

Company Registration No. 03896382 (England and Wales)

**PROSPEX OIL & GAS PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

# PROSPEX OIL & GAS PLC

## COMPANY INFORMATION

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<b>Directors</b>	William Smith Edward Dawson Richard Mays James Smith (Appointed 23 December 2016)
<b>Secretary</b>	Gerry Desler FCA
<b>Company number</b>	03896382
<b>Registered office</b>	Stonebridge House Chelmsford Road Hatfield Heath Essex CM22 7BD
<b>Auditors</b>	Adler Shine LLP Chartered Accountants and Statutory Auditor Aston House Cornwall Avenue London N3 1LF
<b>Bankers</b>	Barclays Bank Plc One Churchill Place London E14 5HP
<b>Solicitors</b>	Charles Russell Speechlys LLP Fleet Place London EC4M 7RD
<b>Nominated and Financial Adviser</b>	Strand Hanson Ltd 26 Mount Row London W1K 3SQ
<b>Joint Broker</b>	Peterhouse Corporate Finance Limited 3rd Floor, New Liverpool House 15 Eldon Street London EC2M 7LD
<b>Joint Broker</b>	Beaufort Securities Limited 63 St Mary Axe London EC3A 8AA
<b>Registrars</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA

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# PROSPEX OIL & GAS PLC

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# PROSPEX OIL & GAS PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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The year under review serves to demonstrate management's ability to deliver the strategy that has been put in place to transform Prospex into a leading multi-project oil and gas investment company. It was an active year which started with us securing our first investment, fulfilling our investment policy, and culminated in the drilling of a low cost well on schedule and on budget. While the end result of the well was not what we had hoped for, the steps we took and the short period of time during which they were taken provide a template for how we intend to build this company.

Our strategy is to acquire a portfolio of investments in oil and gas projects that are at various stages of the development cycle and which represent highly attractive opportunities on a risk / reward basis. At the beginning of the review period the Company made its first investment under the new strategy: the acquisition for £32,000 in respect of a 49% interest in Hutton Poland Limited's share capital and £588,000 for a similar interest in its loan capital, which holds the Kolo licence onshore Poland. By the year end the Company had invested almost £1.6m. Prior to completion of the acquisition in April 2016, we had set about undertaking a detailed re-evaluation of the prospectivity on the licence by applying our expertise to re-work existing data. This work resulted in the identification of a conventional gas prospect, Boleslaw, as well as a deeper oil play. AGR TRACS ('AGR') were then commissioned as a Competent Person to scrutinise our work and provide an independent assessment. In their report, AGR described Boleslaw as "a worthwhile and attractive exploration opportunity". Utilising this assessment, the Company's interest in Hutton Poland was valued at US\$4.8m (£3.9m) in the financial statements as at 31 December 2016 (but see note 20 on Investment Valuation).

Having established Boleslaw as a drill ready prospect the necessary permits to drill a low cost well were obtained by Hutton Poland. Drilling operations commenced at the Boleslaw-1 well on time in December 2016. For a discovery to be made a number of factors need to be in place: source rock; reservoir; trap; and migration. Unfortunately, in the case of Boleslaw not all of these were present. As with all oil and gas exploration there is only so much that can be done to de-risk a prospect prior to drilling. Only success with the drillbit proves up prospects. As a result, when risks are assigned to drill-ready prospects these are typically between 1 in 5 and 1 in 3. Boleslaw was a low cost well and based on our own technical work and that of our competent person it represented an attractive drilling opportunity on a risk / reward basis.

Prospect's interest in the Kolo licence was not exclusive to the Boleslaw prospect. The Company believes additional prospectivity exists on the licence, including a deeper oil lead. Importantly the result of the Boleslaw-1 well has no bearing on this potential oil play. The well has validated elements of the deeper target's geological model and we are currently evaluating all the well data and updating the geological interpretation to ascertain the best way forward for the licence.

Hutton Poland is just the first of what we believe will be many investments under our investment strategy. We have an active pipeline of potential opportunities, which we believe offer near term value uplift in line with our strategy. With this in mind, we are closely evaluating a number of projects which match our criteria: located in proven hydrocarbon jurisdictions; scope for multiple value trigger events within a short time frame; located close to market; and available to be acquired on attractive terms. Furthermore, thanks, in part, to our team's proven track record of generating value in the oil and gas sector, people are approaching us with their projects. We find many of these investment opportunities to be technically interesting and we are confident that new investments will be added to our portfolio in due course.

