REGISTERED NUMBER: 03896382 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2021

for

Prospex Energy Plc

Contents of the Financial Statements
for the year ended 31 December 2021

Prospex Energy Plc

Company Information
for the year ended 31 December 2021

DIRECTORS:	M C Routh Dr. R P Mays W H Smith A I Buchanan
SECRETARY:	B Harber
REGISTERED OFFICE:	60 Gracechurch Street London EC3V 0HR
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 2021

The 2021 financial year saw significant changes to Prospex Energy.

On 1 March 2021, Tarba Energía S.l. (‘Tarba’), the joint venture vehicle in which Prospex, via its wholly owned subsidiary PXOG Muirhill Ltd, holds its Spanish investments, completed the acquisition of the El Romeral gas producing licenses and gas to power plant near Carmona in southern Spain, thus transitioning from an exploration company to a significant gas producing, electricity generating and therefore an income generating company. The El Romeral asset produces gas for a power station selling electricity into the Spanish grid. Following much preparation, the plant and its employees seamlessly transferred over to Tarba, production hours were increased, and all operations have been without incident. Tarba, with collaboration from its shareholders has continued to review operations, both above and below ground at El Romeral. Two of the three generators at the power plant currently operate alternately, and work is planned to recommission the third generator in preparation for increased gas production expected from the future infill well drilling campaign. The permitting process for the El Romeral infill wells is underway with applications having been submitted, however there is no defined timeline for the government to respond. Tarba and its shareholders continue to actively progress this.

In March 2021, the Selva field joint venture in Italy, held by Prospex via its wholly owned subsidiary PXOG Marshall Ltd, received the full environmental approval from Italy’s Ecological Transition Ministry for production development at the Selva field with the final Environmental Impact Assessment (‘EIA’) decree. This paved the way for the grant of a full production licence from Italy's Economic Development Ministry. The Operator, Po Valley Energy Limited, continues to pursue the various strands that support its application for a full production licence for Selva which is currently expected in the second quarter of 2022. This includes applying for an INTESA (intergovernmental agreement) between the regional and national governments, which is a standard development procedure for onshore gas fields in Italy.

Prior to Spain's Act on Climate Change and Energy Transition (7/2021) coming into force on 22 May 2021, Tarba submitted an application to convert the vast majority of the existing Tesorillo Project exploration permit into an exploitation concession. This application was submitted to the MITECO on 12 May 2021 together with a field development plan for approval. The outcome of this application will not be known for some time. Whilst the new act states that no new hydrocarbon permits or licences will be granted in Spain, it specifically excluded existing permits. It has been confirmed that applications from existing permits prior to the Climate Change Act coming into force maintain their validity under the new law. The El Romeral exploitation concessions at which Tarba operates its gas to power plant are in force and are unaffected by the Climate Change Act.

The Tarba team continues to liaise with various government agencies to progress drilling and environmental approvals for both El Romeral and Tesorillo. Tarba is targeting conventional sandstone gas reservoirs. There are no financial or drilling commitments attached to the Tesorillo Project Exploitation Concession application and, pending the decision by the regulators, no work is scheduled and the existing Tesorillo permit remains suspended.

In July 2021, Mark Routh was appointed as Prospex Energy's new CEO and director following votes received at the AGM to make changes to the Board of Directors.

In August 2021, Alasdair Buchanan was appointed as a non-executive director.

On 8 August 2021, Prospex agreed to purchase an additional 20% of the Selva field in Italy from United Oil & Gas plc, increasing Prospex’s share of the Selva joint venture from 17% to 37%. (The acquisition was completed on 8 April 2022.)

An Extraordinary General Meeting was convened on 5 October 2021 at the request of a group of shareholders proposing the replacement of the entire Board of Directors. Shareholders voted to support the current Board of Directors by 59% versus 41% of the votes cast. Subsequently the CEO has increased communications with all shareholders and the Board believes there is improved alignment on objectives and strategy of the Company going forward.

In October 2021, Tarba undertook field work including workovers and a data acquisition campaign executed on three of the El Romeral gas wells.

In December 2021, in Italy, a seismic and subsidence monitoring programme commenced at the Selva field in order to comply with the requirement to complete a full 12 months of monitoring before gas production may commence. This monitoring programme will be completed by December 2022.

In December 2021, Tarba completed a plant optimisation and automation project at El Romeral to allow remote monitoring and control of the plant, allowing reduced manual intervention and providing the ability to run the plant 24 hours a day 7 days a week. Further studies have been conducted and, at the date hereof, the plant is running 24 hours a day 7 days a week.

Chairman's Report - continued
for the year ended 31 December 2021

Also in December 2021, Tarba re-paid €300,000 of its El Romeral loan to its shareholders Prospex and Warrego (Net proceeds to PXEN €149,700). The remaining balance of this loan and interest was subsequently repaid on 28 April 2022 (Net to PXEN €144,499 plus interest)

Financial Review

For the year ended 31 December 2021, the Company is reporting Total Assets of £8,984,437 (2020: £5,748,211), the value of which largely comprises the Company's investment in PXOG Marshall Ltd, the vehicle for the Company's Italian assets. The 56% increase is dominated by a revaluation reflecting measured recognition of positive changes in the forward curve of European gas prices at 31 December 2021 and includes revaluations of the Company's investments ('the Investments') as well as repayments and advances on loans receivable from those investments. Unrealised gains arising on revaluation of Investments at fair value amounted to £3,076,415 (2020: unrealised loss £1,121,815).

