which include a maiden net profit after taxation from continuing operations of £779,904, compared to 2017's loss of £3,161,241, and a 77% increase in the net book value of our investments to £4,307,617 as at 31 December 2018 (2017: £2,426,789). Comparing this last figure to the Company's current market capitalisation of approximately £3million highlights how Prospex is not only a fast-growing junior oil and gas investment company, but also a value play trading at a significant discount to net assets. Due to the progress made to date in de-risking two of our three projects via the drill bit and the considerable run room they offer, we would argue there is a strong case for our shares to trade at a premium to net book value rather than a discount.

One of these substantially de-risked projects is the Podere Gallina Exploration Permit in Italy. Here we have reported (post period end) maiden gas 2P reserves of 2.26Bcf net to Prospex's 17% interest, as contingent resources previously assigned to the Selva gas field were reclassified as reserves following the successful testing of the Podere Maiar well ('PM-1') in January 2018. This represents the first time that reserves have been assigned to one of our projects by an independent third party, in this case via a Competent Person's Report produced by geophysical services consultancy, CGG Services (UK) Limited ('CGG'). Being assigned first reserves is a major milestone. Not only does it provide Prospex with significant asset backing, particularly when compared to our current market valuation, it also opens up new channels of non-dilutive funding, such as reserves-based lending. Additionally, production from these reserves will lead to a step up in our internally generated revenues which in turn will provide another source of funding for investment in late stage onshore European opportunities both inside and outside our existing portfolio.

January 2019's preliminary award of a production concession for Podere Gallina keeps first production at Selva on course to commence in 2020 at a gross rate of up to 150,000m^3/day. At this level and at current gas prices, Selva alone promises to generate significant cash flow for reinvestment across our asset base. This includes Podere Gallina where multiple follow-up targets, many larger than Selva, have already been identified. The scale of the additional run room at Podere Gallina was quantified by the substantial resource upgrade we reported post period end. In addition to 13.3Bcf of gross 2P reserves, Selva's two historic gas producing North Flank and South Flank reservoirs are estimated by CGG to have a 60% - 70% chance of holding 14.1Bcf of gross contingent resources ('2C'). At the same time, aggregate gross prospective resources (best estimate) for four large prospects (East Selva, Fondo Perino, Cembalina, and Riccardina) have increased by 74% to 91.5Bcf from 52.7Bcf. Following the upgrade, our 17% interest in Podere Gallina now translates into net 2P reserves / 2C resources / prospective resources of 2.26Bcf / 2.40Bcf / 15.56Bcf respectively. The joint venture partners are keen to prove up Podere Gallina's potential and bring Selva online.

This is what we are doing in Romania where our wholly-owned subsidiary PXOG Massey Limited has a 50% non-operated interest in the EIV-1 Suceava Concession, onshore Romania. A proven hydrocarbon basin, multiple targets, access to existing infrastructure, and a supportive regulatory environment - we recognised from the outset that Suceava has the potential to deliver fast track, low cost exploration and development opportunities. The successful Bainet-1 well, in which we participated in late 2017, provides proof of concept. In less than 12 months of the discovery being made in November 2017, the field was brought into production in September 2018. Between discovery and first production, a 2.2km flowline was successfully laid connecting Bainet-1 to the existing Bilca production facility, which in turn indirectly connected the field to Romania's Transgaz-owned national gas grid. At the same time, the relevant Government approvals required to commence production were sought and subsequently secured. In all, Bainet-1 was drilled and tied into production in line with the original €800,000 gross cost estimate (€400,000 net to Prospex).

Production at Bainet-1 commenced in September 2018 and averaged 18,000m^3/day during the period to the end of the year. Moving forward the Joint Venture is assuming an average production rate of 15,000m^3/day for 2019 budgeting purposes.

In terms of production, Bainet-1 is relatively small. However, when the low costs and short timelines are considered alongside the presence of multiple copycat structures, the potential to rapidly build Suceava into a highly cash flow generative platform becomes clear. We are looking to do just this, and post period end we announced the enlargement of the Exploration Area of the Concession, which automatically added a new Bainet-1 lookalike gas prospect to our inventory of targets. The new gas prospect, Bainet-West, is well defined on 2D seismic and has similar seismic attributes to Bainet-1, which was drilled to a total depth of 600m and encountered 9m of reservoir with 8m of net gas pay consisting of a good quality Sarmatian sandstone reservoir also found in producing fields in and around the Concession. Lying at a similar depth to Bainet-1, the new gas prospect, which is similarly positioned in relation to a fault, is a priority target and the operator has commenced work on securing the relevant permits in order to drill an exploration well. Based on our experience with Bainet-1, we are confident that drilling operations will be able to commence later this year.

Chairman's Report
for the year ended 31 December 2018

Drilling is also a priority at the 38,000ha Tesorillo Project in southern Spain. Tesorillo lies in a proven hydrocarbon region and comprises two petroleum exploration permits, Tesorillo and Ruedalabola. Tesorillo holds the 1956 Almarchal-1 discovery well and has multi-Tcf potential over a thick section of possible gas pay, including zones which flowed gas to surface on testing. Drill stem tests and log analysis also confirmed 48m of gas play from two Miocene Aljibe Formation sandstone intervals, whilst a further 492m of potential gas play has been interpreted from logs but unconfirmed by testing. Ruedalabola contains the 1957 Puerto de Ojen-1 well, which is located 15km to the east of Almarchal and has displayed similar gas reservoir zones to Almarchal-1 but could not be tested for mechanical reasons.

