REGISTERED NUMBER: 03896382 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2019

for

Prospex Oil And Gas Plc

Contents of the Financial Statements
for the year ended 31 December 2019

Company Information
for the year ended 31 December 2019

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

Chairman's Report
for the year ended 31 December 2019

12 months ago, Prospex Oil & Gas had a portfolio of three core onshore European projects; a 50% interest in one producing gas well on the Suceava Concession in Romania; a 17% interest in the Selva gas discovery onshore Italy; and significant development potential in the form of net 2C resources / prospective resources of 2.40 Bcf / 15.56 Bcf in Italy and 830 Bcf gross prospective gas resources at the Tesorillo Project onshore Spain. Thanks to the progress made during the year under review, notably the acquisition of a 49.9% indirect stake in El Romeral, an integrated gas and power project in southern Spain, today, Prospex is on course to have a portfolio of four core onshore European projects; an interest in four producing gas wells and an operational 8.1 MW power station; net 2P reserves of 3.0 Bcf; and multiple low cost development opportunities, not just reflected in the increase in net contingent and prospective resources to 4.9 bcf and 475.5 bcf respectively, but also the potential to materially increase electricity generation at the El Romeral power plant.

Of course, it is not just Prospex that has undergone substantial change over the last 12 months; the world today is a far different place to what it was a year ago. The global COVID-19 pandemic has led to measures, unprecedented during peacetime, being taken by governments all over the world to stem the spread of the virus. Countries across Europe including Italy, home to the Podere Gallina licence, and Spain, where the Tesorillo and El Romeral Projects are located, have been subjected to enforced lockdowns. How long the extreme measures will be in place, what percentage of the respective populations will be infected and over what timescale, plus what damage will be inflicted on the global economy are just a few of the many unknowns at this point in time. What we can say is that we, along with our partners across our asset base, take the health and safety of all our employees and also the local communities in which we operate seriously and will at all times endeavour to follow the latest advice of the relevant government authorities. With this in mind, the situation on the ground across our licences will undoubtedly be fluid and as a result, the impact on the timescales of the work programmes we have planned across our asset base for the year ahead and beyond is, at this stage, not clear.

In Italy the focus is very much on monetising the 13.3 Bcf (2P) gross gas reserves at the Selva Malvezzi Gas-Field ('Selva') by bringing the field back into production at the earliest opportunity - between 1960 and 1984 Selva produced 83 Bcf of gas. Based on an initial daily production rate of up to 150,000 cubic metres (5.3 mmscf/d) from two gas-bearing reservoirs of the Porto Garibaldi formation, Selva has the potential to generate substantial annual revenues net to Prospex's 17% economic interest in the 331km Podere Gallina Exploration Permit, even in the current low gas price environment.

Post period end in January 2020, a major milestone was achieved with the award of formal technical environmental approval for the development of Selva from the Italian Environment Ministry. Environmental approval is a precursor to final sign off by Ministerial decree, the issuing of the required INTESA (intergovernmental agreement) and the final grant of a production concession from Italy's Economic Development Ministry. This latest milestone follows last year's preliminary award of a production concession for Selva by the Italian Government (see announcement of 15 January 2019 for further details).

We, along with our partners in the licence, had hoped that all would be in place to commence production at Selva later this year. The severity of the COVID-19 outbreak in Italy, the measures taken to suppress the virus, and the decision by the partners to defer capital expenditure, have combined to push out expectations of first gas at the field to early 2021. Under the proposed development plans for Selva, which have an estimated cost of €400,000 net to Prospex, a fully automated gas plant will initially be installed at the location of the successful Podere Maiar 1dir well, along with a one-kilometre long pipeline to connect the well with the nearby Italian National Gas Grid. Importantly, the planned Selva development has a small footprint of less than half a hectare and will result in zero emissions arising from any future gas production.

Once the Selva field is brought into production, there is much more to go for across the licence. In addition, to reserves assigned to the Selva field, a CPR produced by geophysical services consultancy, CGG Services (UK) Limited ('CGG') estimates Selva's two historic gas producing North Flank and South Flank reservoirs have a 60% - 70% chance of holding gross contingent resources ('2C') of 14.1 Bcf. There are also four large prospects (East Selva, Fondo Perino, Cembalina, and Riccardina) which are estimated to hold aggregate gross prospective resources (best estimate) of 91.5 Bcf. Crucially, the additional targets would fall under the production concession for the Selva field, which could potentially speed up any future permitting process.

Once on stream, Selva is expected to generate free cash that can help fund the exploration and development of targets not just at Podere Gallina but across Prospex's wider portfolio including the recently acquired El Romeral project. Here, the major area of focus is to increase gas production and, in turn, electricity generation. El Romeral is comprised of three production licences on which three wells supply gas to a Project-owned 8.1 MW power station. The plant, which was constructed in 2001-2002 at a cost of c. €10 million, is currently limited to operating at c. 22% of capacity due to the maximum gas productivity of the existing late life wells. Electricity is sold to the Spanish electricity grid.

The revenues that El Romeral can generate without any further discoveries are of course welcome, but the real attraction of the asset lies in the 5 Bcf gross contingent resources and 90 Bcf gross prospective gas resources that have been identified at two development locations and 11 very-low risk prospects. These provide considerable scope to increase electricity generation at the plant towards its full capacity, which we believe could be achieved with the successful drilling of just one new well. As elsewhere in Europe, electricity prices in Spain have fallen as a result of the COVID-19 induced downturn. Subject to pricing returning to the historic average electricity price in Spain of €70 per MWh (including subsidy) and assuming an electricity generation rate of c. 60,000 MWh gross per annum, we estimate the power station operating at full capacity has the potential to deliver annual revenues and profit before tax of €4.2 million and €2.4 million respectively (€1.8 million profit after tax). With numbers like these, we are keen to commence the planning and permitting process for a three-well campaign at the earliest opportunity. Low cost preparatory work is already underway in tandem with ongoing discussions with the regulator regarding the transfer of the asset to our Spanish affiliate, Tarba Energia ('Tarba'). Due to the severity of the COVID-19 outbreak in Spain, the transfer is likely to be delayed but Tarba has been in frequent dialogue with the authorities throughout the lockdown period and are confident this process will be completed as soon as it is practicable to do so.

