REGISTERED NUMBER: 03896382 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2020

for

Prospex Energy Plc

Contents of the Financial Statements
for the year ended 31 December 2020

Company Information
for the year ended 31 December 2020

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

Chairman's Report
for the year ended 31 December 2020

Despite the disruption caused by the global pandemic, the year under review, and beyond, has still seen major progress towards building Prospex into a European focused gas and power business, one that can play a part in the ongoing global energy transition. In Spain, we completed the acquisition of a 49.9% interest in the El Romeral Integrated gas and power project, which adds an interest in three producing gas wells and an operational power plant to Prospex's portfolio. In Italy, regulatory milestones were passed in the permitting process required to bring the 17%-owned Selva gas field in Italy into production, which is set to transform Prospex's financial profile in the medium to long term. Elsewhere, the divestment of a 50% interest in the Suceava gas asset in Romania enables us to focus on our flagship Italian and Spanish projects.

A gas and power business and the energy transition may appear odd bedfellows, but the two are arguably inter-dependant. Moving from a fossil-fuelled world to a decarbonised one requires a substantial scaling up of the contribution to the global energy mix made by renewable technologies. Considerable progress has been made to date but, despite this, renewables are still having to grow from a relatively low base. Much more needs to be done, a fact implicit in governments around the world setting carbon neutral targets that often lie one or more decades out into the future. Such is the scale of the work that has to be undertaken, it is widely accepted that the world will have to rely on hydrocarbons for a large portion of its energy needs for years to come. This does not mean that hydrocarbon focused energy companies have a licence to carry on as normal. They too can make their own positive contributions towards the goal of global decarbonisation.

It is set against this context that Prospex's focus on natural gas production and power generation via its core Podere Gallina Permit in Italy and El Romeral integrated gas and power project in Spain ought to be seen. For natural gas is by far the cleanest hydrocarbon in terms of carbon emissions when combusted. As I have reported previously, the EIA has estimated that in terms of CO2 emitted per unit of energy output, natural gas emits 117 pounds of CO2 per million British thermal units ('Btu') of energy compared to 228.6 pounds from coal, 161.3 pounds from diesel fuel and heating oil, and 157.2 pounds from gasoline. The benefits to the environment from displacing oil and coal with natural gas for power generation are clear.

As well as the environmental benefits, there is also a business case behind Prospex's focus on gas. Thanks to gas being typically sold at prices agreed via long-term contracts, producers largely avoid the volatility associated with spot markets, which in turn provides significant visibility to earnings. We believe shareholders will soon see for themselves the business case for gas once production commences at the Podere Maiar well on the Selva gas field in Italy in 2022. We estimate Podere Maiar, along with the three existing gas wells supplying a project-owned power plant at El Romeral in Spain, have the potential to produce over 7,800,000 scm net to Prospex over the course of a year. At today's prices, this level of gas production would generate a material revenue stream that would support the monetisation of low-risk follow-up opportunities across our Italian and Spanish projects to grow the asset base and revenues further.

Thanks to our existing assets, we have a roadmap to generate considerable value for investors and at the same to play our part in the global fight against climate change:

Internally generated revenues + multiple follow-up opportunities + natural gas focus = roadmap to an ESG focused, highly cash flow generative gas and power investment company

Podere Gallina, Po Valley onshore Italy

All the ingredients in the above formula can be found in the Podere Gallina permit in Italy in which Prospex holds a 17% interest. Once the Selva gas field comes on stream in 2022 at an initial daily rate of up to 150,000 cubic metres (5.3 mmscf/d), Prospex will have a material stream of internally generated revenues. In addition to the 13.3 Bcf (2P) Selva field, Podere Gallina holds multiple follow-up opportunities including the two historic gas producing North Flank and South Flank reservoirs at Selva, which geophysical services consultancy CGG Services (UK) Limited has estimated have a 60% - 70% chance of holding gross contingent resources ('2C') of 14.1 Bcf. The permit also holds the East Selva, Fondo Perino, Cembalina, and Riccardina prospects, which are estimated to hold aggregate gross prospective resources (best estimate) of 91.5 Bcf. All the targets identified at Podere Gallina are focused on cleaner natural gas.

For now, the priority at Podere Gallina is to bring Selva on stream. The field development plan is centred around the installation of a fully automated gas plant at the site of the Podere Maiar 1dir well site, which successfully tested the field in 2018. The gas plant will be connected to the Italian National Grid by a one-kilometre-long pipeline. In all, the development will have a footprint of less than half a hectare, while it has been designed in such a way to prevent any emissions from gas production at the site. The net cost to Prospex to bring Selva into production is estimated at €580,000, of which €400,000 relates to civil works and hardware with the remainder made up of ancillary expenses. Bringing Selva online is therefore low cost and, thanks to the field's gross reserves of 13.3bcf, we can pursue non-equity funding to cover our share of the development costs. We are in discussions with potential providers and will update as and when appropriate.

In the meantime, major milestones have been achieved with the permitting process, despite the disruption caused by the global pandemic. A preliminary gas Production Concession (80.68km²) was granted by the Italian Ministry for Economic Development in early 2019 and during the year under review, formal technical environmental approval for the development of Selva was received from the Italian Environment Ministry. This was followed post period end in April 2021 with full environmental approval from the Italian Government, which paves the way for the grant of a full production licence from Italy's Economic Development Ministry. Targeting first production in mid-2022, preliminary development work has now commenced at the site.

El Romeral, onshore Spain
As with Selva, El Romeral has the potential to become a significant internal revenue generator, holds multiple follow-up opportunities and is focused on cleaner natural gas. We announced the conditional acquisition of up to a 49.9% indirect stake in the integrated gas production and power station project in southern Spain in December 2019. The onset of the pandemic just months later resulted in a delay in the approval process for the acquisition and the transfer of the asset to our Spanish affiliate, Tarba Energia ('Tarba'), both of which took place post period end in Q1 2021. Completion may have taken longer than we had anticipated but we firmly believe the wait will prove to have been well worth it, especially as the acquisition adds power generation to our portfolio.