In March 2021, the Company raised £750,000 gross via an oversubscribed placing primarily to fund the planned programmes at El Romeral and the Podere Gallina licence.

In June 2021, the Company refinanced 83% of its outstanding 2018 Loan Notes. £321,681 of the then £386,017 outstanding loan notes were rolled over into the 2021 Loan note instrument, whilst increasing the interest rate to 12% the repayment dates have been extended by 18 months. At the time of issue in 2018, the repayment obligation was based on what was then the anticipated commencement of gas production at Selva, which has been delayed by a number of uncontrollable factors, but with the recent progress made by the Operator, is now anticipated to take place in Q2 2023.

As at 31 December 2021, the fair value of the Company's investments stood at £6,697,305 (2020: £3,620,890). The combined value of these equity investments, current and non-current loans is £8,726,484 (2020: £5,383,880). The current year figures include a non-refundable deposit of 5% of the purchase consideration for United Oil and Gas plc’s 20% interest in the Selva field in Italy (the acquisition was completed subsequent to year-end). The Company continues to have significant asset backing relative to its market capitalisation.

Administrative expenses for the full year totalled £891,676, an 8% reduction from 2020’s £972,193, as management took steps to reduce the Company's cost base.

As at 31 December 2021, the Company held cash and cash equivalents of £220,060 (2020: £220,618).

Post period end, in February 2022, the Company raised £2.455 million (before expenses) by way of a placing of 70,137,143 new ordinary shares of 0.1p each in the Company at a price of 3.50 pence per share. The net proceeds of the placing have been used to complete the acquisition of 20% of the Selva Field in Italy, increasing the Company’s ownership from 17% to 37%, and to contribute towards the funding of the Selva development and general working capital requirements. All directors participated in the placing.

Outlook

With the current shortage of gas across Europe, markets have experienced historically high gas and electricity prices. The Prospex Board recognises that energy prices seen since the end of 2021 are not sustainable in the long term, so, whilst benefiting from the increased demand and pricing, Prospex has continued to apply a conservative approach when looking at forward energy prices in the valuation of its assets.

In the current environment, governments are rightly taking steps to find alternative energy sources, improve energy security and reduce energy costs to end consumers. Prospex is well positioned to contribute positively in all these areas. To put this in context, local indigenous onshore gas production in Spain has a carbon footprint which is ten times lower than the importation of LNG from the USA, and at a substantially lower delivered cost. With this in mind, Prospex intends to grow its gas production assets and simultaneously become a model for the energy transition process.

Prospex supports the drive to renewable energy and is actively pursuing ways of developing these sources. However, we also recognise that natural gas will be required to contribute to the energy mix during the transitional period, and that local indigenous onshore gas is the optimum source to meet this need. With the strength of our team and our assets, Prospex is well positioned to grow its business into these market opportunities.

The outlook for Prospex is one of consolidation and growth. With Selva expected to commence production in Q2-2023 and with the application process now commenced for a multi-well drilling programme at El Romeral, potentially in 2023, the year ahead promises to see major progress. I look forward to providing further updates as developments occur.

Chairman's Report - continued
for the year ended 31 December 2021

Following the Annual General Meeting of shareholders in July 2021, the team leading your Company included Mark Routh as CEO and a director and Alasdair Buchanan as a non-executive director. These two individuals bring a significant depth of experience to the Board and management and have a thorough understanding of the existing assets and joint venture partners as well as bringing skills and experience to implementing new opportunities. Ed Dawson, former Managing Director and a founder of the Company was instrumental in building the asset base of the Company in Italy and Spain. James Smith, a former non-executive director, contributed technical strength and governance experience to the Board. I would like to extend my thanks to Ed and James for the considerable work they put in to establishing the strong platform for growth that Prospex enjoys today.

Finally, I would like to thank the Board and management team for their continued hard work, commitment and support.

Bill Smith

Bill Smith
Non-executive Chairman
19 May 2022

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 recognised. We believe that the governance practices at Prospex are aligned with the ten principles of good governance set out in the Code, but where there are variations, this report will explain the differences. Some elements of the reporting are found in the Annual Reports of the Company sent to all shareholders and others on the Company's website (www.prospex.energy) with a full index to reporting found on the website.

As non-executive Chair, Bill Smith has 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 recognises 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 regulatory 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 information sharing 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 new service (RNS) and the website is update accordingly. In addition, direct access for shareholders to the management and Board through email and electronic meetings has increased. Updated investor presentations, investor meetings and investor conference attendance are opportunities for investor commentary, as are informal communications. The Chief Executive Officer, Mark Routh, 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 and the Company is not the formal joint venture operator in any of its investments at this time but maintains active engagement with the Operator. The Company mitigates its risks through careful opportunity review and modelling, thorough due diligence, pursuing investments 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 formalising learnings from success and opportunities for improvement. No significant expenditure is authorised without formal Board review, either in an annual budget or on a case-by-case basis for larger projects. Joint venture partners and key suppliers are subject to extensive review for experience, integrity and ability, not simply on a low-cost basis

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 frequently, 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. Alasdair Buchanan is the Non-Executive Director that is considered independent as recommended by the QCA Code.

Principle 6 - Ensure that between them the directors have the necessary up to date experience, skills and capabilities.
The Board discusses its own performance, responds to the stakeholders as appropriate and recruits 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 roles in 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 organisation that integrity is a cornerstone of the Company, and no unethical behaviour will be tolerated. As the Company grows, this ethos will be maintained with enhancement through formal policies. Internal financial controls in place are appropriate for a company the size and complexity of Prospex but will be added to as the business grows.