Even before any new drilling campaign, the acquisition of a 49.9% interest in El Romeral and its three existing gas wells will lead to a step-up in Prospex's production profile to four producing wells which, once Selva is brought online, will increase to five. We calculate these five wells have the potential to produce over 7,800,000 scm net to Prospex in 2021. We are confident we can build on this considerably thanks to the above development opportunities at Podere Gallina and El Romeral, and also the potential that has been identified at our two remaining projects, Suceava in Romania and Tesorillo in Spain.

In Romania, over the course of the year under review, the Bainet field, which was discovered in 2017/2018, generated revenues from the production of gas in line with assumptions made for budgetary purposes. We, along with our partner Raffles Energy S.R.L, are keen to add to the Bainet discovery and build a hub of small producing gas fields on the Suceava Concession, which lies in an area of multiple historic discoveries and production. With this in mind, in March 2019 we were granted an enlargement of the Exploration Concession which in turn added a lookalike Bainet prospect, Bainet West, to our existing inventory of targets. Thanks to the highly efficient permitting process in Romania, we were able to drill the Bainet-2 well to test Bainet West as early as the summer of 2019. While the well, which had an all-in cost of €260,000 net to Prospex, failed to encounter commercial volumes of hydrocarbons, the technical data gained from the drilling operation is informing an ongoing evaluation of the Concession's gas prospectivity to determine follow-up drilling targets. In addition to holding multiple prospects, Suceava also holds the Granicesti-SE1 discovery, which we can also look to bring on stream.

Despite holding historic discoveries, including the 1957 Almarchal-1 discovery well, the 38,000ha Tesorillo Project in southern Spain is at an earlier stage of development when compared with our other assets. In 2015, a report by Netherland Sewell and Associates estimated Tesorillo could hold gross un-risked Prospective Resources of 830 Bcf of gas (Best Estimate), with upside in excess of 2 Tcf. These are company-making resources and combined with a location in a proven hydrocarbon region warrant serious investigation. Our ongoing work programme at Tesorillo is focused on identifying and de-risking high grade targets for drilling ahead of taking them through the permitting process.

To date results of technical and field activity, which has included reprocessing and interpreting historic 2D seismic data, has increased our confidence about the subsurface geometry of the exploration target - the Aljibe sandstone in the Lowermost Miocene. The results show this consists of several folds and thrust ramps of 3km to 5km length, which could be potential gas traps. In addition, work to integrate new structural maps and cross sections with well reinterpretation and satellite images has led to the identification of four very promising leads in the northern half of the concession. Further studies are required to enable the better imaging of the subsurface, but the initial results have been encouraging. The results of the work programme will inform our decision to take up the option to increase Prospex's interest in Tesorillo from 15% to 49.9%, though this does not have to be made until after a new location is ready for drilling.

In light of volatile markets, specifically the sharp fall in global crude prices seen in recent weeks, it is worth pointing out that all of our projects are gas focused. This is significant as historically gas prices have been less volatile than oil benchmarks, which has proved to be the case in today's markets. The relative outperformance of gas is partly down to the fuel typically being sold to local markets at prices agreed in multi-year contracts, providing a degree of visibility to revenues. In addition, as the cleanest hydrocarbon in terms of carbon emissions when combusted, gas is increasingly viewed as an important transition fuel as the world moves towards net zero emissions. In view of our focus on gas, it is intended that a resolution will be put forward to shareholders at the forthcoming AGM to change the Company's name to Prospex Energy. The Board believes the new name better reflects Prospex's focus on gas production, gas being the European transition fuel of choice, our desire to be increasingly aware of Environmental, Social and Governance issues on behalf of shareholders and, once the transfer of the El Romeral asset has been completed, electricity generation.

Financial Review

The Company is reporting Total Assets of £6,341,890 (2018: £6,847,881), a reduction of 7% for the year ended 31 December 2019. This movement includes revaluations of the Company's investments ('the Investments') and movements (repayments and advances) on loans receivable from those investments.

Unrealised losses arising on revaluation of Investments at fair value totalled £270,220 (2018: gains - £1,710,418).

As at the 31 December 2019, the bulk of the Investments is comprised of the Company's investment in PXOG Marshall Ltd, the vehicle for the Company's Italian assets. In determining year end valuations, the Company takes a number of criteria into account at both a macro and micro level. At the macro level Europe short-dated energy prices have been volatile and decreased to a varying degree over the period. Whilst long-dated energy prices have decreased, the fall has been significantly less than spot and near-dated contracts. Marking to market has resulted in a write down of an Italian unit of gas by c.5%. This drop has been more than offset by the inclusion of Selva's additional Contingent Resources that were attributed to the permit for the first time during the year in the CPR.

Aside from the nominal cost of equity shares for the Company's Romanian and Spanish investments, which are included in Investments, as at 31 December 2019 the bulk of the carrying value of these assets is represented within loans made by the Company to the respective investment vehicles for the Romanian and Spanish assets and other receivables.

In Romania, the failure of the Bainet-2 well to find commercial gas prompted a significant, but prudent, write down of the investment in, and partial write down of loan, to the Company's investment vehicle for the Romanian asset - PXOG Massey Ltd. This investment had been written up in 2018, largely based on the low risk and prospective nature of the opportunity. PXOG Massey continues to repay the loan provided by the Company, for the successful Bainet-1 well, out of the net proceeds of gas sales.

As at 31 December 2019, the fair value of the Company's investments stood at £3,998,388 (2018: £4,307,617), with a further £2,218,326 (2018: £2,248,898) of loans to investee companies expected to be repaid in due course. The latter is after a provision of £203,705 (2018: £nil). The combined value of these equity investments and current and non-current loans is £6,216,714 (2018: £6,556,515). The Company continues to have significant asset backing relative to its market capitalisation.

Administrative expenses for the year totalled £1,091,871 (2018: £1,103,279), highlighting the success of management's ongoing strategy to keep a tight rein on the Company's cost base. These administrative costs include £95,416 (2018: £nil) paid to third parties for work relating to future investments, including evaluating the El Romeral opportunity, that are expensed and not capitalised. The administrative expenses also includes a bad debt provision taken against amounts due from subsidiary undertakings of £14,539 (2018: £nil). This relates to the final liquidation of the Company's Polish interests. During the period other operating income was £198,528 (2018: £99,729). This growing source of income is predominantly comprised of recoveries of in-house technical costs made from joint venture partners to the Company's investments.