El Romeral currently comprises three producing wells which supply gas to a 100% project-owned 8.1MW power station. These three wells are late life, and the maximum gas productivity of the wells currently limits the power plant to operating at c. 22% capacity. Thanks to the presence of multiple low risk targets, including two development locations with gross contingent resources of 5 Bcf and 11 prospects with gross prospective gas resources of 90 Bcf, there is considerable scope to increase gas production at the project. We estimate one new well being brought online will be sufficient to achieve 100% capacity utilisation at the plant.

At full capacity, El Romeral will become a second material revenue generator for Prospex: producing electricity at the power plant's name plate rate of c. 60,000 MWh gross per annum and selling at Spain's historic average electricity price of €70 per MWh (including subsidy) has the potential to deliver indicative project level annual revenues and profit before tax of €4.2 million and €2.4 million respectively (€1.8 million profit after tax). This level of revenues and profits would put El Romeral on a par with Selva.

Post period end, Tarba has submitted early stage environmental documents as part of the application process for the drilling of multiple wells at El Romeral, potentially commencing in 2022.

Other projects
In addition to Podere Gallina and El Romeral, Prospex holds a 15% interest along with an option to increase this to 49.9% in Tesorillo, a large gas project in southern Spain where historic discoveries, notably the 1957 Almarchal-1 discovery well, have been made. Following the onset of COVID, in March 2020, a work programme focused on identifying and de-risking a prospect inventory was paused.

In October 2020, we announced the divestment of the Company's wholly owned subsidiary, PXOG Massey Limited ('Massey'), the sole asset of which is a 50% interest in the economic rights of the EIV-1 Suceava Concession, onshore Romania. Under the terms of the sale, Prospex will receive up to £215,000 in cash in respect of historical debt owed to the Company by Massey and nominal consideration for shares in Massey. The divestment follows the completion of a strategic review of Prospex's portfolio following the acquisition of a 49.9% interest in El Romeral.

Financial Review
For the period ended 31 December 2020, the Company is reporting Total Assets of £5,748,211 (31 Dec 2019: £6,341,890), the value of which is largely comprised of the Company's investment in PXOG Marshall Ltd, the vehicle for the Company's Italian assets. 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 amounted to £377,498 (2019: unrealised loss - £270,220). This resulted from the revaluation of PXOG Marshall Ltd, which included an update to forward gas price assumptions that had been used in a previous CPR. The time frame for this exercise coincided in a weakening in Italian gas prices in response to the pandemic and associated lockdowns. Since the revaluation was carried out, Italian gas prices have risen as vaccination programmes and economic activity have picked up.

The fluctuation in Total Assets is primarily due to the write down of loans of £744,317 (2019: £203,705) triggered by the sale of PXOG Massey Ltd.

Aside from the nominal cost of equity being included in the Company's Investments, the bulk of the carrying value of the Company's Spanish investments is represented within loans made by the Company to the investment vehicle for the Spanish assets and other receivables.

Chairman's Report
for the year ended 31 December 2020

As at 31 December 2020, the fair value of the Company's investments stood at £3,620,890 (2019: £3,998,388), with a further £1,762,990 (2019: £2,218,326) of loans to investee companies expected to be repaid in due course. The latter is after a provision of £nil (2019: £203,705). The combined value of these equity investments and current and non-current loans is £5,383,880 (2019: £6,216,714). The Company continues to have significant asset backing relative to its market capitalisation.

Administrative expenses for the full year totalled £972,193, an 11% reduction on 2019's £1,091,871, as management took steps to reduce the Company's cost base further in response to the impact of the pandemic on economic activity. During the period, the Company received a loan of approximately £50,000 from its bank under the Government's COVID-19 Bounce Back Loan Scheme.

The Company is reporting a net loss after taxation from continuing operations of £1,806,492 (2019: loss - £1,300,669). Unrealised losses arising from the revaluation at fair value of financial assets including PXOG Marshall Ltd and the write-off of the loans to PXOG Massey Ltd totalled £1,121,815 (2019: loss - £473,925).

In February 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.

As at 31 December 2020, the Company held cash and cash equivalents of £220,618 (2019: £69,387). Post period end in March 2021, the Company raised £750,000 gross via a placing of 50,000,000 new ordinary shares to fund planned programmes in Spain and Italy and also to fund the evaluation of new business opportunities.

In June 2020, the Company completed a share re-organisation effecting a one new ordinary share for 25 existing ordinary shares.

Outlook
The world is a very different place to what it was 12 months ago. While vaccination programmes are being rolled out across the world to curb the spread of COVID-19, the effects of the pandemic will continue to be felt for years to come. One potential lasting consequence of the coronavirus is that it could well lead to a sustained acceleration in the ongoing movement to decarbonise the global economy. We are already seeing this in the continued development of environmental legislation across Europe.

Individual European countries may be moving at their own pace, but all are looking to cut emissions within EU and global frameworks. In Italy, after a two-year moratorium on exploration was introduced in 2019, it appears exploration will restart in 2021, but in a more restrictive manner. In Spain, post year end, the country passed its Climate Change and Energy Transition Law. As part of a broad range of measures, Spain has decided not to issue any new exploration licences and has further tightened up and made further restrictions on certain types of exploitation permit. Our interests in exploitation permits at this time seem largely unaffected, whether any further changes to the right to explore are made remains to be seen. Legislative pragmatists do recognise the need for transition, and we hope that, once countries set their road maps to carbon neutrality, we will be able to explore and exploit as per the permitting framework. The Company therefore believes its current producing / development assets can run all if not the vast majority of their economic life. As a result, we believe Prospex is well placed to play its part in the energy transition.