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

Principle 10 - Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.
The website is the main repository of information about the Company's current activity in each project area and also includes the current and past Annual Reports which describe the work of the Company and the Board. With the adoption of the QCA Code, future Annual Reports will include a summary of the activity of the main committees including the Audit Committee and the Remuneration Committee. Any interested party seeking more information or to express a view is invited to contact the CEO or the Chair directly using the contact information contained on the website and access for shareholders to the management and Board through email and electronic meetings has increased.

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.

Prospex Energy Plc

Strategic Report
for the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

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 hydrocarbon 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 £891,676 (2020: £972,193)
- unrealised gains (2020: losses) arising on financial assets at fair value through profit or loss was £3,076,415 (2020: £1,121,815)
- net profit after taxation from continuing operations was £2,259,796 (2020 loss: £1,806,492)
- as at 31 December 2021, the Company had cash and cash equivalents of £220,060 (2020: £220,618)

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 presented exceptional challenges to the employees and the Company in 2021 and early 2022.

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 CEO and the Company's partners and some of the non-executive directors also 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 communicates 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 recognises its responsibility for setting and maintaining a high standard of behaviour and business conduct. There is no special treatment for any group of shareholders and all material information is disseminated through appropriate channels and available to all through 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, regulatory regimes 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
Governmental regulations and the timing of responses to applications for activities may delay corporate activity	The Company maintains current knowledge of evolving regulatory requirements and maintains positive engagement with regulators, respecting environmental protection, worker safety and energy transition

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
The Company may not be able to raise funds to exploit its assets or continue as a going concern	Management continuously explores creative funding styles and 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

ON BEHALF OF THE BOARD:

Mark Routh
Director

Date: 19 May 2022

Prospex Energy Plc

Report of the Directors
for the year ended 31 December 2021

The directors present their report and financial statements for the year ended 31 December 2021.

DIVIDENDS
No dividends will be distributed for the year ended 31 December 2021.

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 note 25 to the financial statements.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2021 to the date of this report.

Dr. R P Mays
W H Smith

Other changes in directors holding office are as follows:

M C Routh – appointed 27 July 2021
A I Buchanan – appointed 27 August 2021
E R Dawson – resigned 27 July 2021
J N Smith – resigned 27 July 2021

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

	2021 No. of shares	2020 No. of shares
Mark Routh – appointed 27/07/2021	**-**	-
Edward Dawson – resigned 27/07/2021	**-**	2,210,743
Richard Mays	**1,361,927**	112,400
William Smith	**5,206,797**	1,698,733
James Smith – resigned 27/07/2021	**-**	1,733,200
Alasdair Buchanan – appointed 27/08/2021	**2,000,000**	-

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

Share options	**2021 No. of shares**	2020 No. of shares
Mark Routh – appointed 27/07/2021	**-**	-
Edward Dawson – resigned 27/07/2021	**-**	1,348,379
Richard Mays	**832,388**	832,388
William Smith	**832,388**	832,388
James Smith – resigned 27/07/2021	**-**	810,719
Alasdair Buchanan – appointed 27/08/2021	**-**	-
	1,664,776	3,823,874

Share warrants	**2021 No. of shares**	2020 No. of shares
Mark Routh – appointed 27/07/2021	**-**	-
Edward Dawson – resigned 27/07/2021	**-**	-
Richard Mays	**-**	595,705
William Smith	**-**	1,195,705
James Smith – resigned 27/07/2021	**-**	964,519
Alasdair Buchanan – appointed 27/08/2021	**-**	-
	-	2,755,929

During the year, the director warrant-holders exercised their warrants in full, subscribing for the underlying shares at a price of 2.25p per share.

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

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

The Directors prepare annual budgets and cash flow projections that extend beyond 12 months from the date of this report. Further information is set out in note 2 to the financial statements.

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

SUBSTANTIAL SHAREHOLDINGS
The Company has been notified of the following voting rights as a shareholder of the company as at 19 May 2022:

	No. of ordinary shares	% of issued share capital
Colin Wilson	20,073,557	7.93%
Aidan O'Hara	17,425,000	6.88%
Simon Chanter	14,158,029	5.59%
James & Olga Simmons	13,200,000	5.21%
Ryan Mee	9,200,000	3.63%
James Smith	9,063,763	3.58%

The market value of the Company's shares at 31 December 2021 was 3.40p and the high and low share prices during the period were 4.25p and 1.43p 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:

Mark Routh

Mark Routh
Director

Date: 19 May 2022

Statement of Directors' Responsibilities
for the year ended 31 December 2021

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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 2021 which comprises 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 2021 and of its profit 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 £220,060 at 31 December 2021. In February 2022, the Company raised a further £2.455 million before expenses following the issue of new ordinary shares, which has been allocated to the acquisition of a further 20% of the Podere Gallina licence. Further funds would need to be raised to meet the Company’s objectives and plans

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 management's 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 had a 17% working interest in the Podere Gallina Exploration Permit in the Po Valley region of Italy, a proven play in a prolific hydrocarbon region. A total gain of £3,076,415 was recognised on this investment for the year ended 31 December 2021.

Management utilised an NPV model to calculate the increase in value of this investment as of the year ended 31 December 2021.