The Company is reporting a net loss after taxation from continuing operations of £1,300,669 (2018: profit - £779,904).

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 including the drilling of the Bainet-2 well. As at 31 December 2019, the Company held cash and cash equivalents of £69,387 (2018: £233,138). Post period end in January 2020, the Company raised £720,000 gross via an oversubscribed placing of 600,000,000 new ordinary shares to help fund the Company's acquisition of a 49.9% indirect stake in El Romeral. Certain Directors of the Company took part in the Placing, acquiring new shares in the Company with an aggregate value of £140,000.

Outlook

Over the last few years, Prospex has been transformed into a multi-project, asset-backed, gas focused investment company. While not all our onshore European projects currently produce, all hold multiple growth opportunities that have the potential, both individually and collectively, to lead to a step-change in the Company's revenue profile. A number of these opportunities, specifically the development of Selva, are well advanced and low cost. We are keen to realise the underlying potential of our portfolio at the earliest opportunity and we remain confident Selva can be brought online in early 2021, although clearly exact timings will be determined by the course of the COVID-19 pandemic.

We will of course adhere to prevailing government advice to ensure the safety of our employees. This may have an impact on planned field work, however, with multiple projects in our portfolio, there is much deskwork for us to be getting on with such as mapping and de-risking prospectivity and, where appropriate, commencing the permitting process for new drilling activity. Our aim is to ensure that when it is safe to do so, we are in a position to move quickly on multiple fronts to deliver the step-change in our production and revenues that we are targeting, and in the process generate substantial value for our shareholders.

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 providing further updates on the Company's activities in the year ahead. In the meantime, I wish all our shareholders and stakeholders well during these unprecedented times.

Bill Smith
Non-executive Chairman
21 May 2020

Corporate governance
for the year ended 31 December 2019

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

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

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

The Ten Principles in relation to Prospex

Principle 1 - Establish a strategy and business model which promote long term value for shareholders.
The Corporate strategy is evolving as your company recognizes opportunities in the energy sector, with a focus on natural gas as a transition fuel away from more concentrated greenhouse gas emission from other fuels used to generate electricity. The strategy of building a sizable natural gas and electricity generating investment portfolio focuses on high impact onshore, and shallow offshore European opportunities located in working hydrocarbon systems with offtake markets primarily in electricity generation. Other energy opportunities are of interest as the company aligns with government and regularly goals of GHG reduction while supporting industry and consumers. . 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 navigated.

Principle 2 - Seek to understand and meet shareholder needs and expectations.
The primary communication tool is the Company's website, it sets out details of implementation of the strategy including acquisition of a diverse portfolio of assets, including the El Romerol acquisition of electricity generating turbines fuelled by natural gas. and value enhancing activities aimed at bringing production online or adding to existing reserve and resource base in all areas of interest. This frames the shareholder expectation as an investment in a small, but growing, energy investment company. New information is released via the regulatory new service (RNS) and the website is update accordingly. In addition, investor presentations, investor meetings and investor conference attendance are opportunities for investor commentary, as are informal communications. The Managing Director, Edward Dawson, is the primary contact with the overall investment community.

Principle 3 - Take into account wider stakeholder and social responsibilities and their implications for long term success.
While the principal focus of a listed company is to enhance value for its investors, Prospex has positive engagement with a wide and diverse set of stakeholders and is involved in socially responsible activities. One of the primary social benefits is to increase access to energy, including electrical power when natural gas is used to generate electricity, for those regions in which the Company operates. Environmental protection is a key element in all development decisions and extensive consultation with residents and regulators is undertaken prior to any work. Hydrocarbon exploration and development is a highly regulated business in all jurisdictions and in all active investments Prospex or the Joint Venture Operator maintain good relations with all regulatory authorities. Corporate Social responsibility opportunities are sought and enabled, formally through community projects and informally through employment of local residents and contractors. As a small but growing Company, it is very important to attract and retain highly skilled and dedicated employees and contractors with a combination of a hard working but pleasant workplace and appropriate levels of compensation and emoluments. The directors' collective experience in oil and gas businesses, including past experience with deep water drilling and production, had embedded a safety-oriented culture.

Principle 4 - Embed effective risk management, considering both opportunities and threats, throughout the organisation.
Risk is inherent in all aspects of natural gas exploration and development 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 and economic assessment including financial modelling, to post activity review for the purpose of formalizing learnings from success and opportunities for improvement. No significant expenditure is authorized without formal Board review, either in an annual budget or on a case by case basis for larger projects. Joint venture partners and key suppliers are subject to extensive review for experience, integrity and ability, not simply on a low-cost basis. As the Company proceeds to natural gas production and electricity generation, additional risks will be identified and individuals with the skills and experience required will be engaged.

Principle 5 - Maintain the Board as a well-functioning, balanced team led by the chair.
Non-executive directors with diverse back grounds and experience form the majority on the Board of Directors. As the Company is in a stage of rapid development, the directors meet many times a year, with formal meetings at least once per calendar quarter. Given the small size of the Board, there is frequent communication among the Board members and between each Non-Executive Director ("NED") and the staff at all levels. Audit committee and remuneration committee functions are reserved for the NEDs. All of the Non-Executive Directors are considered independent 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 collectively have international oil and gas experience in more than 10 countries and executive or director of more than a dozen listed companies.

Principle 7 - Evaluate Board performance on clear and relevant objectives, seeking continuous improvement.
A desire for continuous improvement pervades all aspects of Prospex. A Board review of its own performance and composition are on the Board agenda at least once per year albeit that no formal review process was followed, keeping in mind that each of the directors is or has been NED of other businesses and thus has maturity and experience in such reviews. At the same time, and from time to time, a skills analysis discussion is undertaken with recognition that, as the company grows in complexity, additional skills will be required. However, Prospex does not currently have written criteria of board performance nor expectations.