As with Podere Gallina and Suceava, Tesorillo has excellent access to infrastructure being located 3.9km from the European landing point of the North African Maghreb gas pipe-line, providing access to high priced European gas markets. Unlike Podere Gallina and Suceava, Prospex is acquiring an up to 49.9% interest in the project via an to earn-in option based on the results of work programmes centred on de-risking targets ahead of drilling to test a historic gas discovery and prove up the potentially significant resources. A report undertaken by Netherland Sewell and Associates in 2015 estimated that Tesorillo could hold gross unrisked Prospective Resources of 830Bcf of gas (Best Estimate), with upside in excess of 2Tcf. Following favourable progress on the 2018 work programme, in December 2018 the Company decided to increase its interest in the project from 2.5% to 15% for a net consideration of €153,250.

There were three strands to the 2018 work programme, the first of which was general field studies to populate the Environmental and Social Impact Assessment ('ESIA') report on Tesorillo, which is required for the permitting of two new wells, the first of which is likely to twin the Almarchal-1 discovery. As at the end of the reporting period, ca.70% of the overall fieldwork required for the ESIA had been completed with the remaining work to be carried out once a well location has been decided. The second strand was centred on a detailed surface structural geology mapping exercise by a leading expert from Granada University. The new map and related cross-sections show that the structural subsurface geometry of the exploration target, the Aljibe sandstone in the Lowermost Miocene, is possibly formed by several folds and thrust ramps of 3 to 5km length which are inferred to be potential gas traps. The third strand involved an Audio Magneto Telluric survey to help evaluate the subsurface geology of the permit area and test for resistivity as a further indication of the presence of hydrocarbons. This has been completed over key areas of interest and the raw field data acquired is currently being processed.

The results of strands two and three will increase our geological and geophysical understanding of the permit area and will be used to decide the location of the new exploration wells. The final results will also likely be fed into an updated Competent Person's Report. A further work stream is underway to reprocess raw 2D seismic data acquired by Repsol in 1991 using modern depth migration techniques. This data includes a line that intersects the Almarchal-1 well.

Financial Review

For the year ended 31 December 2018, the Company is reporting a net profit after taxation from continuing operations of £779,904 (2017: loss - £3,161,241). Unrealised gains arising on financial assets at fair value totalled £1,710,418 (2017: loss - £613,723). Administrative expenses of £1,064,151 for the year, before bad debt provisions for continuing operations, remained in line with those incurred during the previous year (2017: £1,003,630). No bad debt provisions were taken against amounts due from subsidiary undertakings during the year (2017: £1,543,888).

During the year, the Company raised £1.2m via an oversubscribed placing of 200,000,000 ordinary shares to fund the Company's share of costs of work programmes across its portfolio. This included the successful flow testing of the Podere Maiar well in Italy in Q1 2018; the tie in at the Bainet-1 gas discovery in Romania in Q2 2018; and work to further delineate the gas discovery at Tesorillo in Spain.

In October the Company raised £480,000 of debt capital through the issue of loan notes. These funds were raised primarily to fund the Company's share of the budgeted early stage development costs (including environmental monitoring) at the Selva gas discovery on the Podere Gallina Permit in Italy. The loan notes bear interest at 10% per annum, capitalised to 30 June 2019, with the first biannual cash payment on 31 December 2019. Capital repayments start in December 2020 with final repayment on 30 June 2022 (four equal payments).

As at 31 December 2018, the Company held cash and cash equivalents of £233,138 (2017: £850,060). Subsequent to the reporting period, in March 2019, the Company raised £800,000 gross via an oversubscribed placing of 400,000,000 new ordinary shares primarily to fund the Company's share of costs for the 2019 work programme at Suceava which includes plans to drill the Bainet-West prospect.

Chairman's Report
for the year ended 31 December 2018

Outlook

In little more than 18 months, we have acquired material interests in three European onshore projects, drilled two wells, resulting in two commercial gas discoveries, brought one of these onto production, booked maiden gas reserves for the other, and now we have reported our first net profit. The rapid progress we have made is testament to the quality of our asset base and the rigorous screening process we apply to all potential new ventures. Our focus on late stage projects in proven hydrocarbon regions with drill-ready prospects, multiple follow-up targets, access to existing infrastructure and short timelines to activity has served us well. We intend to build on this success going forward and while there is still much to go for with our existing assets, we continue to evaluate potential new projects to grow our portfolio further.

Key to delivering shareholder value is hitting the milestones we set ourselves. Drilling success, first production and acquisitions do not happen overnight. An investment of considerable time and resources lie behind all these achievements. The seeds of the successes disclosed over the course of 2018 were very much planted in prior reporting periods. With an eye on future value generating activity, the year under review has been no different. Much work has taken place to ensure that 2018's success is no one-off and that, importantly, our shareholders continue to be exposed to the consistent flow of high impact activity that we set out to deliver. Thanks to the work carried out over the course of the year, shareholders can expect more of the same in 2019 and beyond.