How our audit addressed the area of focus

We obtained a copy of the NPV model used, which was based on the 2019 CPR report to calculate the increase in valuation of investment.

We gained an understanding of the key assumptions and judgements underlying the model. We reviewed the NPV calculations provided considering the various scenarios 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 management's 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 S.L ('Tarba'). Management has retained the value of the investment at cost due to the stagnant year in 2021 in respect of Tesorillo and the work required to unlock the full potential of El Romeral.

Our application of materiality

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole.

Final materiality was set at £111,000 which is based on 1% of the Company's gross assets.

In our professional judgement, this benchmark is considered appropriate as it reflects the investment nature of the business, representing a key performance indicator for users of the financial statements in assessing the Company's financial performance.

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 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates and considered the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations which could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006 and UK tax legislation. Our tests included agreeing the financial statements disclosures to underlying supporting documentation, enquiries with management and enquiries of legal counsel. There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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

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

Use of our report

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

Adler Shine LLP

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: 19 May 2022

Prospex Energy Plc

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2021

	Notes	**2021** £	2020 £
CONTINUING OPERATIONS			
Other operating income	5	**86,604**	247,143
Administrative expenses		**(891,676)**	(972,193)
OPERATING LOSS		**(805,072)**	(725,050)
Gain/(loss) on revaluation of investments	12, 13	**3,076,415**	(1,121,815)
		2,271,343	(1,846,865)
Finance income	7	**109,618**	91,362
Finance costs	7	**(80,771)**	(50,989)
PROFIT/(LOSS) BEFORE INCOME TAX	8	**2,300,190**	(1,806,492)
Income tax	9	**(40,394)**	-
PROFIT/(LOSS) FOR THE YEAR		**2,259,796**	(1,806,492)
EARNINGS/(LOSS) PER SHARE	10		
Basic earnings/(loss) pence per share		**1.61p**	(2.10)p
Diluted earnings/(loss) pence per share		**1.61p**	(2.10)p

Prospex Energy Plc (Registered number: 03896382)

Statement of Financial Position
31 December 2021

	Notes	2021 £	2020 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	-	-
Investments	12	**6,697,305**	3,620,890
Loans and other financial assets	13	-	-
Trade and other receivables	14	**1,225,570**	989,645
		7,922,875	4,610,535
CURRENT ASSETS			
Trade and other receivables	14	**841,502**	917,058
Cash and cash equivalents	15	**220,060**	220,618
		1,061,562	1,137,676
TOTAL ASSETS		**8,984,437**	5,748,211
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	**7,124,355**	7,035,589
Share premium		**11,599,333**	10,185,819
Merger reserve		**2,416,667**	2,416,667
Capital redemption reserve		**43,333**	43,333
Fair value reserve		**6,067,267**	-
Retained earnings		**(18,748,005)**	(14,965,030)
TOTAL EQUITY		**8,502,950**	4,716,378
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**247,232**	579,998
Deferred taxation	19	**40,394**	-
		287,626	579,998
CURRENT LIABILITIES			
Trade and other payables	17	**52,892**	164,262
Financial liabilities - borrowings			
- Interest bearing loans and borrowings	18	**140,969**	287,573
		193,861	451,835
TOTAL LIABILITIES		**481,487**	1,031,833
TOTAL EQUITY AND LIABILITIES		**8,984,437**	5,748,211

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2022 and were signed on its behalf by:

Mark Routh

Mark Routh
Director

Prospex Energy Plc

Statement of Changes in Equity
for the year ended 31 December 2021

	Share capital	Share premium	Merger reserve	Capital redemption reserve	Fair value reserve	Retained earnings	Total
	£	£	£	£	£	£	£
Balance at 1 January 2020	6,435,587	10,095,358	2,416,667	43,333	-	(13,260,713)	5,730,232
Changes in equity							
Profit 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
Changes in equity							
Profit for the year	-	-	-	-	-	2,259,796	2,259,796
Issue of shares	88,766	1,492,910	-	-	-	-	1,581,676
Costs of shares issued	-	(54,900)	-	-	-	-	(54,900)
Lapse of share options	-	-	-	-	-	-	-
Equity-settled share-based payments	-	(24,496)	-	-	-	24,496	-
Transfer to fair value reserve	-	-	-	-	6,067,268	(6,067,268)	-
Balance at 31 December 2021	**7,124,355**	**11,599,333**	**2,416,667**	**43,333**	**6,067,268**	**(18,748,006)**	**8,502,950**

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 share 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

Fair value reserve - the cumulative fair value changes of the company's fixed asset investment, net of deferred tax

Prospex Energy Plc

Statement of Cash Flows
for the year ended 31 December 2021

	Notes	**2021**	2020
		£	£
Cash outflow from operations	1	**(941,242)**	(1,106,861)
Cash flows from investing activities			
Interest paid		**(106,722)**	(51,664)
Net cash outflow from investing activities		**(106,722)**	(51,664)
Cash flows from financing activities			
New loan notes		**-**	265,000
Bank loan (repayment)/receipt		**(7,238)**	49,632
Loan (payment)/repayments		**(56,294)**	304,661
Share issue		**1,165,838**	720,000
Costs of shares issued		**(54,900)**	(29,537)
Net cash inflow from financing activities		**1,047,406**	1,309,756
(Decrease)/increase in cash and cash equivalents		**(558)**	151,231
Cash and cash equivalents at beginning of year	2	**220,618**	69,387
Cash and cash equivalents at end of year	2	**220,060**	220,618