Our flagship projects in Italy and Spain are focused on gas, widely viewed as a key transitional fuel on account of it being significantly cleaner than oil and coal. Both projects are either already or soon to be producing. Both hold multiple and significant low risk follow-up exploration / development opportunities. The building blocks are in place to transform Prospex into a highly cash generative gas and power producer that is fit for purpose for the energy transition. With Selva expected to commence production in mid-2022 and with the application process now commenced for a multi-well drilling programme at El Romeral, potentially in 2022, the year ahead promises to see major progress made and I look forward to providing further updates in the year ahead.

Finally, I would like to take this opportunity to thank the Board and management team for their continued hard work, commitment, and support during what has been an unprecedented period for all.

Bill Smith
Non-executive Chairman
24 June 2021

Corporate governance
for the year ended 31 December 2020

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 presents a number of challenges, including geological selection, whilst the team are experienced, the nature of the business that includes an element of exploration is inherently risky; the number of opportunities are finite and in developing the value opportunities are exposed to a number of political and commercial risks that have to navigated.

Principle 2 - Seek to understand and meet shareholder needs and expectations.
The primary communication tool is the Company's website. This frames the shareholder expectation as an investment in a small, but growing, energy investment company. New information is released via the regulatory news 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 experiences in oil and gas businesses, including past experience with deep water drilling and production, have embedded a safety-oriented culture.

Principle 4 - Embed effective risk management, considering both opportunities and threats, throughout the organisation.
Risk is inherent in all aspects of natural gas exploration and development activity, 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"). Audit committee and remuneration committee functions are reserved for the NEDs. All of the Non-Executive Directors are considered independent recommended by the QCA Code.

Principle 6 - Ensure that between them the directors have the necessary up to date experience, skills and capabilities.
The Board discusses its own performance and undertakes a skills assessment, recruiting to fill needs as required. The website has detailed information about each director's education, experience and skills. The current group of directors collectively have international oil and gas experience in more than 10 countries and executive or director of more than a dozen listed companies.

Principle 7 - Evaluate Board performance on clear and relevant objectives, seeking continuous improvement.
A desire for continuous improvement pervades all aspects of Prospex. A Board review of its own performance and composition are on the Board agenda at least once per year 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. With the adoption of the QCA Code, future Annual Reports will include a summary the activity of the main committees including the Audit Committee and the Remuneration Committee. Any interested party seeking more information or to express a view is invited to contact the MD or the Chair directly using the contact information contained in the website.

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

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

Strategic Report
for the year ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

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

STRATEGY
Prospex is building an Energy 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 Energy 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 for continuing operations for the year declined to £972,193 (2019: £1,091,871) after bad debt provision against subsidiary undertakings of £nil (2019: £14,539)
- operating loss for the year was £725,050 (2019: £893,343)
- unrealised losses arising on financial assets at fair value through profit or loss was £1,121,815 (2019: £473,925)
- net loss after taxation from continuing operations was £1,806,492 (2019: £1,300,669)
- as at 31 December 2020, the Company had cash and cash equivalents of £220,618 (2019: £69,387)

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 considered, 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 annual 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, below 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.

The Board considers the Company's major stakeholders to include employees, suppliers, partners, loan note holders and shareholders. When making decisions, consideration is given to the interest of each stakeholder group individually and collectively. 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 however, 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". Obviously, pandemic restrictions, furloughs, and work from home requirements have presented exceptional challenges to the employees and the Company in 2020 and early 2021 however, we are pleased to report that the Company has retained the services of all of its employees.

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, save for its relationship with its joint venture partners which operate the relevant fields. There is direct communication on a regular basis between the Executive Director and the Company's partners, and some of the non-executive directors have the opportunity to interact with the joint venture operators to foster business relationships and to re-enforce shared values. The Company invests in interests in licences where it has some influence over the manner in which the operations are conducted 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." As suggested in the Corporate Governance Report Principle 1, 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 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 recognizes 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 detail 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 Energy 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 Energy 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 Energy 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. Energy 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: 24 June 2021

Report of the Directors
for the year ended 31 December 2020

The directors present their report and financial statements for the year ended 31 December 2020.

CHANGE OF NAME
On 30 June 2020 Prospex Oil and Gas Plc changed its name to Prospex Energy Plc.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2020.

The results for the year are set out on page 17.

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 2020 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:

	2020	2019
	No. of shares	No. of shares*
Edward Dawson	**2,210,743**	210,916
Richard Mays	**112,400**	112,458
William Smith	**1,698,733**	365,573
James Smith	**1,733,200**	400,000

Share options and share warrants
The Directors of the Company held share options granted under the Company share option scheme and warrants to subscribe for shares as indicated below. No share options or warrants were exercised during the year. Full details of the share options and warrants held are disclosed in note 23 to the financial statements.

	2020	2019
Share options	**No. of shares**	No. of shares*
Edward Dawson	**1,348,379**	704,829
Richard Mays	**832,388**	437,476
William Smith	**832,388**	437,476
James Smith	**810,719**	415,807
	3,823,874	1,995,578

	2020	2019
Share warrants	**No. of shares**	No. of shares*
Edward Dawson	**-**	-
Richard Mays	**595,705**	110,000
William Smith	**1,195,705**	110,000
James Smith	**964,519**	55,000
	2,755,929	275,000

*The comparative number of shares for 2019 have been adjusted to take into account the share reorganisation that was effected during the year whereby 1 new ordinary share of 0.1p each was issued for 25 existing ordinary shares of 0.1p each (note 16).