Principle 8 - Promote a corporate culture that is based on ethical values and behaviours.
With a small staff, everyday interactions are sufficient to communicate throughout the organization that integrity is a cornerstone of the Company and no unethical behaviour will be tolerated. As the Company grows, this ethos will be maintained with enhancement through formal policies. Internal financial controls in place are appropriate for a company the size and complexity of Prospex but will be added to as the business grows.

Principle 9 - Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.
Each NED brings a specific skill set and experience which is important for the Company to achieve its objectives. On a regular basis, the NED will work directly with the Company staff to support activity, ranging from negotiating and documenting transaction terms to detailed geological review of prospective investment opportunities. Given the size of the Company and the size of the Board, the functions of Audit Committee and Remuneration Committee are maintained by the Board as a whole led by an individual NED. As the Company grows, formal committee structures and defined term of reference for the Committees will be developed.

Principle 10 - Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.
The website is the main repository of information about the Company's current activity in each project area and also includes the current and past Annual Reports which describe the work of the Company and the Board. 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 consisting of the non-executive directors, chaired by Richard Mays, is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for any executive directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors.

Audit Committee
The Audit Committee consisting of the non-executive directors chaired by Bill Smith, provides a forum for reporting by the Company's external auditors. The Committee is responsible for reviewing a wide range of matters, including half-year and annual results before their submission to the Board, and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee also oversees the Company’s compliance with the AIM Rules and MAR. 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.

Strategic Report
for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

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

STRATEGY
Prospex is building an oil and gas investment portfolio, focusing on high impact, onshore and shallow, offshore European opportunities located in working hydrocarbon systems.

Utilising the team's proven track record and global experience, the Company is looking to invest in low capex opportunities in Europe's oil and gas sector with a particular preference for late stage, drill-ready exploration; reworking of existing fields; or failed exploration targets where new ideas and the latest technology can be applied. Once identified and acquired, the Company will seek to create tangible value across its core projects within a 12-month period in order to maximise the impact of its capital and balance its risk-reward profile.

Investment criteria
- Regions with working petroleum systems
- Favourable fiscal regimes with low political risk
- Resource materiality - scale for acquirers and returns for shareholders
- Scope for technology to unlock latent value
- Line of sight catalysts for value re-rating
- Clear monetisation opportunity after value creation

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 declined to £1,091,871 (2018: £1,103,279) after bad debt provision against subsidiary undertakings of £14,539 (2018: £nil)
- unrealised losses arising on financial assets at fair value through profit or loss was £473,925 (2018: unrealised gain - £1,710,418
- net loss after taxation from continuing operations was £1,300,669 (2018: profit - £779,904)
- as at 31 December 2019, the Company had cash and cash equivalents of £69,387 (2018: £233,138)

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.

SECTION 172 STATEMENT
Each Director is required by the Companies Act 2006 to act in the way he considers, in good faith, would be most likely to promote success of the Company for the benefit of its members as a whole and in doing so are required to have regard for the following:
- the likely long-term consequences of any decision;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.

Certain companies are required to report on the matters enumerated in s. 172 while others are doing so voluntarily. As a matter of good governance in full support of complete and transparent disclosure, your Company is pleased to make this inaugural s. 172 Statement.

In 2018, the Company adopted the Corporate Governance Code for Small and Mid-Sized Quoted Companies from The Quoted Companies Alliance (the "QCA Code"). The QCA Code is an appropriate code of conduct for the Company's size and stage of development. In the Corporate Governance Report, on page 6 are comments regarding the application of the ten principles of the QCA Code. Some s.172 considerations are addressed in more detail in the Corporate Governance Report.

The Chairman's Report describes the Company's activities, strategy and future prospects, and some s. 172 considerations are also addressed in the Chairman's Report, including the considerations for long term decision making on page 2.

The Board considers the Company's major stakeholders to include employees, suppliers, partners, loan note holders and shareholders. When making decisions, the interest of each stakeholder group individually and collectively is considered. Certain decisions require more weight attached to some stakeholders than others and while generally seeing the long-term interest of the shareholders as of primary importance, the directors consider those interests are best served by having regard to the interests of the other key stakeholder groups and, in fact, to all the s. 172 considerations.

Given the size of the Company and the nature of its business, there are only a few employees of which the majority are themselves directors. The Board considers the Company's employees essential to the success of the Company. As is stated in the Corporate Governance Report Principle 3, "it is very important to attract and retain highly skilled and dedicated employees and contractors with a combination of a hard working but pleasant workplace and appropriate levels of compensation and emoluments".

The Board ensures that the Company endeavours to maintain good relationships with its suppliers through contracting on standard business terms and paying promptly, within reasonable commercial terms.

The Company does not deal directly with customers or suppliers in relation to the natural gas interests held by its subsidiaries s, save for its relationship with its joint venture partners which operate the relevant fields. There is a direct communication on a regular basis between the Executive Director and the Company's partners, and each of the Non-Executive Directors has the opportunity many times a year to interact with the joint venture operators to foster business relationships and to re-enforce shared values. The Company only invests in interests in licences where it has a degree of influence over the manner in which the operations are operated and communicate to the operators the need for appropriate relationships with suppliers, to support local contracting if possible and implement other measures to enhance communities in which operations are conducted.

As is stated in the Corporate Governance Report Principle 3, "Environmental protection is a key element in all development decisions and extensive consultation with residents and regulators is undertaken prior to any work." The Board spends considerable time each year discussing the impacts of the Company's operations on the environment to mitigate adverse impacts and to promote natural gas as a transitional fuel for electricity generation with lower emissions than other fuels as set out int the Corporate Governance Report Principle 1.

As is stated in the Corporate Governance Report Principle 8, "integrity is a cornerstone of the Company and no unethical behaviour will be tolerated" by employees, consultants or operators. The Board recognises its responsibility for setting and maintaining a high standard of behaviour and business conduct. there is no special treatment for any group of shareholders and all material information is disseminated through appropriate channels and available to all though the company's corporate presentations, news releases, and website. As is described in more details in the Corporate Governance Report Principle 2.

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 downturns should they arise

PRINCIPAL RISKS AND UNCERTAINTIES

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.