Non – Cash Movements
During the year £415,838 non-cash movements related to the conversion of loan notes to ordinary shares (note 12)

Notes to the Statement of Cash Flows
for the year ended 31 December 2021

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

	2021	2020
	£	£
Cash flows from operations		
Profit/(loss) before income tax	**2,300,190**	(1,806,492)
(Gain)/loss on revaluation of fixed asset investments	**(3,076,415)**	377,498
Provision against loan to subsidiary undertaking	**-**	744,317
Finance income	**(109,618)**	(91,362)
Finance costs	**80,771**	50,989
Operating loss	**(805,072)**	(725,050)
Increase in trade and other receivables	**(50,751)**	(590,204)
(Decrease)/increase in trade and other payables	**(85,419)**	67,968
Equity settled share-based payments	**-**	102,175
Issue of loan note to settle liabilities	**-**	38,250
Net cash outflow from operations	**(941,242)**	(1,106,861)

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 2021	**31.12.21**	**01.01.21**
	£	**£**
Cash and cash equivalents	**220,060**	**220,618**

Year ended 31 December 2020	31.12.20	01.01.20
	£	£
Cash and cash equivalents	220,618	69,387

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 2021 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
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 £805,072. These losses are expected to continue in the current accounting year to 31 December 2022.

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 25, since the year end, the Company has raised £2.455 million before expenses, through the issue of new ordinary shares. The net proceeds of which were used to complete the acquisition of a further 20% of the Podere Galina licence for total consideration of €2,164,701 and a working capital adjustment of €134,500. The board expects to continue to be able 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.

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 third quarter of 2022. The Company's asset in Spain is fully self-funding and is expected to have sufficient of its own cash resources to fund ongoing operations and development work until the end of 2023. Should the Italian asset be granted a production permit, then funding will need to be obtained to fund the development expenditure required prior to production commencing. 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;
- The capital redemption reserve arises on redemption of shares in previous years and own share reserve;
- Merger reserve represents the difference between the nominal value of the share capital issued by the Company and the fair value of the subsidiary at the date of acquisition;
- Fair value reserve represents the cumulative fair value changes of the company's fixed asset investment, net of deferred tax.

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 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 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
IAS 1, IFRS Practice Statement 2	Amendment - Disclosure of accounting policies	01/01/2023
IAS 8	Amendment - Definition of Accounting estimates	01/01/2023
IAS 12	Amendment - Deferred Taxation related to Assets and Liabilities arising from a Single Transaction	01/01/2023
IFRS 17, IFRS 9	Amendment - Comparative Information	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:

<u>Investment entities</u>

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

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

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

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

Impairment of assets
The Company'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 2021. 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 2021 as shown on the Statement of Financial Position all relate to the Investment activity.

5. OTHER OPERATING INCOME

	2021	2020
	£	£
Consultancy fees	**29,150**	128,275
Government grants	**57,454**	118,868
	86,604	247,143

6. EMPLOYEES AND DIRECTORS

	2021	2020
	£	£
Wages and salaries	**460,249**	397,150
Social security costs	**49,550**	42,693
Other pension costs	**21,395**	22,711
Costs of share-based payments	**-**	102,175
	531,194	564,729

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

	2021	2020
	Number	Number
Directors	**6**	4
Staff	**4**	4
	10	8

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 (2020: £nil).

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

7. NET FINANCE COSTS

	2021	2020
	£	£
Finance income		
Interest receivable on group loan	**109,618**	91,362
Finance costs		
Loan interest payable	**70,211**	50,969
Bank loan interest	**1,375**	-
Other interest payable	**1,333**	-
Interest on overdue tax	**7,852**	20
	80,771	50,989
Net finance income	**28,847**	40,373

8. PROFIT/LOSS BEFORE INCOME TAX

The profit/loss before income tax is stated after charging:

	2021	2020
	£	£
Other operating leases	**9,744**	93,913
Auditors' remuneration	**25,000**	24,060
Foreign exchange differences	**3,743**	287

9. **INCOME TAX**

	2021	2020
	£	£
Current tax charge		
UK corporation tax on profit for the period at 19% (2020: 19%)	**-**	-
Deferred taxation	**40,394**	-
Tax charge for the year	**40,394**	-

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:

	2021	2020
	£	£
Factors affecting the tax charge for the year:		
Profit/(loss) before income tax	**2,300,190**	(1,806,492)
Profit/loss before income tax multiplied by effective rate of UK corporation tax of 19.00% (2020: 19.00%)	**437,036**	(343,233)
Effects of		
Non-deductible expenses	**(3,366)**	19,289
Losses used for group relief	**1,792**	30,284
Tax losses not utilised	**149,057**	80,515
Unrealised chargeable losses	**(584,519)**	213,145
Deferred taxation	**40,394**	-
	(396,642)	343,233
Current tax charge	**40,394**	-

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 tax asset, measured at the standard rate of 25%, of approximately £1.9m (2020: 19% - £1.3m) arising from the accumulated tax losses of approximately £7.6m (2020: £6.9m) carried forward has not been recognised but may become recoverable against future trading profits, subject to agreement with HMRC.

The main UK corporation tax rate is to change from 19% to 25% with effect from 1 April 2023. The deferred tax liability arising on the revaluation of the Company's fixed asset investments has been calculated using 25%, reduced by the availability of tax losses brought forward.