Finally, I would like to take this opportunity to thank the Board and the management team for their continued hard work and support over the course of the year. I look forward to working with them all in the year ahead, as we focus on delivering on our overriding objective which remains to generate value for all our shareholders.

Bill Smith
Non-Executive Chairman
11 June 2019

Corporate governance
for the year ended 31 December 2018

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 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.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, which 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 news service (RNS) and the website is update 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 invests. 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, the Company, together with the Joint Venture Operator, actively engages with the regulators.

Through its relationship with the Operators on the joint-ventures, the Company endeavours to ensure that Corporate Social responsibility opportunities are sought and enabled, formally through community projects and informally through employment of local residents and contractors. The directors' collective experience in oil and gas businesses, including past experience with deep water drilling and production, has embedded a safety-oriented culture in the Company which it brings to all its joint venture dealings.

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 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. 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 backgrounds 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 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 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 all have international oil and gas experience in multiple jurisdictions, and are currently or have been, executives and directors 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. Each of the Directors is or has been a NED of other businesses and thus has maturity and experience in such reviews. 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.
At this time, with a small number of 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 NED 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. New information is released via the regulatory news service (RNS) and the website is update accordingly. Having adopted the QCA Code, Annual Reports 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 MD or the Chair directly using the contact information contained in the website.

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.

Corporate governance
for the year ended 31 December 2018

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

Prospex Oil And Gas Plc

Strategic Report
for the year ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

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 £1,064,151 (2017: £1,003,630)
- bad debt provision against amount due from subsidiary undertaking - £nil (2017: £1,543,888)
- unrealised gain arising on financial assets at fair value through profit or loss was £1,710,418 (2017: unrealised loss - £613,723)
- net profit after taxation from continuing operations was £779,904 (2017: loss - £3,161,241)
- as at 31 December 2018, the Company had cash and cash equivalents of £233,138 (2017: £850,060)

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 Company invests in early stage investments in the natural resources sector which is subject to a range of inherent risks and uncertainties. Being at an early stage, the prime risks to which the Group is subject are the access to sufficient funding to continue its operations, the status and financing of its partners, changes in cost and reserves estimates for its investment assets, changes in forward commodity prices and the successful development of its oil and gas reserves. Key risks and associated mitigation are set out below.

Investment returns: Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration and development entities leading to the drilling of wells, the discovery of commercial reserves followed by their exploitation. Delivery of this business model carries several key risks.

Risk	**Mitigation**
Market support may be eroded obstructing fundraising and lowering the share price	Management regularly communicates its strategy to shareholders Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospects
General market conditions may fluctuate, hindering delivery of the Company’s business plan	Management aims to retain adequate working capital and secure finance facilities sufficient to ride out down-turns should they arise
Each asset carries its own risk profile and no outcome can be certain	Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively
Company may not be able to raise funds to exploit its assets or continue as a going concern	Management maintains regular dialogue with a variety of potential funding partners.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Investments: Investments may not go to plan, leading to damage, pollution, cost overruns and poor outcomes.

Risk	Mitigation
Individual investments may not deliver recoverable oil and gas reserves	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
Resource estimates may be misleading curtailing actual reserves recovered	Regular third-party reports are commissioned. A prudent range of possible outcomes are considered within the planning process

Personnel: The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies

Risk	Mitigation
Key personnel may be lost to other companies	The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive
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	The Company continues to review and adopt attractive packages for both staff and contractors

Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success.

Risk	Mitigation
Volatile commodity prices mean that the Company investments cannot be certain of the future sales value of its products	Gas may be sold under long-term contracts reducing exposure to short term fluctuations oil and gas price hedging contracts may be utilised where viable
Brexit	The Group does not see Brexit having any significant impact on its business model

ON BEHALF OF THE BOARD:

E R Dawson - Director

Date: 11 June 2019

Prospex Oil And Gas Plc

Report of the Directors
for the year ended 31 December 2018

The directors present their report and financial statements for the year ended 31 December 2018.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2018.

The results for the year are set out on page 16.

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 2018 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:

	2018	2017
	No. of shares	No. of shares
Edward Dawson	**5,272,919**	2,639,344
Richard Mays	**2,811,474**	2,811,474
William Smith	**9,139,344**	9,139,344
James Smith	**10,000,000**	4,000,000

Share options and share warrants
The Directors of the Company held share options granted under the Company share option scheme and warrants to subscribe for shares as indicated below. No share options or warrants were exercised during the year. Full details of the share options and warrants held are disclosed in note 24 to the financial statements.

	2018	2017
Share options	**No. of shares**	No. of shares
Edward Dawson	**24,322,148**	24,332,148
Richard Mays	**14,720,508**	14,720,508
William Smith	**14,720,508**	14,720,508
James Smith	**11,831,168**	11,831,168
	65,594,332	65,594,332

	2018	2017
Share warrants	**No. of shares**	No. of shares
Edward Dawson	**-**	-
Richard Mays	**2,750,000**	-
William Smith	**2,750,000**	-
James Smith	**1,375,000**	-
	6,875,000	-

FINANCIAL INSTRUMENTS
The company's financial risk management objectives and policies are set out in note 19 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.