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
Pandemics may prevent people working in a traditional manner that would historically be considered safe	The industry is used to working in dangerous environments and accommodating risk where it can. Widen risk assessment and re-evaluate safe working, adopting new best practices as they are developed
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: 21 May 2020

Report of the Directors
for the year ended 31 December 2019

The directors present their report and financial statements for the year ended 31 December 2019.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2019.

The results for the year are set out on page 18.

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 2019 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:

	2019	2018
	No. of shares	No. of shares
Edward Dawson	**5,272,919**	5,272,919
Richard Mays	**2,811,474**	2,811,474
William Smith	**9,139,344**	9,139,344
James Smith	**10,000,000**	10,000,000

<u>Share options and share warrants</u>
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.

	2019	2018
Share options	**No. of shares**	No. of shares
Edward Dawson	**17,620,485**	24,332,148
Richard Mays	**10,936,894**	14,720,508
William Smith	**10,936,894**	14,720,508
James Smith	**10,395,168**	11,831,168
	49,889,441	65,594,332

	2019	2018
Share warrants	**No. of shares**	No. of shares
Edward Dawson	**-**	-
Richard Mays	**2,750,000**	2,750,000
William Smith	**2,750,000**	2,750,000
James Smith	**1,375,000**	1,375,000
	6,875,000	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. Further information is set out in note 2 to the financial statements.

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 April 2020:

	No. of ordinary shares	% of issued share capital
Simon Chanter	239,666,667	10.83%

The market value of the Company's shares at 31 December 2019 was 0.125p and the high and low share prices during the period were 0.295p and 0.085p 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: 21 May 2020

Statement of Directors' Responsibilities
for the year ended 31 December 2019

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock exchange for companies trading securities on AIM.

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.

Website publication
The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 2019 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 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Material uncertainty relating to going concern
We draw your attention to the policy on Going Concern within note 2 to the financial statements, which indicates that the accounts have been prepared on the going concern basis. The Board has referred to the fact that the company is reliant on future fund raisings to continue its activities as budgeted. Should future fund raisings be unsuccessful, this may cast significant doubt on the group and company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 access to potential 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 £69,387 at 31 December 2019 having raised £800,000 through the issue of ordinary shares. In January 2020, the Company has raised a further £720,000 before expenses following the issue of new ordinary shares.

The board of directors have also reviewed and assessed the impact of the current COVID-19 pandemic and the impact to the business, its activities and cash flow, including the ability to raise additional finance.

Management produces a cash flow forecast based on the board’s 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.

Going concern - continued

How our audit addressed the area of focus

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 has 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 £339,974 was recognised on this investment for the year ended 31 December 2019.

Management utilised an NPV model to calculate the increase in value of this investment as of the year ended 31 December 2019.

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' 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, a 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 continued to generate gas sales, however one of the prospective gas wells was discovered to have no commercially recoverable hydrocarbons, thus leading to a dry well. The directors have also prepared an NPV calculation which resulted in a loss in valuation of £585,094 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 decrease in the valuation of investment in the financial statements of the Company to be reasonable.

Our application of materiality

Materiality for the company was £63,400 (2018: £82,400) based on 1% of gross assets (2018: based on 5% of adjusted loss before tax and 2% on net assets).

Other information

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

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

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

Opinions 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 by the Company, 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 14, 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 an Auditor's Report 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.

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

Date: 22 May 2020

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019

	Notes	**2019** **£**	2018 £
CONTINUING OPERATIONS			
Other operating income	5	**198,528**	99,729
Administrative expenses		**(1,091,871)**	(1,103,279)
OPERATING LOSS		**(893,343)**	(1,003,550)
(Loss)/gain on revaluation of investments and loans	12, 13	**(473,925)**	1,710,418
Profit/(loss) on disposal of investment		**40,462**	(8,407)
		(1,326,806)	698,461
Finance income	7	**76,612**	92,283
Finance costs	7	**(50,475)**	(10,840)
(LOSS)/PROFIT BEFORE INCOME TAX	8	**(1,300,669)**	779,904
Income tax	9	**-**	-
(LOSS)/PROFIT AFTER INCOME TAX		**(1,300,669)**	779,904
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR		**(1,300,669)**	779,904
(LOSS)/EARNINGS PER SHARE – BASIC AND DILUTED	10	**(0.08p)**	0.06p

Prospex Oil And Gas Plc (Registered number: 03896382)

Statement of Financial Position
31 December 2019

	Notes	2019 £	2018 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	**-**	-
Investments	12	**3,998,388**	4,307,617
Loans and other financial assets	13	**1,048,978**	1,013,129
Trade and other receivables	14	**808,360**	897,371
		5,855,726	6,218,117
CURRENT ASSETS			
Trade and other receivables	14	**416,777**	396,626
Cash and cash equivalents	15	**69,387**	233,138
		486,164	629,764
TOTAL ASSETS		**6,341,890**	6,847,881
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	**6,435,587**	6,035,587
Share premium		**10,095,358**	9,756,759
Merger reserve		**2,416,667**	2,416,667
Capital redemption reserve		**43,333**	43,333
Retained earnings		**(13,260,713)**	(11,955,212)
TOTAL EQUITY		**5,730,232**	6,297,134
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**386,523**	360,000
CURRENT LIABILITIES			
Trade and other payables	17	**96,294**	70,747
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**128,841**	120,000
		225,135	190,747
TOTAL LIABILITIES		**611,658**	550,747
TOTAL EQUITY AND LIABILITIES		**6,341,890**	6,847,881

The financial statements were approved by the Board of Directors and authorised for issue on 21 May 2020 and were signed on its behalf by:

E R Dawson
Director

Statement of Changes in Equity
for the year ended 31 December 2019

	Notes	Share capital	Share premium	Merger reserve	Capital redemption reserve	Retained earnings	Total
		£	£	£	£	£	£
Balance at 1 January 2018		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		200,000	1,000,000	-	-	-	1,200,000
Costs of shares issued		-	(106,020)	-	-	-	(106,020)
Balance at 31 December 2018		6,035,587	9,756,759	2,416,667	43,333	(11,955,212)	6,297,134
Changes in equity							
Loss for the year		-	-	-	-	(1,300,669)	(1,300,669)
Issue of shares	16	400,000	400,000	-	-	-	800,000
Costs of shares issued		-	(66,233)	-	-	-	(66,233)
Lapse of share options		-	10,142	-	-	(10,142)	-
Equity-settled share-based payments		-	(5,310)	-	-	5,310	-
Balance at 31 December 2019		**6,435,587**	**10,095,358**	**2,416,667**	**43,333**	**(13,260,713)**	**5,730,232**