Once new projects have been secured, we will endeavour to move rapidly through the various development milestones with the aim of reaching a value trigger event such as drilling at the earliest opportunity, as we did with Boleslaw. We are able to do this because we have ensured that Prospex has a strong capital base, that corporate overheads are kept to a reasonable level and that monthly cash burn is low. This allows us to invest as much of our available funds as possible into our portfolio.

# PROSPEX OIL & GAS PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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As announced on 28 March 2017, the Company wishes to amend its investment policy to remove the paragraph stating that the Company will undertake an acquisition or acquisitions within the natural resources and/or energy sector, which would likely constitute a reverse takeover under AIM Rule 14 of the AIM Rules for Companies, within 12 months of the date of that 11 May 2016 GM. A resolution proposing this amendment will be put to shareholders at the Company's AGM to be held on 1 June 2017 and is set out in the AGM Notice. Shareholders should note that the Board is actively evaluating a number of possible investments, any of which would add to its portfolio.

### **Outlook**

Whether it was successful or not, Boleslaw was always going to be the first of many wells in which the Company invests. We are working hard to secure additional projects on attractive terms for our shareholders, where we can apply our technical expertise to generate or review drill-ready prospects and leads. Boleslaw was a potential company-maker. Our aim is to build a portfolio of high impact prospects that are based on first class technical work, which have been rigorously scrutinised by respected third parties, have an attractive risk / reward trade off, and can be inexpensively drilled within short time frames. With this in mind, we have been closely evaluating a number of exciting opportunities and remain confident that we will invest in at least one of these in the near term. Our target is to participate in further drilling activity this year, as we look to deliver on our objective and generate value for all our shareholders.

I look forward to providing further updates on our progress in due course. In the meantime, I would like to take this opportunity to thank our shareholders for their support of the Company and team.

**William Smith**  
**Non-Executive Chairman**

2 May 2017

# PROSPEX OIL & GAS PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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The directors present their strategic report for the year ended 31 December 2016.

### **Principal activities**

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

### **Strategy**

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

### **Business review**

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

In summary:

- administrative expenses for continuing operations for the year rose to £778,093 (2015: £601,892)
- unrealised gain arising on financial assets at fair value through profit or loss was £2,345,557 (2015: £nil)
- net profit after taxation from continuing operations was £1,567,464 (2015: Loss - £502,434)
- profit for the year from discontinued operations £nil (2015: £571,745)
- as at 31 December 2016, the Company had cash and cash equivalents of £466,413 (2015: £382,216)

### **Key performance indicators**

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

### **Principal risks and uncertainties**

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

The principal risks and uncertainties which the Company face include:

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

#### *Organisational*

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

### **Corporate governance**

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

# PROSPEX OIL & GAS PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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### *Remuneration committee*

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

### *Audit committee*

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

Edward Dawson  
**Chief Executive Officer**

2 May 2017

# PROSPEX OIL & GAS PLC

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2016

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The directors present their report and financial statements for the year ended 31 December 2016.

#### Results and dividends

The results for the year are set out on page 10.

The directors do not recommend payment of an ordinary dividend.

#### Financial instruments

The company's financial risk management objectives and policies are set out in note 21 to the financial statements.

#### Going concern

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

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

#### Directors

The following directors held office during the year:

Edward Dawson

Richard Mays

William Smith

James Smith

Gavin Burnell

(Appointed 23 December 2016)

(Resigned 28 April 2016)

#### Directors' interests

##### Share interests

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

	<b>31 December 2016</b>	<b>1 January 2016</b>
	<b>No. of shares</b>	<b>No. of shares</b>
Edward Dawson	2,639,344	1,639,344
Richard Mays	2,811,474	1,311,474
William Smith	9,139,344	1,639,344
James Smith (appointed 23 December 2016)	-	N/A
Gavin Burnell (resigned 28 April 2016)	N/A	721,311

##### Share options

The Directors of the Company held share options granted under the Company share option scheme, as indicated below. No share options were exercised during the year. Full details of the share options held are disclosed in note 16 to the financial statements.