Report of the Directors
for the year ended 31 December 2018

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 24 April 2019:

	No. of ordinary shares	% of issued share capital
Simon Chantler	73,000,000	4.50%

The market value of the Company's shares at 31 December 2018 was 0.27p and the high and low share prices during the period were 0.69p and 0.22p 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 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: 11 June 2019

Statement of Directors' Responsibilities
for the year ended 31 December 2018

Company law requires the Directors to prepare financial statements for each financial year. 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 ("IFRS") as adopted by the European Union (EU).

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Company; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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. 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 the financial statements have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the financial statements;
- 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.

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.

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.

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 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and Notes to the Statement of Cash Flows, Notes to the Financial Statements, 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.

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit 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
<u>Area of focus</u>
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.

The Company has cash and cash equivalents of £233,138 at 31 December 2018 having raised £1,618,938 through the issue of loan notes and ordinary shares. In March 2019, the Company has raised a further £800,000 before expenses following the issue of new ordinary shares.

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:

• The continued availability of funding.

• Flexibility of development programme.

• Cash outflows expected from investing activities.

<u>How our audit addressed the area of focus</u>

We assessed the reasonableness and support for the judgments underpinning management's forecast, as well as the sensitivity of projections to these judgements.

We reviewed managements financing plans.

We considered the reasonableness of the assumptions within management's proposed plan.

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 had, and continues to have, a 17% working interest in the Podere Gallina Exploration Permit in the Po Valley region of Italy, a proven play in a prolific hydrocarbon region. A total gain of £1,179,784 was recognised on this investment for the year ended 31 December 2018.

Management utilised an NPV model to calculate the increase in value of this investment as of the year ended 31 December 2018.

How our audit addressed the area of focus

We obtained a copy of the NPV model used and a copy of CPR report to calculate the increase in valuation of investment.

We reviewed the CPR report in respect of the investment made. We gained an understanding of the key assumptions and judgements underlying the model. We reviewed the NPV calculations provided considering the various scenario's modelled. 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 Massey Limited

In August 2017, 50% working interest was acquired in the exploration area of the Suceava license from Raffles Energy, who are the block operator. During the year the license started to generate gas sales which have been recognised in the Company's subsidiary. The directors have also prepared an NPV calculation which resulted in a gain in valuation of £584,994 being recognised in the financial statements.

How our audit addressed the area of focus

We have reviewed the NPV calculations provided. We have gained an understanding of the key assumptions and judgements made underlying the model. 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.

Our application of materiality

Materiality for the Company was £82,450 (2017: £72,000) based on an average of 5% of adjusted profit before tax and 2% of net assets (2016: based on 5% of adjusted loss before tax and 2% on net assets).

Profit 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 the Company, 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 profit 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, except to the extent otherwise explicitly stated in our report, 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 set out on page 12, 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 necessary to enable the preparation of 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 the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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.

Use of our report
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.

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

Date: 11 June 2019

Prospex Oil And Gas Plc

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

	Notes	**2018 £**	2017 £
CONTINUING OPERATIONS			
Revenue	4	**-**	-
Other operating income	5	**60,601**	-
Administrative expenses		**(1,064,151)**	(2,547,518)
OPERATING LOSS		**(1,003,550)**	(2,547,518)
Gain/(loss) on revaluation of investments	12	**1,710,418**	(613,723)
Loss on disposal of investment		**(8,407)**	-
		698,461	(3,161,241)
Finance costs	7	**(10,840)**	**-**
Finance income	7	**92,283**	-
PROFIT/(LOSS) BEFORE INCOME TAX	8	**779,904**	(3,161,241)
Income tax	9	**-**	-
PROFIT/(LOSS) FOR THE YEAR		**779,904**	(3,161,241)
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**779,904**	(3,161,241)
Earnings per share expressed in pence per share:	10		
Basic		**0.065p**	(0.580)p

Prospex Oil And Gas Plc (Registered number: 03896382)

Statement of Financial Position
31 December 2018

	Notes	**2018** £	2017 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	**-**	429
Investments	12	**4,307,617**	2,426,789
Loans and other financial assets	13	**1,013,129**	1,062,587
Trade and other receivables	14	**897,371**	-
		6,218,117	3,489,805
CURRENT ASSETS			
Trade and other receivables	14	**396,626**	149,231
Cash and cash equivalents	15	**233,138**	850,060
		629,764	999,291
TOTAL ASSETS		**6,847,881**	4,489,096
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	**6,035,587**	5,835,587
Share premium		**9,756,759**	8,862,779
Merger reserve		**2,416,667**	2,416,667
Capital redemption reserve		**43,333**	43,333
Retained earnings		**(11,955,212)**	(12,735,116)
TOTAL EQUITY		**6,297,134**	4,423,250
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	18	**360,000**	-
CURRENT LIABILITIES			
Trade and other payables	17	**70,747**	65,846
Financial liabilities - borrowings			
Interest bearing loans and borrowings	18	**120,000**	-
		190,747	65,846
TOTAL LIABILITIES		**550,747**	65,846
TOTAL EQUITY AND LIABILITIES		**6,847,881**	4,489,096

The financial statements were approved by the Board of Directors on 11 June 2019 and were signed on its behalf by:

E R Dawson - Director

Prospex Oil And Gas Plc

Statement of Changes in Equity
for the year ended 31 December 2018

	Note	Share capital	Share premium	Merger reserve	Capital redemption reserve	Retained earnings	Total
		£	£	£	£	£	£
Balance at 1 January 2017		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		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
Changes in equity							
Profit for the year		-	-	-	-	779,904	779,904
Issue of shares	16	200,000	1,000,000	-	-	-	1,200,000
Costs of shares issued		-	(106,020)	-	-	-	(106,020)
Equity-settled share-based payments		-	-	-	-	-	-
Balance at 31 December 2018		**6,035,587**	**9,756,759**	**2,416,667**	**43,333**	**(11,955,212)**	**6,297,134**

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 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	1	**(2,062,306)**	(972,151)
Net cash used in operating activities		**(2,062,306)**	(972,151)
Cash flows from investing activities			
Purchase of fixed asset investments		**(246,040)**	(1,504,787)
Sale of fixed asset investments		**67,223**	-
Interest received		**2**	-
Dividends received		**5,261**	-
Net cash used in investing activities		**(173,554)**	(1,504,787)
Cash flows from financing activities			
New loans in year		**480,000**	-
Loan repayments in year		**44,958**	-
Share issue		**1,200,000**	3,100,001
Costs of shares issued		**(106,020)**	(239,416)
Net cash from financing activities		**1,618,938**	2,860,585
(Decrease)/increase in cash and cash equivalents		**(616,922)**	383,647
Cash and cash equivalents at beginning of year	2	**850,060**	466,413
Cash and cash equivalents at end of year	2	**233,138**	850,060

Notes to the Statement of Cash Flows
for the year ended 31 December 2018

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

	2018	2017
	£	£
Profit/(loss) before income tax	**779,904**	(3,161,241)
Depreciation charges	**429**	420
Loss on disposal of fixed assets	**8,407**	-
(Gain)/loss on revaluation of fixed assets	**(1,797,438)**	613,723
Equity-settled share-based payments	**-**	170,354
Bad debt provision	**-**	1,543,888
Finance costs	**10,840**	-
Finance income	**(5,263)**	-
	(1,003,121)	(832,856)
Increase in trade and other receivables	**(1,057,746)**	(117,465)
Decrease in trade and other payables	**(1,439)**	(21,830)
Cash generated from operations	**(2,062,306)**	(972,151)

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 2018

	31.12.18	**1.1.18**
	£	**£**
Cash and cash equivalents	**233,138**	**850,060**

Year ended 31 December 2017

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

Notes to the Financial Statements
for the year ended 31 December 2018

1. **STATUTORY INFORMATION**

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.

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

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 of £1,003,550. These operating losses are expected to continue in the current accounting year to 31 December 2019.

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 21, since the year end, the Company has raised £800,000 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 Group's development, primarily from the issue of further shares.

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that are expected to prevail over the forecast period. The Directors estimate that the cash held by the Company together with known receivables will be sufficient to support the current level of activities into the second quarter of 2020. The Directors are continuing to explore sources of finance available to the Company and based upon initial discussions with a number of existing and potential investors they have a reasonable expectation that they will be able to secure sufficient cash inflows for the Company to continue its activities for not less than 12 months from the date of approval of these financial statements; they have therefore prepared the financial statements on a going concern basis.

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

2. **ACCOUNTING POLICIES - continued**

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.

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.

2. **ACCOUNTING POLICIES - continued**

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.

		Effective date (period beginning on or after)
IFRS 3, IFRS 11, IAS12, IAS 23	**Amendments resulting from Annual Improvements 2015-2017 Cycle**	01/01/2019
IFRS 3	**Amendments - Definition of a Business**	01/01/2020
IFRS 9	**Amendment - Prepayment features with negative compensation**	01/01/2019
IFRS 16	**Leases - recognition, measurement, presentation and disclosure**	01/01/2019
IFRS 17	**Insurance contracts**	01/01/2021
IAS 1 and IAS 8	**Amendments - Definition of Material**	01/01/2020
IAS 19	**Amendment - Plan Amendment, Curtailment or Settlement**	01/01/2019
IAS 28	**Amendment - Long term interests in Associates and Joint Ventures**	01/01/2019

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.

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:

<u>Investment entities</u>
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.

3. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued**

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's principal investments are in wholly owned unquoted subsidiaries which each have a minority interest in overseas entities with oil and gas 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 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.

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- Commercial reserves
- production volumes;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates.

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the fields are production volumes and commodity prices

Recoverability of other financial assets
The majority of the Company's financial assets represent loans provided to its subsidiaries, 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 2018. 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.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

4. **REVENUE**

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 2018 as shown on the Statement of Financial Position all relate to the Investment activity.

5. **OTHER OPERATING INCOME**

	2018	2017
	£	£
Sundry receipts	60,601	-

6. **EMPLOYEES AND DIRECTORS**

	2018	2017
	£	£
Wages and salaries	406,603	283,879
Social security costs	42,293	30,088
Other pension costs	20,892	13,500
	469,788	327,467

Under the Pensions Act 2008, every UK employer must put certain staff into a pension scheme and contribute to it. The Company auto-enrolled its eligible employees in a defined contribution scheme. The charge to the Statement of Profit or Loss represents the amounts paid to the scheme. At the year end, the amount due to the pension scheme was £nil (2017: £nil)

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

	2018	2017
Directors	4	4
Staff	3	-
	7	4

	2018	2017
	£	£
Directors’ remuneration	183,400	147,333
Directors’ pension contributions	13,083	12,350
	196,483	159,683

Details of Directors’ remuneration can be found in note 24.