Share capital – The nominal value of the issued share capital

Share premium account – Amounts received in excess of the nominal value of the issued share capital less costs associated with the issue of shares

Merger reserve – The difference between the nominal value of the shar capital issued by the Company and the fair value of the subsidiary at the date of acquisition

Capital redemption reserve – The amounts transferred following the redemption or purchase of the Company's own shares

Retained earnings – Accumulated comprehensive income for the year and prior periods

Statement of Cash Flows
for the year ended 31 December 2019

	Notes	2019	2018
		£	£
Cash flows from operations			
Cash outflow from operations	1	**(776,978)**	(2,062,306)
Net cash outflow from operating activities		**(776,978)**	(2,062,306)
Cash flows from investing activities			
Proceeds from sale of investments		**119,014**	67,223
Purchase of fixed asset investments		**-**	(246,040)
Interest received		**-**	2
Dividend received		**-**	5,261
Net cash outflow from investing activities		**119,014**	(173,554)
Cash flows from financing activities			
New loan notes		**-**	480,000
Loan (payment)/repayments		**(239,554)**	44,958
Share issue		**800,000**	1,200,000
Costs of shares issued		**(66,233)**	(106,020)
Net cash inflow from financing activities		**494,213**	1,618,938
Decrease in cash and cash equivalents		**(163,751)**	(616,922)
Cash and cash equivalents at beginning of year	2	**233,138**	850,060
Cash and cash equivalents at end of year	2	**69,387**	233,138

Notes to the Statement of Cash Flows
for the year ended 31 December 2019

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

	2019	2018
	£	£
(Loss)/profit before income tax	(1,300,669)	779,904
Depreciation of property, plant and equipment	-	429
Decrease/(increase) in trade and other receivables	105,929	(1,057,746)
Increase/(decrease) in trade and other payables	10,436	(1,439)
(Profit)/loss on sale of investments	(40,462)	8,407
Loss/(gain) on revaluation of fixed asset investments and loans	473,925	(1,710,418)
Finance income	(76,612)	(92,283)
Finance costs	50,475	10,840
Net cash outflow from operations	**(776,978)**	(2,062,306)

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 2019	**31.12.19**	**01.01.19**
	£	**£**
Cash and cash equivalents	**69,387**	**233,138**

Year ended 31 December 2018	31.12.18	01.01.18
	£	£
Cash and cash equivalents	233,138	850,060

1. STATUTORY INFORMATION

Prospex Oil and Gas Plc is a public limited company, 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 £893,343. These losses are expected to continue in the current accounting year to 31 December 2020.

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 £720,000 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, or, if available on suitable terms, debt finance.

Furthermore, the directors have evaluated the impact to the company in respect of the COVID-19 (Coronavirus) pandemic ongoing at the time of approving these financial statements. The company's investment activities through its subsidiary undertakings take place in countries that have been impacted by the virus. Beyond a short-term energy price drop, mid to long term prices remain only marginally affected. The business has been affected but has been able to transfer office-based activities to a "working from home" in host countries in lock down. Fields activities so far have not been affected but are minimal anyway. The industry by its nature does, and is required to, interface with its regulators; to date regulators in host countries are still engaging, via email. Whilst it remains hard to assess the impact on timelines, the fact that civil servants remain engaged is taken as a positive in a negative environment. Financial markets remain volatile but have settled down from the extremes seen in March and April 2020. The company notes that the COVID-19 situation appears to be improving in Italy and Spain and the UK is a few weeks behind. Whilst market conditions, largely attributed to COVID-19, are currently tough the directors believe the quality and long-term nature of the underlying assets in the subsidiary undertakings will enable further financing as required. As a result, the directors do not consider there to be a material uncertainty to the company's ability to continue as a going concern as a result of COVID-19.

2. ACCOUNTING POLICIES - continued

Going concern - continued

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 fourth 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

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.

2. **ACCOUNTING POLICIES - continued**

Leases
Leases are recognised as finance leases. The lease liability is initially recognised at the present value of the lease payments which have not yet been made and subsequently measured under the amortised cost method. The initial cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, lease payments made prior to the lease commencement date, initial direct costs and the estimated costs of removing or dismantling the underlying asset per the conditions of the contract.

Where ownership of the right-of-use asset transfers to the lessee at the end of the lease term, the right-of-use asset is depreciated over the asset's remaining useful life. If ownership of the right-of-use asset does not transfer to the lessee at the end of the lease term, depreciation is charged over the shorter of the useful life of the right-of-use asset and the lease term.

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.

Foreign currency translation
Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency) which is UK sterling (£). The Financial Statements are accordingly presented in UK sterling.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at an average rate for a period if the rates do not fluctuate significantly. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Finance income and finance costs
Finance income is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. It is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs are recognised as an expense in the period in which they are incurred.

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.

2. **ACCOUNTING POLICIES - continued**

Adoption of new and revised international financial reporting standards
With effect from 1 January 2019, the Company has adopted IFRS 16 'Leases'. This provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the Balance Sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term.

The adoption of the standard has no impact on the Company's financial statements as the Company does not hold any leases either at the date of sign off of these financial statements or during any of the periods presented.

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	**Amendment - Definition of a Business**	01/01/2020
IFRS 7, IFRS 9, IAS 39	**Amendment - Interest Rate Benchmark Reforms**	01/01/2020
IFRS 17	**Insurance Contracts**	01/01/2021
IAS 1, IAS 8	**Amendment - Definition of Material**	01/01/2020
IAS 1	**Amendment - Correction of Liabilities as Current and Non-Current**	01/01/2022

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.

Revenue recognition
Revenue is measured at the fair value of consideration receivable, net of any discounts and VAT. It is recognised to the extent that the transfer of promised services to a customer has been satisfied and the revenue can be reliably measured.

Revenue from the rendering of services to the customer is considered to have been satisfied when the service has been undertaken.