10. **EARNINGS/LOSS PER SHARE**

	2021	2020
	£	£
Profit/(loss) for the financial period	**2,259,796**	(1,806,492)
Weighted average number of shares for basic EPS	**140,431,111**	85,855,239
Potentially dilutive share options and warrants	**200,265**	-
Weighted average number of Ordinary Shares for diluted EP	**140,631,376**	85,855,239
Basic earnings/(loss) per share	**1.61p**	(2.10)p
Diluted earnings/(loss) per share	**1.61p**	(2.10)p

The exercisable share options and warrants are deemed to be dilutive in nature where their exercise price is less than the average share price for the period.

11. **PROPERTY, PLANT AND EQUIPMENT**

	Computer equipment
	£
COST	
At 1 January 2020 and 2021 and 31 December 2021	**1,699**
DEPRECIATION	
At 1 January 2020 and 2021 and 31 December 2021	**1,699**
NET BOOK VALUE	
At 31 December 2021	**-**
At 31 December 2020	-

12. **INVESTMENTS**

	Shares in group undertakings	Unlisted investments	Total
	£	£	£
COST OR VALUATION			
At 1 January 2020	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
Revaluations	3,076,415	-	3,076,415
At 31 December 2021	**6,647,305**	**50,000**	**6,697,305**

Shares in group undertakings represent investments in PXOG Marshall Limited of £6,647,205 (2020: £3,570,790) and PXOG Muirhill Limited of £100 (2020; £100)

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: Stonebridge House, Chelmsford Road, Hatfield Heath, Essex CM22 7BD

Nature of business: Investment entity	% holding
Class of shares:	
Ordinary shares	100.00

	2021	2020
	£	£
Aggregate capital and reserves	**732,218**	722,784
Profit for the year	**9,434**	926,489

The investment in PXOG Massey Limited is held at £nil, based on the SPA agreement which is pending completion of sale to H2Oil Limited. 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, although it is still expected, the final condition of the SPA had not been met.

12. **INVESTMENTS - continued**

PXOG Marshall Limited

Registered office: 60 Gracechurch Street, London EC3V 0HR

Nature of business: Investment entity	% holding
Class of shares:	
Ordinary shares	100.00

	2021	2020
	£	£
Aggregate capital and reserves	**6,647,205**	2,570,790
Profit/(loss) for the year	**3,076,415**	(377,498)

The underlying value of PXOG Marshall Limited is based on the underlying value of the Podere Gallina permit, Po Valley, Italy, of which it owned 17% at the year end. Consistent with prior years, a discounted cash flow ("DCF") model was produced at the year end, based on proved and probable (2P) reserves supported by a Competent Person Report (CPR) produced in April 2019. The DCF model has been updated to reflect forward gas prices as at 31 December 2021 using the Dutch TTF Gas Futures contracts for 2023 and subsequent production years, reduced for price volatility. The DCF cashflows were discounted at 10% p.a. In addition, consistent with the prior year, a risked valuation of 2C contingent resources in the Selva North and South fields in the 2019 CPR has been updated and included.

PXOG Muirhill Limited

Registered office: 60 Gracechurch Street, London EC3V 0HR

Nature of business: Investment entity	% holding
Class of shares:	
Ordinary shares	100.00

	2021	2020
	£	£
Aggregate capital and reserves	**(19,984)**	30,237
(Loss)/profit for the year	**(50,221)**	47,988

PXOG Muirhill Limited holds its interests in the Tesorillo and El Romeral projects through its holdings of A and B shares respectively in Tarba Energia S.L. Consistent with the prior year, these investments are being held at the cost of investment in Prospex Energy Limited and in PXOG Muirhill Limited.

All of the subsidiaries are incorporated in the UK and registered in England & Wales.

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.

12. **INVESTMENTS - continued**

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 2020	1,048,978
Repayment	(304,661)
Other movement	(744,317)
At 31 December 2020 and 2021	**-**

14. **TRADE AND OTHER RECEIVABLES**

	2021	2020
	£	£
Current:		
Trade debtors	**22,470**	6,425
Amounts owed by group undertakings	**803,609**	773,345
Other debtors	**1,883**	113,448
Rent deposit	**-**	10,736
VAT	**6,988**	11,787
Prepayments and accrued income	**6,552**	1,317
	841,502	917,058
Non-current:		
Amounts owed by group undertakings	**1,225,570**	989,645
Aggregate amounts	**2,067,072**	1,906,703

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

In 2018 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**

	2021	2020
	£	£
Bank accounts	**220,060**	220,618

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

	2021 Number	2020 Number	2021 £	2020 £
Allotted, called up and fully paid				
Ordinary shares of 0.1p each - new	**177,310,283**	88,543,800	**177,310**	88,544
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**	442,719	**2,125,051**	2,125,051
			7,124,355	7,035,589

Share issues
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 1.5 pence per share (the "Placing"). The net proceeds of the Placing were primarily used to fund planned programmes at the El Romeral integrated gas production and power station operation in southern Spain and the Podere Gallina licence in Italy.

In July 2021, £200,000 of the Convertible Loan Note 2020, were converted into 9,756,098 new ordinary shares of £0.001 each.

In August 2021, 11,644,817 new ordinary shares of £0.001 were issued at a price of 2.25 pence each on the exercise of warrants, raising £262,000 before expenses.

In September 2021, 5,498,597 new ordinary shares of £0.001 were issued at a price of 2.25 pence each on the exercise of warrants, raising £123,700 before expenses.