7. **NET FINANCE INCOME**

	2018	2017
	£	£
Finance income:		
Dividend received	5,261	-
Interest receivable on group loan	87,020	-
Deposit account interest	2	-
	92,283	-
Finance costs:		
Loan interest payable	10,840	-
Net finance income	81,443	-

Prospex Oil And Gas Plc

Notes to the Financial Statements - continued
for the year ended 31 December 2018

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

The profit before income tax (2017 - loss before income tax) is stated after charging/(crediting):

	2018	2017
	£	£
Other operating leases	**42,841**	31,927
Depreciation - owned assets	**429**	420
Auditors' remuneration	**20,000**	16,250
Foreign exchange differences	**(4,315)**	(10,752)
Bad debt provision against amounts due from subsidiaries	**-**	1,543,888

9. **INCOME TAX**

Analysis of tax expense
No liability to UK corporation tax arose for the year ended 31 December 2018 nor for the year ended 31 December 2017.

Factors affecting the tax expense
The tax assessed for the year is lower (2017 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£	£
Profit/(loss) before income tax	**779,904**	(3,161,241)
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	**148,182**	(608,539)
Effects of:		
Non-deductible expenses	**2,222**	330,280
Depreciation add back	**82**	81
Losses used for group relief	**5,124**	-
Tax losses not utilised	**168,772**	164,720
Unrealised chargeable (losses)/gains	**(324,979)**	113,458
Loss on sale of investments	**1,597**	-
Other tax adjustments	**(1,000)**	-
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 £0.98m (2017: £0.93m) arising from the accumulated tax losses of approximately £5.7m (2017: £4.8m) carried forward has not been recognised but may become recoverable against future trading profits.

Changes in the applicable tax rates
The main rate of UK corporation tax is 19% effective from 1 April 2017. The main rate will reduce from 19% to 17% from 1 April 2020.

10. **EARNINGS PER SHARE**

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

	2018	2017
	£	£
Basic		
Profit/loss) for the financial period	**779,904**	(3,161,241)
Weighted average of ordinary shares	**1,202,086,287**	544.580,539

The loss and the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic profit/loss per share. The outstanding share options and share warrants (note 23) exercise prices are above the average market price of the shares and would therefore not be dilutive under IAS 33 'Earnings per Share'.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

11. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment £
COST	
At 1 January 2018 and 31 December 2018	**1,699**
DEPRECIATION	
At 1 January 2018	**1,270**
Charge for year	**429**
At 31 December 2018	**1,699**
NET BOOK VALUE	
At 31 December 2018	**-**
At 31 December 2017	429

12. INVESTMENTS

	Shares in group undertakings £	Listed investments £	Unlisted investments £	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 1 January 2018	2,143,247	183,542	100,000	2,426,789
Additions (note 14)	246,040	-	-	246,040
Disposals	-	(75,630)	-	(75,630)
Revaluations	1,764,778	(29,360)	(25,000)	1,710,418
At 31 December 2018	4,154,065	78,552	75,000	4,307,617
NET BOOK VALUE				
At 31 December 2018	**4,154,065**	**78,552**	**75,000**	**4,307,617**
At 31 December 2017	2,143,247	183,542	100,000	2,426,789

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

	2018 £	2017 £
Aggregate capital and reserves	**(26)**	(13)
Loss for the year	**(13)**	(3,852,501)

12. **INVESTMENTS - continued**

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

	%
Class of shares:	holding
Ordinary	100.00

	2018	2017
	£	£
Aggregate capital and reserves	**585,094**	(48,323)
Profit/(loss) for the year	**633,417**	(48,423)

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

	%
Class of shares:	holding
Ordinary	100.00

	2018	2017
	£	£
Aggregate capital and reserves	**3,568,671**	2,142,947
Profit for the year	**1,179,684**	1,642,947

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

	%
Class of shares:	holding
Ordinary	100.00

	2018	2017
	£	£
Aggregate capital and reserves	**(413)**	100
Loss for the year	**(513)**	-

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.

13. LOANS AND OTHER FINANCIAL ASSETS

	Loans to group undertakings £
At 1 January 2018	**1,062,587**
New in year	**(49,458)**
At 31 December 2018	**1,013,129**

14. TRADE AND OTHER RECEIVABLES

	2018 £	2017 £
Current:		
Amounts owed by group undertakings	**338,398**	113,364
Other debtors	**36,035**	-
Rent deposit	**10,242**	2,026
VAT	**9,121**	28,408
Prepayments and accrued income	**2,830**	5,433
	396,626	149,231
Non-current:		
Amounts owed by group undertakings	**897,373**	-
Aggregate amounts	**1,293,999**	149,231

The Company provided an interest-free loan to PXOG Marshall Limited, a wholly-owned subsidiary. The fair value of the financial element of the loan has been calculated by discounting the future cash flow of the loan, £1,056,391, at the market rate of 10%. The difference between the total loan and the fair value of the loan i.e. the non-financial element of the loan, has been accounted for as an addition to shares in group undertakings (note 13).