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

Report of the Directors
for the year ended 31 December 2020

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 18 June 2021:

	No. of ordinary shares	% of issued share capital
Simon Chanter	9,586,600	6.92%
Aidan O’Hara	12,500,000	9.02%
Ryan Mee	7,408,783	5.35%
Timothy and Alison Adams	7,175,151	5.18%

The market value of the Company's shares at 31 December 2020 was 2.20p and the high and low share prices during the period were 3.88p and 1.50p 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: 24 June 2021

Statement of Directors' Responsibilities
for the year ended 31 December 2020

The Directors are responsible for preparing the Strategic Report, Directors' Report, Corporate Governance Statement and the Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare financial statements in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act.

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Company financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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 Energy Plc

Opinion
We have audited the financial statements of Prospex Energy Plc (the 'company') for the year ended 31 December 2020 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 Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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
Area of focus
Refer to Note 2 to the financial statements for the directors' disclosures of related accounting policies, judgements and estimates. The Directors have concluded that the Company has sufficient cash resources and 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 £220,618 at 31 December 2020. In March 2021, the Company raised a further £750,000 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 Energy 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 loss of £377,498 was recognised on this investment for the year ended 31 December 2020.

Management utilised an NPV model to calculate the decrease in value of this investment as of the year ended 31 December 2020.

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 decrease 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 2020, a sale and purchase agreement ('SPA') was entered into with H2Oil Limited ('H2Oil') regarding the sale of the entire issued share capital of PXOG Massey Limited ('Massey'). As at the balance sheet date, the conditions of the SPA had not been met and Massey remains a subsidiary of the company. Management used the value of the SPA as the basis of the valuation of Massey in the financial statements.

How our audit addressed the area of focus

We have reviewed the SPA agreement and gained an understanding of the conditions of the SPA. We assessed the conditions necessary to recognise the point of sale and considered managements judgements and estimations in the likelihood of these conditions being met. We reviewed the value of the sale proceeds included within the SPA in comparison to the carrying value of the investment.

We considered the recognition of Massey as a subsidiary of the Company, at the carrying value included, to be reasonable.

Area of focus – Fair Value of PXOG Muirhill Limited

The fair value of investments that are not traded on the active market is determined using the valuation techniques such as NPV analysis. During the year, Prospex Energy had an interest in two assets (Tesorillo and El Romeral) through shares in Tarba Energia SRL ('Tarba'). Management have retained the value of the investment at cost due to the stagnant year in 2020 in respect of Tesorillo and the work required to unlock the full potential of El Romeral.

How our audit addressed the area of focus

We obtained a copy of Tarba's results for the period and gained an understanding of managements' key assumptions and judgements in calculating the valuation of the investment. We assessed the appropriateness of the methodology applied and reviewed the underlying assumptions and financial results.

We considered the basis of the valuation of the investment in the financial statements of the Company to be reasonable.

Our application of materiality

Materiality for the company was £60,200 (2019: £63,400) based on 1% of gross 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
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we have:

- considered the nature of the industry and sectors, control environment and business performance including the design of the Group's remuneration policies, key drivers for director's remuneration, bonus levels and performance targets;
- made enquires of management about their own identification and assessment of the risk of irregularities; performed audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness and reviewing accounting estimates for bias;
- reviewed minutes of meetings of those charged with governance;
- undertaken appropriate sample-based testing of bank transactions;
- assessed whether judgements made in making accounting estimates are indicative of potential bias;
- identified and evaluated compliance with relevant laws and regulations and made enquiries of any instances of non-compliance;
- discussed matters among the audit engagement team regarding how and where fraud might occur in the financial statements and potential indicators of fraud.

Due to the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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.

Report of the Independent Auditors to the Members of Prospex Energy Plc

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: 24 June 2021

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2020

	Notes	**2020** £	2019 £
CONTINUING OPERATIONS			
Other operating income	5	**247,143**	198,528
Administrative expenses		**(972,193)**	(1,091,871)
OPERATING LOSS		**(725,050)**	(893,343)
Loss on revaluation of investments	12, 13	**(1,121,815)**	(473,925)
Profit on disposal of investment		**-**	40,462
		(1,846,865)	(1,326,806)
Finance income	7	**91,362**	76,612
Finance costs	7	**(50,989)**	(50,475)
LOSS BEFORE INCOME TAX	8	**(1,806,492)**	(1,300,669)
Income tax	9	**-**	-
LOSS AFTER INCOME TAX		**(1,806,492)**	(1,300,669)
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,806,492)**	(1,300,669)
LOSS PER SHARE - BASIC AND DILUTED	10	**(2.10p)**	(2.12p)

Prospex Energy Plc (Registered number: 03896382)

Statement of Financial Position
31 December 2020

	Notes	2020 £	2019 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	**-**	-
Investments	12	**3,620,890**	3,998,388
Loans and other financial assets	13	**-**	1,048,978
Trade and other receivables	14	**989,645**	808,360
		4,610,535	5,855,726
CURRENT ASSETS			
Trade and other receivables	14	**917,058**	416,777
Cash and cash equivalents	15	**220,618**	69,387
		1,137,676	486,164
TOTAL ASSETS		**5,748,211**	6,341,890
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	**7,035,589**	6,435,587
Share premium		**10,185,819**	10,095,358
Merger reserve		**2,416,667**	2,416,667
Capital redemption reserve		**43,333**	43,333
Retained earnings		**(14,965,030)**	(13,260,713)
TOTAL EQUITY		**4,716,378**	5,730,232
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**579,998**	386,523
CURRENT LIABILITIES			
Trade and other payables	17	**164,262**	96,294
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**287,573**	128,841
		451,835	225,135
TOTAL LIABILITIES		**1,031,833**	611,658
TOTAL EQUITY AND LIABILITIES		**5,748,211**	6,341,890

The financial statements were approved by the Board of Directors and authorised for issue on 24 June 2021 and were signed on its behalf by:

E R Dawson
Director

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital	Share premium	Merger reserve	Capital redemption reserve	Retained earnings	Total
	£	£	£	£	£	£
Balance at 1 January 2019	6,035,587	9,756,759	2,416,667	43,333	(11,955,212)	6,297,134
Changes in equity						
Profit for the year	-	-	-	-	(1,300,669)	(1,300,669)
Issue of shares	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
Changes in equity						
Loss for the year	-	-	-	-	(1,806,492)	(1,806,492)
Issue of shares	600,002	119,998	-	-	-	720,000
Costs of shares issued	-	(29,537)	-	-	-	(29,537)
Lapse of share options	-	-	-	-	-	-
Equity-settled share-based payments	-	-	-	-	102,175	102,175
Balance at 31 December 2020	**7,035,589**	**10,185,819**	**2,416,667**	**43,333**	**(14,965,030)**	**4,716,378**

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 2020

	Notes	2020 £	2019 £
Cash outflow from operations	1	**(1,106,861)**	(776,978)
Cash flows from investing activities			
Proceeds from sale of investments		**-**	119,014
Interest paid		**(51,664)**	-
Net cash outflow from investing activities		**(51,664)**	119,014
Cash flows from financing activities			
New loan notes		**265,000**	-
Bank loan		**49,632**	
Loan repayment/(payments)		**304,661**	(239,554)
Share issue		**720,000**	800,000
Costs of shares issued		**(29,537)**	(66,233)
Net cash inflow from financing activities		**1,309,756**	494,213
Increase/(decrease) in cash and cash equivalents		**151,231**	(163,751)
Cash and cash equivalents at beginning of year	2	**69,387**	233,138
Cash and cash equivalents at end of year	2	**220,618**	69,387

Notes to the Statement of Cash Flows
for the year ended 31 December 2020

1. **RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS**

	2020	2019
	£	£
Cash flows from operations		
Loss before income tax	**(1,806,492)**	(1,300,669)
Loss on revaluation of fixed asset investments	**377,498**	270,220
Profit on sale of investments	**-**	(40,462)
Provision against loan to subsidiary undertaking	**744,317**	203,705
Finance income	**(91,362)**	(76,612)
Finance costs	**50,989**	50,475
Operating loss	**(725,050)**	(893,343)
(Increase)/decrease in trade and other receivables	**(590,204)**	105,929
Increase in trade and other payables	**67,968**	10,436
Equity settled share-based payments	**102,175**	-
Issue of loan note to settle liabilities	**38,250**	-
Net cash outflow from operations	**(1,106,861)**	(776,978)

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 2020	**31.12.20**	**01.01.20**
	£	**£**
Cash and cash equivalents	**220,618**	**69,387**

Year ended 31 December 2019	31.12.19	01.01.19
	£	£
Cash and cash equivalents	69,387	233,138

1. STATUTORY INFORMATION

Prospex Energy 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's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the year ended 31 December 2020 and as applied in accordance with the provisions of the Companies Act 2006.

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 £725,050. These losses are expected to continue in the current accounting year to 31 December 2021.

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 24, since the year end, the Company has raised £750,000 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 during 2020. 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.

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 first quarter of 2022. 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.

2. **ACCOUNTING POLICIES - continued**

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.

Government grants
Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

2. **ACCOUNTING POLICIES - continued**

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 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Amendments - Interest Rate Benchmark Reform - Phase 2	01/01/2021
IFRS 1	Amendments - First-Time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter	01/01/2022
IFRS 9	Amendment - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities	01/01/2022
IFRS 16	Leases - Lease incentives	01/01/2022
IAS 41	Agriculture - Taxation in fair value measurements.	01/01/2022
IAS 16	Amendments - Property, Plant and Equipment - Proceeds before Intended Use	01/01/2022
IFRS 3	Amendments - Reference to the Conceptual Framework	01/01/2022
IAS 37	Onerous Contracts - Cost of Fulfilling a Contract	01/01/2022
IFRS 17	Insurance contracts	01/01/2023
IFRS 4	Amendments - Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	01/01/2023
IAS 1	Amendment - Correction of Liabilities as Current and Non-Current	01/01/2023

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:

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

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

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 Energy 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 Energy 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 2020. 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 2020 as shown on the Statement of Financial Position all relate to the Investment activity.

5. OTHER OPERATING INCOME

	2020	2019
	£	£
Consultancy fees	**128,275**	198,528
Government grants	**118,868**	-
	247,143	198,528

6. EMPLOYEES AND DIRECTORS

	2020	2019
	£	£
Wages and salaries	**397,150**	427,683
Social security costs	**42,693**	44,360
Other pension costs	**22,711**	20,240
Share-based payments	**102,175**	-
	564,729	492,283

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

	2020	2019
	Number	Number
Directors	**4**	4
Staff	**4**	3
	8	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 (2019: £nil).

Details of Directors' remuneration can be found in note 23.

7. NET FINANCE COSTS

	2020	2019
	£	£
Finance income		
Interest receivable on group loan	**91,362**	76,612
Finance costs		
Loan interest payable	**50,969**	50,475
Interest on overdue tax	**20**	-
	50,989	50,475
Net finance income	**40,373**	26,137

8. LOSS BEFORE INCOME TAX

The loss before income tax is stated after charging:

	2020	2019
	£	£
Other operating leases	**93,913**	101,427
Auditors remuneration	**24,060**	27,030
Foreign exchange differences	**287**	36,434

9. **INCOME TAX**

Analysis of tax expense
No liability to UK corporation tax arose for the year ended 31 December 2020 nor for the year ended 31 December 2019.

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

	2020	2019
	£	£
Factors affecting the tax charge for the year:		
Loss before income tax	**(1,806,492)**	(1,300,669)
Loss before income tax multiplied by effective rate of UK corporation tax of 19.00% (2019: 19.00%)	**(343,233)**	(247,127)
Effects of		
Non-deductible expenses	**19,289**	5,710
Losses used for group relief	**-**	35,512
Tax losses not utilised	**110,799**	123,547
Unrealised chargeable losses	**213,145**	90,046
Profit on sale of investments	**-**	(7,688)
	343,233	247,127
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 £1.3m (2019: £1.2m) arising from the accumulated tax losses of approximately £6.9m (2019: £6.4m) carried forward has not been recognised but may become recoverable against future trading profits.