In September 2021, 1,338,282 new ordinary shares of £0.001 were issued at a price of 2.25 pence each on the exercise of warrants, raising £30,000 before expenses.

In September 2021, £205,838 of the Convertible Loan Note 2020, were converted into 10,040,885 new ordinary shares of £0.001 each.

In December 2021, £10,000 of the Convertible Loan Note 2020, were converted into 487,804 new ordinary shares of £0.001 each.

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

	2021 £	2020 £
Current:		
Trade creditors	**8,423**	25,420
Social security and other taxes	**19,469**	87,891
Accruals and deferred income	**25,000**	50,951
	52,892	164,262

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

18. FINANCIAL LIABILITIES - BORROWINGS

	2021	2020
	£	£
Current:		
Bank loan	**9,616**	5,473
Unsecured loan notes	**131,353**	282,100
	140,969	287,573

	2021	2020
	£	£
Non-current:		
Bank loan	**32,778**	44,159
Unsecured loan notes	**214,454**	535,839
	247,232	579,998

Terms and debt repayment schedule:

	1 year or less	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**
2021	**£**	**£**	**£**	**£**	**£**
Bank loan	9,616	9,859	22,919	-	42,394
Unsecured loan notes	131,353	214,454	-	-	345,807
	140,969	224,313	22,919	-	388,201

	1 year or less	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**
2020	**£**	**£**	**£**	**£**	**£**
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

Bank loan

In May 2020, the Company borrowed £49,632 from its bank. The Company did not have to pay interest or capital in relation to the first 12 months from the date on which the loan was drawn. Since May 2021, the Company has commenced repayment of the loan. Repayment is by way of 60 equal instalments and interest is charged at 2.5% per annum.

Loan notes

	Loan notes			
	2018	**2020**	**2021**	**Total**
	£	**£**	**£**	**£**
At 1 January 2020	514,689	-	-	514,689
Issued in year	-	265,000	-	265,000
Issued in lieu of wages and salaries	-	38,250	-	38,250
Transferred to new loan note	(112,588)	112,588	-	-
At 31 December 2020	402,101	415,838	-	817,939
Transferred to new loan note	(321,681)	-	321,681	-
Converted into shares	-	(415,838)	-	(415,838)
Repaid in year	(56,294)	-	-	(56,294)
At 31 December 2021	**24,126**	**-**	**321,681**	**345,807**

18. **FINANCIAL LIABILITIES – BORROWINGS - continued**

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

2020 Loan note
The 2020 Notes pay 10% interest per annum. The term of the 2020 Notes is 18 months with capital repayment of unconverted amounts due on 30 June 2022. The 2020 Notes granted 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

During 2021, the loan note subscribers converted their loans of £415,838 into 20,284,787 new ordinary shares of 0.1p per share at a price of 2.05p per share.

2021 Loan note

In June 2021, holders of £321,681 of the 2018 loan note agreed to rollover their combined holdings into a new unsecured loan note ('the 2021 Loan Note'). The Company issued £321,681 of the 2021 Loan Note to existing holders of the 2018 Loan Note ('the Subscribers'), including several directors of the Company.

Under the terms of 2018 Loan Note, holders were entitled to the outstanding capital returned in equal instalments in June 2021, December 2021 and June 2022. The terms of the 2021 Loan Note reflect those of the 2018 Loan Note except all the repayment dates have effectively been extended by 18 months to December 2022, June 2023 and December 2023, while the annualised interest rate is now 12% versus 10%. The 2021 Loan Note will pay 6% interest every six months, with the first payment due on 31 December 2021.

19 **DEFERRED TAXATION**

	2021	2020
	£	£
At 1 January 2021	-	-
On revaluation of investments	**40,394**	-
At 31 December 2021	**40,394**	-

20. **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:

	2021	2020
Financial assets measured at amortised costs:	**£**	£
Trade and other receivables	**37,893**	143,713
Cash and cash equivalents	**220,060**	220,618
Amounts owing from group undertakings	**2,029,179**	1,762,990
	2,287,132	2,127,321

	2021	2020
Financial liabilities measured at amortised costs:	**£**	£
Bank loans	**42,394**	49,632
Unsecured loan notes	**345,807**	817,939
Trade and other payables	**52,892**	164,262
Total financial liabilities	**441,093**	1,031,833

20. **FINANCIAL INSTRUMENTS - continued**

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:

Financial assets at fair value through profit or loss:

	Fair value measurement		
	Level 1	**Level 2**	**Level 3**
	£	**£**	**£**
At 31 December 2021	**-**	**-**	**6,697,305**
At 31 December 2020	-	-	3,620,890

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.

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.

20. **FINANCIAL INSTRUMENTS - continued**

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 2021, the Company's monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Company, other than €161,853 (£136,011) 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 £15,102 gain or £12,373 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.

21. **RELATED PARTY DISCLOSURES**

Included in loans to group undertakings is an amount of £13 (2020: £948,022) due from PXOG Massey Limited, the Company's wholly owned subsidiary. Included in trade and other payables is an amount of £nil (2020: £4,500) due to PXOG Massey Limited. At the year end, a provision of £nil (2020: £948,022) was made against this balance (note 12).

Included in trade and other receivables is an amount of £1,225,570 (2020: £989,645) due from PXOG Marshall Limited, the Company's wholly owned subsidiary. Interest receivable of £109,618 (2020: £91,362) has been accounted for in the Statement of Profit or Loss.