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

15. CASH AND CASH EQUIVALENTS

	2018 £	2017 £
Bank accounts	**233,138**	850,060

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.

16. CALLED UP SHARE CAPITAL

	2018 Number	2017 Number	2018 £	2017 £
Allotted, issued and fully paid				
Ordinary shares of 0.1p each	**1,213,593,136**	1,013,593,136	**1,213,593**	1,013,593
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**	285,785,836	**2,572,073**	2,572,073
			6,035,587	5,835,587

On 22 January 2018, the Company raised £1,200,000 gross via a placing of 200,000,000 ordinary shares of £0.001 each at a price of 0.6 pence per ordinary share. The net proceeds of the Placing ensured that the Company was fully funded for its 2018 work programmes across its portfolio of investments in late stage European onshore oil and gas projects.

The deferred shares have no rights to vote, attend or speak at general meetings of the Company or to receive any dividend or other distribution and have limited rights to participate in any return of capital on a winding-up or liquidation of the Company.

17. TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Current:		
Trade creditors	**20,513**	28,681
Amounts owed to group undertakings	-	3
Social security and other taxes	**15,394**	11,362
Accruals and deferred income	**34,840**	25,800
	70,747	65,846

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

18. FINANCIAL LIABILITIES - BORROWINGS

	2018	2017
	£	£
Current:		
Unsecured loan notes	**120,000**	-
Non-current:		
Unsecured loan notes	**360,000**	-

Terms and debt repayment schedule

	1 year or less	**1-2 years**	**Totals**
	£	**£**	**£**
Unsecured loan notes	**120,000**	**360,000**	**480,000**

The Company raised £480,000 via the issue of unsecured Loan Notes ('the Loan Notes') to new and existing investors ('the Subscribers'). In addition, the Subscribers have been issued with 55 warrants ('the Warrants') for each £1 of Loan Note subscribed. Each Warrant confers to the Subscriber the right to acquire one Ordinary Share at 0.6p (note 23).

The proceeds of the Loan Notes will be used to fund the Company's share of the budgeted early stage development costs (including environmental monitoring) at the Selva gas discovery ('Selva') on the Podere Gallina Permit in Italy ('Podere Gallina') in 2019 and cover the Company's general expenditure in 2019. The Company anticipates being able to fund the full development of the gas discovery and further exploration in the proposed production concession from this and further non-equity funding as the project progresses.

The Loan Notes will pay 10% interest per annum, every six months, capitalised to 30 June 2019, with the first cash payment to be made on 31 December 2019. Repayments start in December 2020 with final repayment on 30 June 2022 (four equal payments) and fit conservatively with expected first production at Selva in mid-2020.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

19. **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:

	2018	2017
Financial assets	**£**	£
Loans and receivables:		
Trade and other receivables	**58,225**	5,433
Cash and cash equivalents	**233,622**	850,060
	291,847	855,493
Other assets at amortised costs:		
Amounts owed to group undertakings	**2,253,420**	1,175,951
Financial liabilities		
Trade and other payables	**70,747**	65,846

Financial assets at fair value through profit or loss

	Fair value measurement		
	Level 1	**Level 2**	**Level 3**
	£	**£**	**£**
At 31 December 2018	**78,552**	**-**	**4,229,065**
At 31 December 2017	183,542	-	2,243,247

The financial assets at fair value through profit and loss are the Company's holdings in subsidiary undertakings, quoted securities and one unquoted security. The quoted security falls within Level 1 of the fair value hierarchy as defined by IFRS 13 whereas the investments in subsidiary undertakings and unquoted security fall within Level 3.

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.

19. **FINANCIAL INSTRUMENTS - continued**

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
At 31 December 2018, the Company’s monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Company, other than €76,034 (£68,015) of cash at bank. This exposure gives rise to net currency gains and losses recognised in the Statement of Comprehensive Income. A 10% fluctuation in the GBP sterling rate compared to the Euro would give rise to a £6,802 gain or loss in the Company’s Statement of Comprehensive Income.

Although the Company has a Euro bank account it has no formal policies in place to hedge the Company's activities to the exposure to currency risk. It is the Company's policy to ensure that it enters into transactions its functional currency wherever possible.

Management regularly monitor the currency profile and obtain informal advice to ensure that the cash balances are held in currencies which minimise the impact on the results and position of the Company from foreign exchange movements.

20. RELATED PARTY DISCLOSURES

Included in loans to group undertakings is an amount of £1,543,888 (2017: £1,543,888) due from PXOG County Limited, the company's wholly owned subsidiary. At the year end, a provision of £1,543,888 (2017: £1,543,888) was made against this balance. Included in trade and other receivables is an amount of £14,526 (2017: £13) due from PXOG County Limited.

Included in loans to group undertakings is an amount of £1,013,129 (2017: £1,062,587) due from PXOG Massey Limited, the company's wholly owned subsidiary. Included in trade and other payables is an amount of £4,500 (2017: £nil) due to PXOG Massey Limited.

Included in trade and other receivables – non-current - is an amount of £897,371 (2017: current - £113,350) due from PXOG Marshall Limited, the company's wholly owned subsidiary. Interest receivable of £87,020 (2017: £nil) has been accounted for through the Statement of Profit or Loss.