10. **LOSS PER SHARE**

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

	2020	2019
	£	£
Basic:		
Loss for the financial period	**(1,806,492)**	(1,300,669)
Weighted average number of shares*	**85,855,239**	61,475,232
Loss per share	**(2.10p)**	(2.12p)

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 22) would have the effect of reducing the loss per share and would therefore not be dilutive under IAS 33 'Earnings per Share'.

*The comparative weighted average number of shares for 2019 has been adjusted to account for the share reorganisation which was effected during the year whereby 1 new ordinary share of 0.1p each was issued in exchange for 25 existing ordinary shares of 0.1p each (note 16).

11. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment
	£
COST	
At 1 January 2019 and 2020	1,699
At 31 December 2019 and 2020	**1,699**
DEPRECIATION	
At 1 January 2019 and 2020	1,699
At 31 December 2019 and 2020	**1,699**
NET BOOK VALUE	
At 31 December 2020	**-**
At 31 December 2019	-

12. INVESTMENTS

	Shares in group undertakings	Listed investments	Unlisted investments	Total
	£	£	£	£
COST				
At 1 January 2019	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
Revaluations	(377,498)	-	-	(377,498)
At 31 December 2020	**3,570,890**	**-**	**50,000**	**3,620,890**

During the year, the company’s wholly owned subsidiary undertaking, PXOG County Limited was struck off the register at Companies House.

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

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

Class of shares:	% holding
Ordinary	100.00

	2020	2019
	£	£
Aggregate capital and reserves	**722,784**	(203,705)
Profit/(loss) for the year	**926,489**	(788,799)

In August 2020, Prospex signed a sale and purchase agreement ('SPA') with H2Oil Limited ('H2Oil') regarding the sale of the entire issued share capital of PXOG Massey Limited ('Massey'). Under the terms of the SPA, the Company will receive up to £215,000 in cash in respect of historical debt owed to the Company by Massey and nominal consideration for shares in Massey of which 85% of the funds (£182,650) had been received by Prospex by 31 December 2020. As at the balance sheet date, the conditions of the SPA had not been met.

12. **INVESTMENTS - continued**

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

	%
Class of shares:	holding
Ordinary	100.00

	2020	2019
	£	£
Aggregate capital and reserves	**3,570,790**	3,948,287
(Loss)/profit for the year	**(377,497)**	340,073

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

	%
Class of shares:	holding
Ordinary	100.00

	2020	2019
	£	£
Aggregate capital and reserves	**30,237**	(17,751)
Profit/(loss) for the year	**47,988**	(17,338)

The registered office of the Company’s subsidiaries incorporated in the UK is Stonebridge House, Chelmsford Road, Hatfield Heath, Essex CM22 7BD.

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
Impairment	(203,705)
At 31 December 2019	1,048,978
Repayment	(304,661)
Impairment	(744,317)
At 31 December 2020	**-**

In August 2020, Prospex signed a sale and purchase agreement ('SPA') with H2Oil Limited ('H2Oil') regarding the sale of the entire issued share capital of PXOG Massey Limited ('Massey'). Under the terms of the SPA, the Company will receive up to £215,000 in cash in respect of historical debt owed to the Company by Massey and nominal consideration for shares in Massey of which 85% of the funds (£182,650) had been received by Prospex by 31 December 2020. As a consequence, the loan balance has been fully impaired.

14. TRADE AND OTHER RECEIVABLES

	2020	2019
	£	£
Current:		
Trade debtors	**6,425**	2,173
Amounts owed by group undertakings	**773,345**	360,988
Other debtors	**113,448**	27,151
Rent deposit	**10,736**	10,736
VAT	**11,787**	7,604
Prepayments and accrued income	**1,317**	8,125
	917,058	416,777
Non-current:		
Amounts owed by group undertakings	**989,645**	808,360
Aggregate amounts	**1,906,703**	1,225,137

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

	2020	2019
	£	£
Bank accounts	**220,618**	69,387

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

	2020 **Number**	2019 Number	**2020** **£**	2020 £
Allotted, called up and fully paid				
Ordinary shares of 0.1p each - new	**88,543,800**	-	**88,544**	-
Ordinary shares of 0.1p each - existing	**-**	1,613,593,136	**-**	1,613,593
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
Deferred shares of £4.80 each	**442,719**	-	**2,125,051**	-
			7,035,589	6,435,587

Share issue
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 net proceeds of the Placing were primarily 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.

Capital reorganisation
In June 2020, a Share Capital Reorganisation was effected:

- 5,000 Existing Ordinary Shares were consolidated into one Consolidation Share.
- Immediately following the Consolidation, each Consolidation Share was subdivided into 200 Ordinary Shares of 0.1p each and 1 New C Deferred Share of £4.80 each.

The effective share consolidation ratio was 1 New Ordinary Share and 1 New C Deferred Share for every 25 Existing Ordinary Shares held.