Included in trade and other receivables is an amount of £803,596 (2020: £773,345) due from PXOG Muirhill Limited, the Company's wholly owned subsidiary.

Included with trade and other receivables is an amount of £22,470(2020: £12,066) due from Tarba Energia S.L. ("Tarba"). Mark Routh is a director of Tarba. No interest was receivable.

During the year, there were consultancy fees of £Nil (2020: £11,250) and £2,500 (2020: £Nil) charged by Sallork Limited and Sallork Legal and Commercial Consulting Limited ("Sallork") respectively. Included in trade payables at the year-end is £nil (2020: £1,606) owing to Sallork Limited. Richard Mays is a director and shareholder of both these companies.

21. **RELATED PARTY DISCLOSURES**

Included in trade and other payables are the following balances due to Directors as at 31 December 2021.

	2021	2020
	£	£
Edward Dawson - resigned 27/07/2021	**-**	9,184

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

	2021	2020
	£	£
Richard Mays	**13,403**	53,613
William Smith	**40,210**	67,113
James Smith - resigned 27/07/2021	**-**	41,807

22. **ULTIMATE CONTROLLING PARTY**

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

23. **SHARE-BASED PAYMENT TRANSACTIONS**

Share options
At 31 December 2020 and 31 December 2021 outstanding awards to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the rules of the share option scheme, were as follows:

2021	**Number of shares**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**5,820,544**	**2.46**	**6.27**
Carried forward	**5,820,544**	**1.46**	**6.27**

2020	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
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

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

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 2021	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 2021	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 £nil (2020: £102,175).

Warrants
At 31 December 2020 and 31 December 2021, 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:

2021	**Number of shares**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**18,806,694**	**1.97**	**2.38**
Granted during the year	**26,920,000**	**2.00**	**2.95**
Exercised in the year	**(18,481,694)**		**2.25**
Carried forward	**27,245,000**	**1.22**	**3.03**

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

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

Warrants - continued
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 23 March 2021	1,920,000	23/03/2023	2.25p	1.28p
3	Granted 23 March 2021	25,000,000	23/03/2023	3.00p	N/A

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

	Warrants	Grant date share price	Exercise price	Expected volatility	Expected option life (years)	Risk-free interest rate
1	Granted 18 March 2019	4.70p	10.00p	106.70%	3.00	0.48%
2	Granted 23 March 2021	1.65p	2.25p	320.00%	2.00	0.24%
3	Granted 23 March 2021	1.65p	3.00p	N/A	2.00	N/A

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.

The 25m warrants granted on 23 March 2021 fall outside the scope of IFRS and as such no charge is made. All of the share warrants are equity settled and the charge for the year is £24,496 (2020: £102,175). As the warrants relating to the charge for 2021 were all in consideration of shares issued during the year, it was taken directly to equity and charged against the share premium as costs in respect of the issue of shares.

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

	2021	2020
	£	£
Salaries and other short-term employee benefits	**192,072**	182,700
Post-employment benefits	**11,267**	16,900
Share-based payment	**-**	67,222
	203,339	266,822

24. **DIRECTORS' EMOLUMENTS – continued**

	Salaries and fees	Benefits in kind	Pension contributions	**2021**	2020
	£	£	£	**£**	£
Mark Routh - appointed 27/07/2021	71,923	-	-	**71,923**	-
Edward Dawson - resigned 27/07/2021	75,834	2,450	11,267	**89,551**	174,762
Richard Mays	15,000	-	-	**15,000**	29,520
William Smith	13,500	-	-	**13,500**	32,520
Alasdair Buchanan - appointed 27/08/2021	4,615	-	-	**4,615**	-
James Smith - resigned 27/07/2021	8,750	-	-	**8,750**	30,020
	189,622	2,450	11,267	**203,339**	266,822

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2020: 1).

The Directors interests in share options as at 31 December 2021 are as follows:

Director	**Number of shares**	**Exercise price**	**Date of grant**	**First date of exercise**	**Final date of exercise**
Richard Mays	21,669	76.25p	14/04/2015	14/04/2015	14/04/2025
Richard Mays	810,719	4.00p	01/06/2021	01/06/2021	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	01/06/2021	01/06/2021	01/06/2023
	832,388				

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

During the year, R Mays, W Smith and J Smith exercised their share warrants and subscribed for 595,705, 1,195,705 and 964,519 ordinary shares respectively at a price of 2.25p per share. As a consequence, there are no outstanding share warrants for Directors at 31 December 2021 (2020 – 2,755,929).

25. **EVENTS AFTER THE REPORTING PERIOD**

In February 2022, the Company raised £2.455 million before expenses by way of a placing of 70,137,143 new ordinary shares of £0.001 each in the Company at a price of 3.50 pence per share.

The net proceeds of the placing have been used to complete the acquisition of a further 20% of the Podere Gallina licence which contains the Selva Gas Field in the Po Valley region of Italy, in April 2022 and for working capital purposes. The acquisition, through its wholly-owned subsidiary PXOG Marshall Limited, took the holding from 17% to 37%. The total consideration amounted to €2,164,701 and the working capital adjustment paid was €134,500. The Selva Gas Filed is scheduled to come into production by Q2 2023.

In March 2022, the Company granted 6,700,000 share options in the Company to directors and other staff. The options were awarded at 5p per share, vest immediately and are exercisable for a period of three years. The options issued to the directors were:

Mark Routh	2,100,000
William Smith	900,000
Alasdair Buchanan	900,000
Richard Mays	900,000
	4,800,000