Included in trade and other receivables is an amount of £ 323,872 (2017: payable - £3) due from PXOG Muirhill Limited, the company's wholly owned subsidiary.

During the year, there were consultancy fees of £15,000 (2017: £12,000) and £7,800 (2017: £16,000) charged by Sallork Limited and Sallork Legal and Commercial Consulting Limited ("Sallork") respectively. Included in trade payables at the year end is £1,500 (2017: £6,674) and £800 (2017: £nil) owing to Sallork Limited and Sallork Legal and Commercial Consulting Limited respectively. Richard Mays is a director and shareholder of of both these companies.

Included in trade and other payables are the following balances due to Directors as at 31 December 2018.

	2018	2017
	£	£
William Smith	**7,745**	-

The following Directors subscribed to the unsecured loan notes (note 18):

	2018	2017
	£	£
Richard Mays	**50,000**	-
William Smith	**50,000**	-
James Smith	**25,000**	-

21. EVENTS AFTER THE REPORTING PERIOD

In March 2019, the Company raised £800,000 before expenses by way of a placing of 400,000,000 new ordinary shares of £0.001 each in the Company at a price of 0.2 pence per share (the "Placing Price") (the "Placing"). The Placing was undertaken with new and existing investors.

The net proceeds of the Placing should ensure Prospex is fully funded for its basic 2019 work programmes across its portfolio of investments in late stage European onshore oil and gas projects.

The Placing was completed by Novum Securities Limited ("Novum"), which was issued with 8,125,000 warrants to subscribe for, in aggregate, 8,125,000 new Ordinary Shares at an exercise price of 0.4 pence per new Ordinary Share for a period of 3 years from Admission.

22. ULTIMATE CONTROLLING PARTY

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

23. **SHARE-BASED PAYMENT TRANSACTIONS**

Share options

At 31 December 2017 and 31 December 2018 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:

31 December 2018	**Shares under options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**95,653,810**	**2.80**	**0.78**
Granted	**-**		**-**
Lapsed	**(812,000)**		**(3.05)**
Carried forward	**94,841,810**	**1.76**	**0.76**

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 22 September 2016	1,434,209	22/09/2019	1.00p	0.53p
4. Granted 22 September 2016	13,694,336	22/09/2019	1.00p	0.31p
5. Granted 22 September 2016	4,164,000	22/09/2019	1.10p	0.29p
6. Granted 23 December 2016	1,436,000	23/12/2019	1.10p	0.53p
7. 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%	3.5 years	0.24% - 0.43%
2. Granted 16 April 2015	4.0p	3.05p	71.5%	3 years	0.71%
3. Granted 22 September 2016	1.7p	1.00p	71.0%	3 years	0.10%
4. Granted 22 September 2016 *	1.7p	1.00p	71.0%	3 years	0.10%
5. Granted 22 September 2016 *	1.7p	1.10p	71.0%	3 years	0.10%
6. Granted 23 December 2016 *	2.5p	1.10p	79.0%	3 years	0.28%
7. Granted 13 November 2017	0.51p	0.52p	96.8%	3 years	0.56%

* 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.

23. **SHARE-BASED PAYMENT TRANSACTIONS – continued**

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 £nil (2017: £170,354).

Warrants

At 31 December 2018, 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.

31 December 2018		**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**8,500,000**	**1.14**	**1.25**
Granted	**26,400,000**	**2.00**	**0.60**
Lapsed	**-**	**-**	**-**
Carried forward	**34,900,000**	**1.38**	**0.76**

31 December 2017		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
2. Granted 12 October 2018	26,400,000	12/10/2021	0.60p	N/A

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:

Warrants	**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%
2. Granted 12 October 2018	0.32p	0.60p	N/A	N/A	N/A

The warrants granted on 12 October 2018 fall outside the scope of IFRS and as such no charge is made.

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 £nil (2017: £10,142). As the warrants relating to the charge for 2017 were all in consideration of shares issued during that year, it was taken directly to equity and charged against the share premium as costs in respect of the issue of shares.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

24. **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.

	2018	2017
	£	£
Directors' emoluments	**183,400**	147,333
Benefit in kind	**4,200**	4,200
Pension contributions	**13,083**	12,350
	200,683	163,883

	Salaries and fees	Benefit in kind	Pension contributions	**2018**	2017
	£	£	£	**£**	£
Edward Dawson	130,000	4,200	13,083	**147,283**	127,883
William Smith	18,000	-	-	**18,000**	12,000
Richard Mays	15,000	-	-	**15,000**	12,000
James Smith	20,400	-	-	**20,400**	12,000
	183,400	4,200	13,083	**200,683**	163,883

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2017: 1).

The Directors interests in share options as at 31 December 2018 are as follows:

Director	**Options at 31 December 2018**	**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	23/12/2016	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.

The Directors interests in share warrants as at 31 December 2018 are as follows:

Director	**Warrants at 31 December 2018**	**Exercise price**	**Date granted**	**Final date of exercise**
Richard Mays	2,750,000	0.60p	22/10/2018	22/10/2020
William Smith	2,750,000	0.60p	03/10/2018	03/10/2020
James Smith	1,375,000	0.60p	12/10/2018	12/10/2020