Deferred shares rights
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

	2020 **£**	2019 £
Current:		
Trade creditors	**25,420**	22,603
Social security and other taxes	**87,891**	14,740
Accruals and deferred income	**50,951**	58,951
	164,262	96,294

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

18. FINANCIAL LIABILITIES - BORROWINGS

	2020	2019
	£	£
Current:		
Bank loan	**5,473**	-
Unsecured loan notes	**282,100**	128,841
	287,573	128,841

	2020	2019
	£	£
Non-current:		
Bank loan	**44,159**	-
Unsecured loan notes	**535,839**	386,523
	579.998	386,523

Terms and debt repayment schedule:

	1 year or less	1-2 years	2-5 years	More than 5 years	Total
	£	£	£	£	£
Bank loan	5,473	9,576	30,206	4,377	49,632
Unsecured loan notes	282,100	535,839	-	-	817,939
	287,573	545,415	30,206	4,377	867,571

Bounce-back bank loan
The Company borrowed £49,632 from its bank under the Government Bounce Back Loan Scheme, created to assist businesses during the Covid-19 Pandemic. The Company does not have to pay interest in relation to the first 12 months from the date on which the loan is drawn. After the 12-month initial period the Company will repay the loan in 60 equal instalments and interest will be charged at 2.5% per annum.

2018 Loan note
During 2018, the Company raised £480,000 via the issue of unsecured Loan Notes ('2018 Notes') to new and existing investors ('the Subscribers'). In addition, the Subscribers were issued warrants which lapsed during 2020 (note 23).

The 2018 Notes pay 10% interest biannually. Repayments of capital was started in December 2020 with final repayment on 30 June 2022 (four equal payments). See below for details of capital rolled into 2020 Loan note.

2020 Loan note
In December 2020, the Company raised £265,000 via the issue of unsecured convertible loan notes ('2020 Notes"), with denomination of £1, the net proceeds of which will be used for general working capital purposes.

The 2020 Notes pay 10% interest per annum with the first six monthly payment due in June 2021.The term of the 2020 Notes is 18 months with capital repayment of unconverted amounts due on 30 June 2022. The 2020 Notes grant the subscribers the right but not the obligation to convert the loan, on notice, into new ordinary shares in the Company each at 2.05 pence per share. The Company can elect at any time to repay the 2020 Notes early in cash.

In addition, certain holders of the Company's 2018 Notes agreed to rollover the partial capital repayment due in December 2020 into the 2020 Notes. Under the 2018 Notes instrument, holders are entitled to 25% of the outstanding capital returned in December 2020. Holders of £112,588 of the 2018 Notes elected to roll into the 2020 Notes.

A further £38,250 of the 2020 Notes have been issued to certain Directors and staff in settlement of deferred stipends and salaries as a result of the COVID-19 pandemic.

A total of £415,838 of the 2020 Notes has therefore been issued to the subscribers, each of whom were also issued with 44.4444 warrants ('the Warrants') for each £1 of the 2020 Note subscribed. A total of 18,481,694 Warrants have been issued to the subscribers. Each Warrant confers to the subscriber the right to acquire one Ordinary Share of 0.1p each at 2.25p, Save for certain events triggering an earlier expiry, including 5 consecutive days of the ordinary shares closing above 3.375p the Warrants will expire in December 2022.

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:

Financial assets measured at amortised costs:	2020 £	2019 £
Trade and other receivables	**143,713**	55,789
Cash and cash equivalents	**220,618**	69,387
Amounts owing from group undertakings	**1,762,990**	2,218,326
	2,127,321	2,343,502

Financial liabilities measured at amortised costs:	2020 £	2019 £
Bank loans	**49,632**	-
Unsecured loan notes	**817,939**	515,364
Trade and other payables	**164,262**	96,294
Total financial liabilities	**1,031,833**	611,658

Financial assets at fair value through profit or loss
Financial instruments that are measured at fair value are classified using a fair value hierarchy that reflects the source of inputs used in deriving the fair value. The three classification levels are:
– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

The following table presents the Company’s assets carried at fair value by valuation method:

	Fair value measurement		
	Level 1 **£**	**Level 2** **£**	**Level 3** **£**
At 31 December 2020	**-**	**-**	**3,620,890**
At 31 December 2019	-	-	3,998,388

The financial assets at fair value through profit and loss are the Company's holdings in subsidiary undertakings and one unquoted security and within Level 3 of the fair value hierarchy.

The fair value is determined to be equal to the cost of the investment and is reviewed periodically based on information available about the performance of the underlying business. Where cost is deemed to be inappropriate, the following table shows the valuation technique used in measuring Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used. The only method used is that of NPV.

19. **FINANCIAL INSTRUMENTS - continued**

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
NPV - The valuation model considers the present value of expected receipts, discounted using a risk-adjusted discount rate. The expected receipt is determined by considering the possible scenarios of forecast revenue and gas prices, the amount to be received under each scenario and the probability of each scenario.	Forecast annual revenue growth rate Forecast gas prices Risk-adjusted discount rate	The estimated fair value would increase (decrease) if: – the annual revenue growth rate were higher (lower); – the gas prices were higher (lower); or – the risk-adjusted discount rate were lower (higher). Generally, a change in the any of the above variables would be accompanied by a directionally similar change in revenue receipts and a consequential change in the valuation of the investment

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

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

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

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

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

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

Foreign currency exposure
At 31 December 2020, the Company’s monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Company, other than €995 (£850) 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 £94 gain or £78 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 £948,022 (2019: £1,252,683) due from PXOG Massey Limited, the company's wholly owned subsidiary. Included in trade and other payables is an amount of £nil (2019: £4,500) due to PXOG Massey Limited. At the year end, a provision of £948,022 (2019: £203,705) was made against this balance (note 12).

Included in trade and other receivables is an amount of £987,023 (2019: £808,360) due from PXOG Marshall Limited, the company's wholly owned subsidiary. Interest receivable of £91,362 (2019: £76,612) has been accounted for in the Statement of Profit or Loss.

Included in trade and other receivables is an amount of £773,345 (2019: £360,988) due from PXOG Muirhill Limited, the company's wholly owned subsidiary.

During the year, there were consultancy fees of £(11,250) (2019: £15,000) and £2,150 (2019: £10,800) charged by Sallork Limited and Sallork Legal and Commercial Consulting Limited ("Sallork") respectively. Included in trade payables at the year-end is £nil (2019: £1,606) owing to Sallork Limited. 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 2020.