Revenue which is not related to the principal activity of the company is recognised in the Statement of Profit or Loss as other operating income. Such income includes consultancy fees and rent receivable.

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.

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 2019 as shown on the Statement of Financial Position all relate to the Investment activity.

5. **OTHER OPERATING INCOME**

	2019	2018
	£	£
Sundry receipts	**198,528**	99,729

6. **EMPLOYEES AND DIRECTORS**

	2019	2018
	£	£
Wages and salaries	**427,683**	406,603
Social security costs	**44,360**	42,293
Other pension costs	**20,240**	20,892
	492,283	469,788

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

	2019	2018
Directors	**4**	4
Staff	**3**	3
	7	7

Under the Pensions Act 2008, every 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 (2018: £nil).

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

7. **NET FINANCE COSTS**

	2019	2018
	£	£
Finance income:		
Other fixed asset inv - UnFII	**-**	5,261
Deposit account interest	**-**	2
Other interest receivable	**76,612**	87,020
	76,612	92,283
Finance costs:		
Loan	**50,475**	10,840
Net finance income	**26,137**	81,443

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

The loss before income tax (2018 - profit before income tax) is stated after charging/(crediting):

	2019	2018
	£	£
Other operating leases	**50,779**	42,841
Depreciation - owned assets	**-**	429
Auditors' remuneration	**27,030**	20,000
Foreign exchange differences	**36,434**	(4,315)

9. **INCOME TAX**

Analysis of tax expense
No liability to UK corporation tax arose for the year ended 31 December 2019 nor for the year ended 31 December 2018.

Factors affecting the tax expense
The tax assessed for the year is higher (2018 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2019	2018
	£	£
Factors affecting the tax charge for the year:		
(Loss)/profit before income tax	**(1,300,669)**	779,904
(Loss)/profit before income tax multiplied by effective rate of UK corporation tax of 19.00% (2018: 19.00%)	**(247,127)**	148,182
Effects of		
Non-deductible expenses	**5,710**	2,222
Depreciation add back	**-**	82
Losses used for group relief	**35,512**	5,124
Tax losses not utilised	**123,547**	168,772
Unrealised chargeable losses/(gains)	**90,046**	(324,979)
(Profit)/loss on sale of investments	**(7,688)**	1,597
Other tax adjustments	**-**	(1,000)
	247,127	(148,182)
Current tax charge	**-**	-

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 £1.2m (2018: £1.1m) arising from the accumulated tax losses of approximately £6.4m (2018: £5.9m) carried forward has not been recognised but may become recoverable against future trading profits.

10. **LOSS/EARNINGS PER SHARE**

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

	2019	2018
	£	£
Basic		
(Loss)/profit for the financial period	**(1,300,669)**	779,904
Weighted average of ordinary shares	**1,536,880,807**	1,202,086,287
(Loss)/earnings per share	**(0.08p)**	0.06p

The loss and the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic loss per share. The outstanding share options and share warrants (note 23) would have the effect of reducing the loss per share and would therefore not be dilutive under IAS 33 'Earnings per Share'.

11. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment
	£
COST	
At 1 January 2018 and 2019	1,699
At 31 December 2018 and 2019	**1,699**
DEPRECIATION	
At 1 January 2018	1,270
Charge for the year	429
At 31 December 2018 and 2019	**1,699**
NET BOOK VALUE	
At 31 December 2019	**-**
At 31 December 2018	-

12. INVESTMENTS

	Shares in group undertakings	Listed investments	Unlisted investments	Total
	£	£	£	£
COST				
At 1 January 2018	2,143,247	183,542	100,000	2,426,789
Additions	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
Additions	39,543	-	-	39,543
Disposals	-	(78,552)	-	(78,552)
Revaluations	(245,220)	-	(25,000)	(270,220)
At 31 December 2019	**3,948,388**	**-**	**50,000**	**3,998,388**

12. **INVESTMENTS - continued**

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

	2019	2018
	£	£
Aggregate capital and reserves	**(39)**	(26)
Loss for the year	**(13)**	(13)

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

Class of shares:	% holding
Ordinary	100.00

	2019	2018
	£	£
Aggregate capital and reserves	**(203,705)**	585,094
(Loss)/profit for the year	**(788,799)**	633,417

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

Class of shares:	% holding
Ordinary	100.00

	2019	2018
	£	£
Aggregate capital and reserves	**3,948,287**	3,568,671
Profit for the year	**340,073**	1,179,684

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

Class of shares:	% holding
Ordinary	100.00

	2019	2018
	£	£
Aggregate capital and reserves	**(17,751)**	(413)
Loss for the year	**(17,338)**	(513)

12. INVESTMENTS - continued

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

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

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

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

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

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

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

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

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

13. LOANS AND OTHER FINANCIAL ASSETS

	Loans to group undertakings £
At 1 January 2019	**1,013,129**
New in year	**239,554**
Other movement	**(203,705)**
At 31 December 2019	**1,048,978**

14. TRADE AND OTHER RECEIVABLES

	2019 £	2018 £
Current:		
Trade debtors	**2,173**	-
Amounts owed by group undertakings	**360,988**	338,398
Other debtors	**27,151**	36,035
Rent deposit	**10,736**	10,242
VAT	**7,604**	9,121
Prepayments and accrued income	**8,125**	2,830
	416,777	396,626
Non-current:		
Amounts owed by group undertakings	**808,360**	897,371
Aggregate amounts	**1,225,137**	1,293,997

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

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 12).

15. CASH AND CASH EQUIVALENTS

	2019 £	2018 £
Bank accounts	**69,387**	233,138

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

	2019 Number	2018 Number	2019 £	2018 £
Allotted, issued and fully paid				
Ordinary shares of 0.1p each	**1,613,593,136**	1,213,593,136	**1,613,593**	1,213,593
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
			6,435,587	6,035,587

In March, the Company raised £800,000 before expenses via a placing of 400,000,000 ordinary shares of £0.001 each at a price of 0.2 pence per ordinary share. The net proceeds of the Placing ensured that the Company was fully funded for its 2019 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**

	2019	2018
	£	£
Current:		
Trade creditors	**22,603**	20,513
Social security and other taxes	**14,740**	15,394
Accruals and deferred income	**58,951**	34,840
	96,294	70,747

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

18. **FINANCIAL LIABILITIES - BORROWINGS**

	2019	2018
	£	£
Current:		
Unsecured loan notes	**128,841**	120,000
Non-current:		
Unsecured loan notes - 1-2 years	**257,682**	-
Unsecured loan notes – 2-5 years	**128,841**	360,000
	386,523	360,000

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 biannually, capitalised to 30 June 2019, with the first cash payment 31 December 2019. Repayments start in December 2020 with final repayment on 30 June 2022 (four equal payments).