	2020	2019
	£	£
Edward Dawson	**9,184**	-
William Smith	**-**	9,019

At the balance sheet date, the Directors had the following interests in the unsecured loan notes (note 18):

	2020	2019
	£	£
Richard Mays	**53,613**	50,000
William Smith	**67,113**	50,000
James Smith	**41,807**	25,000

21. ULTIMATE CONTROLLING PARTY

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

22. SHARE-BASED PAYMENT TRANSACTIONS

The number of shares and the share prices shown in this note take account of the share capital reorganisation that was effected in 2020 (note 16). As a consequence, the comparative figures for 2019 have been adjusted on the basis of 1 new ordinary share of 0.1p each being issued for 25 existing ordinary shares of 0.1p each.

Share options
At 31 December 2019 and 31 December 2020 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:

	Number of shares	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
2020			
Brought forward	**2,964,530**	**1.04**	**17.11**
Granted during the year	**5,705,060**		**4.00**
Lapsed during the year	**(2,849,046)**		**(13.00)**
Carried forward	**5,820,544**	**2.46**	**6.27**

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

2019	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	3,793,668	1.76	18.57
Lapsed during the year	(829,138)		(23.77)
Carried forward	2,964,530	1.04	17.11

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

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

	Options	**Number**	**Expiry date**	**Exercise price**	**Fair value at grant date**
1	Granted 30 April 2012	1,600	30/04/2022	3,125.00p	1,183.40p
2	Granted 16 April 2015	113,884	15/04/2025	76.25p	1.94p
3	Granted 1 June 2020	5,705,060	01/06/2023	4.00p	1.79p

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 (years)**	**Risk-free interest rate**
1	Granted 30 April 2012	4,375.00p	3,125.00p	32.00%	3.50	0.24%-0.43%
2	Granted 16 April 2015	100.00p	76.25p	71.50%	3.00	0.71%
3	Granted 1 June 2020	2.75p	4.00p	163.60%	3.00	0.64%

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.

All of the share options are equity settled and the charge for the year is £102,175 (2019: £nil).

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

Warrants

At 31 December 2019 and 31 December 2020, 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.

2020	**Number of shares**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**1,381,000**	**1.12**	**13.82**
Granted during the year	**18,481,694**	**2.00**	**2.25**
Lapsed during the year	**(1,056,000)**		**(15.00)**
Carried forward	**18,806,694**	**1.97**	**2.38**

2019	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	1,396,000	1.39	18.96
Granted during the year	325,000	3.00	10.00
Lapsed during the year	(340,000)		(31.25)
Carried forward	1,381,000	1.12	13.82

All warrants were exercisable at the year end.

The following warrants were in existence at the year end.

	Warrants	**Number**	**Expiry date**	**Exercise price**	**Fair value at grant date**
1	Granted 18 March 2019	325,000	18/03/2022	10.00p	1.63p
2	Granted 24 December 2020	18,481,694	24/12/2022	2.25p	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:

The warrants granted on 24 December 2020 fall outside the scope of IFRS and as such no charge is made.

23. 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.

	2020	2019
	£	£
Salaries and other short-term employee benefits	**182,700**	185,200
Post-employment benefits	**16,900**	14,300
Share-based payment	**67,222**	-
	266,822	199,500

	Salaries and fees	Benefits in kind	Pension contributions	Share-based payment	**2020**	2019
	£	£	£	£	**£**	£
Edward Dawson	130,000	4,200	16,900	23,662	**174,762**	148,500
Richard Mays	15,000	-	-	14,520	**29,520**	15,000
William Smith	18,000	-	-	14,520	**32,520**	18,000
James Smith	15,500	-	-	14,520	**30,020**	18,000
	178,500	4,200	16,900	67,222	**266,822**	199,500

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2019: 1).

The Directors interests in share options as at 31 December 2020 are as follows:

Director	**Number of shares**	**Exercise price**	**Date of grant**	**First date of exercise**	**Final date of exercise**
Edward Dawson	27,208	76.25p	14/04/2015	14/04/2015	14/04/2025
Edward Dawson	1,321,171	4.00p	01/06/2020	01/06/2020	01/06/2023
	1,348,379				
Richard Mays	21,669	76.25p	14/04/2015	14/04/2015	14/04/2025
Richard Mays	810,719	4.00p	01/06/2020	01/06/2020	01/06/2023
	832,388				
William Smith	21,669	76.25p	14/04/2015	14/04/2015	14/04/2025
William Smith	810,719	4.00p	01/06/2020	01/06/2020	01/06/2023
	832,388				
James Smith	810,719	4.00p	01/06/2020	01/06/2020	01/06/2023

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 2020 are as follows:

Director	**Number of share**	**Exercise price**	**Date of grant**	**First date of exercise**	**Final date of exercise**
Richard Mays	595,705	2.25p	24/12/2020	24/12/2020	24/12/2023
William Smith	1,195,705	2.25p	24/12/2020	24/12/2020	24/12/2023
James Smith	964,519	2.25p	24/12/2020	24/12/2020	24/12/2023

24. **EVENTS AFTER THE REPORTING PERIOD**

In March 2021, the Company raised £750,000 before expenses by way of a placing of 50,000,000 new ordinary shares of £0.001 each in the Company at a price of 1.50 pence per share. Warrants were also be issued to Placing subscribers, on the basis of one warrant per two Placing Shares subscribed for, with an exercise price of 3p, and a term of two years from Admission.

The net proceeds of the placing will primarily be used to fund planned programmes at the El Romeral integrated gas production and power station operation in southern Spain ('El Romeral'), and the Podere Gallina licence onshore Italy where first gas at the Selva field is expected to commence in 2022, subject to the granting of a production concession. The balance of the net proceeds will be used for general working capital purposes, including the evaluation of new business opportunities.