The amount of interest capitalised during the year was £35,364 (2018: £nil).

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:

	2019	2018
Financial assets	**£**	£
Loans and receivables:		
Trade and other receivables	**55,789**	58,228
Cash and cash equivalents	**69,387**	233,138
	125,176	291,366
Other assets at amortised costs:		
Amounts owed to group undertakings	**2,218,323**	2,248,900
Financial liabilities		
Trade and other payables	**96,294**	70,747

Financial assets at fair value through profit or loss

	Fair value measurement		
	Level 1	**Level 2**	**Level 3**
	£	**£**	**£**
At 31 December 2019	**-**	**-**	**3,998,388**
At 31 December 2018	78,552	-	4,229,065

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 2019, the Company's monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Company, other than €26,701 (£22,717) 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 £2,524 gain or £2,065 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 (2018: £1,543,888) due from PXOG County Limited, the company's wholly owned subsidiary. At the year end, a provision of £1,543,888 (2018: £1,543,888) was made against this balance. Included in trade and other receivables is an amount of £14,539 (2018: £14,526) due from PXOG County Limited. At the year end, a provision of £14,539 (2018: £nil) was made against this balance.

Included in loans to group undertakings is an amount of £1,252,683 (2018: £1,013,129) due from PXOG Massey Limited, the company's wholly owned subsidiary. Included in trade and other payables is an amount of £nil (2018: £4,500) due to PXOG Massey Limited. At the year end, a provision of £203,705 (2018: £nil) was made against this balance.

Included in trade and other receivables is an amount of £808,360 (2018: £897,373) due from PXOG Marshall Limited, the company's wholly owned subsidiary. Interest receivable of £76,612 (2018: £87,020) has been accounted for in the Statement of Profit or Loss.

Included in trade and other receivables is an amount of £360,988 (2018: £323,872) due from PXOG Muirhill Limited, the company's wholly owned subsidiary.

During the year, there were consultancy fees of £15,000 (2018: £15,000) and £10,800 (2018: £7,800) charged by Sallork Limited and Sallork Legal and Commercial Consulting Limited ("Sallork") respectively. Included in trade payables at the year-end is £1,606 (2018: £1,500) and £nil (2018: £800) owing to Sallork Limited and Sallork Legal and Commercial Consulting Limited respectively. Richard Mays is a director and shareholder of both these companies.

Included in trade and other payables are the following balances due to Directors as at 31 December 2019.

	2019	2018
	£	£
William Smith	**9,019**	7,745

20. RELATED PARTY DISCLOSURES - continued

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

	2019	2018
	£	£
Richard Mays	**50,000**	50,000
William Smith	**50,000**	50,000
James Smith	**25,000**	25,000

21. EVENTS AFTER THE REPORTING PERIOD

In January 2020, the Company raised £720,000 before expenses by way of a placing of 600,000,000 new ordinary shares of £0.001 each in the Company at a price of 0.12 pence per share (the "Placing"). The Placing was undertaken with new and existing investors as well as certain Directors of the Company who are acquiring Placing Shares with an aggregate value of £140,000 based on the Placing Price.

The net proceeds of the Placing will primarily be used to fund the Company's acquisition of a 49.9% indirect stake in El Romeral, an integrated gas production and power station operation located in the Guadalquivir basin in southern Spain.

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 2018 and 31 December 2019 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 2019	**Shares under options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**94,841,810**	**1.76**	**0.76**
Granted	**-**		**-**
Lapsed	**(20,728,54 5)**		**(1.03)**
Carried forward	**74,113,265**	**1.04**	**0.68**

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

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

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

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 13 November 2017	71,226,149	13/11/2020	0.52p	0.29p

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

Options	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 30 April 2012	175.0p	125.0p	32.0%	3.5 years	0.24% - 0.43%
2. Granted 16 April 2015	4.0p	3.05p	71.5%	3 years	0.71%
3. Granted 13 November 2017	0.51p	0.52p	96.8%	3 years	0.56%

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

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

Warrants
At 31 December 2018 and 31 December 2019, 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.

31 December 2019		**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**34,900,000**	**1.38**	**0.76**
Granted	**8,125,000**	**3.00**	**0.40**
Lapsed	**(8,500,000)**	**-**	**(0.60)**
Carried forward	**34,900,000**	**1.12**	**0.55**

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

All warrants were exercisable at the year end.

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

The following warrants were in existence at the year end.

Warrants	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 18 March 2019	8,125,000	18/03/2022	0.40p	0.07p
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 18 March 2019	0.19p	0.40p	106.70%	3 years	0.13%
2. Granted 12 October 2018	0.32p	0.60p	N/A	3 years	N/A

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

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.

	2019	2018
	£	£
Directors' emoluments	**181,000**	183,400
Benefit in kind	**4,200**	4,200
Pension contributions	**14,300**	13,083
	199,500	200,683

	Salaries and fees	Benefit in kind	Pension contributions	**2019**	2018
	£	£	£	**£**	£
Edward Dawson	130,000	4,200	14,300	**148,500**	147,283
William Smith	18,000	-	-	**18,000**	18,000
Richard Mays	15,000	-	-	**15,000**	15,000
James Smith	18,000	-	-	**18,000**	20,400
	181,000	4,200	14,300	**199,500**	200,683

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2018: 1).

The Directors interests in share options as at 31 December 2019 are as follows:

Director	**Options at 31 December 2019**	**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	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	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	10,395,168	0.52p	13/11/2017	13/11/2017	13/11/2020
James Smith	10,395,168	0.52p	13/11/2017	13/11/2017	13/11/2020

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 2019 are as follows:

Director	**Warrants at 31 December 2019**	**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