	<b>31 December 2016</b>	<b>1 January 2016</b>
	<b>No. of shares</b>	<b>No. of shares</b>
Edward Dawson	7,381,875	680,212
Richard Mays	4,325,340	541,726
William Smith	4,325,340	541,726
James Smith (appointed 23 December 2016)	1,436,000	N/A
Gavin Burnell (appointed 14 April 2015, resigned 28 April 2016)	N/A	541,726

# PROSPEX OIL & GAS PLC

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 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

So far as the Directors are aware the parties who are directly or indirectly interested in 3% or more of the nominal value of the Company's share capital as at 30 March 2017 are as follows:

	<b>% of issued share capital</b>
Beaufort Nominees Limited	11.38%
Barclayshare Nominees Limited	10.12%
Hargreaves Lansdown (Nominees) Limited	8.10%
Simon Chantler	5.05%
Nomura Nominees Limited	4.61%
TD Direct Investing Limited	4.55%
HSDL Nominees Limited	4.32%

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The market value of the Company's shares at 31 December 2016 was 2.275p and the high and low share prices during the period were 3.15p and 0.935p 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 36 days' purchases.

#### Auditors

In accordance with section 489 of the Companies Act 2006, a resolution proposing that Adler Shine LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

#### Statement of disclosure to auditor

So far as each person serving as a Director of the Company at the date this report is approved is aware:

(a) there is no relevant audit information of which the Company's auditors are unaware, and

(b) each Director hereby confirms that he or she has taken all the steps that he or she ought to have taken as 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.

#### Directors' responsibilities

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

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

# PROSPEX OIL & GAS PLC

## DIRECTORS' REPORT (CONTINUED)

### *FOR THE YEAR ENDED 31 DECEMBER 2016*

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In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the parent company financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

This report was approved by the board of directors and signed on its behalf by:

Edward Dawson

**Director**

2 May 2017

# PROSPEX OIL & GAS PLC

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF PROSPEX OIL & GAS PLC

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We have audited the financial statements (the "financial statements") of Prospex Oil & Gas Plc for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report 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.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on pages 6 - 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# PROSPEX OIL & GAS PLC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### TO THE MEMBERS OF PROSPEX OIL & GAS PLC

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#### **Matters on which we are required to report by exception**

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 Company 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.

**Darsh Shah**  
**(Senior Statutory Auditor)**  
**for and on behalf of Adler Shine LLP**  
**Chartered Accountants**  
**Statutory Auditor**

2 May 2017  
Aston House  
London  
N3 1LF

# PROSPEX OIL & GAS PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
<b>Continuing operations</b>			
Administrative expenses		(778,093)	(601,892)
<b>Operating loss</b>	<b>4</b>	<b>(778,093)</b>	<b>(601,892)</b>
Surplus as a result of the CVA		-	98,885
		<b>(778,093)</b>	<b>(503,007)</b>
Finance income	<b>5</b>	-	162
Financial assets at fair value through profit and loss	<b>9</b>	<b>2,345,557</b>	-
<b>Profit/(loss) before income taxation</b>		<b>1,567,464</b>	<b>(502,845)</b>
Income tax expense	<b>6</b>	-	411
<b>Profit/(loss) on ordinary activities after taxation from continuing operations</b>		<b>1,567,464</b>	<b>(502,434)</b>
<b>Discontinued operations</b>			
Profit/(loss) for the year from discontinued operations		-	571,745
<b>Profit for the year and total comprehensive income attributable to owners of the parent</b>		<b>1,567,464</b>	<b>69,311</b>
<b>Earnings/(loss) per share - basic and diluted</b>			
From continuing operations		<b>0.96p</b>	(1.64)p
From discontinued operations		-	1.86p

The notes on pages 14 - 31 form an integral part of these financial statements.

# PROSPEX OIL & GAS PLC

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 £	2015 £
<b>ASSETS</b>			
<b>Non current assets</b>			
Tangible assets	8	849	1,274
Investments	9	4,142,200	100
		<u>4,143,049</u>	<u>1,374</u>
<b>Current assets</b>			
Trade and other receivables	10	31,766	155,909
Cash and cash equivalents	11	466,413	382,216
		<u>498,179</u>	<u>538,125</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	(87,676)	(80,975)
		<u>410,503</u>	<u>457,150</u>
<b>Net current assets</b>			
		<u>4,553,552</u>	<u>458,524</u>
<b>Net assets</b>			
<b>EQUITY</b>			
Share capital	15	5,107,779	2,657,234
Share premium account		6,740,144	6,732,714
Capital redemption reserve		43,333	43,333
Merger reserve		2,416,667	2,416,667
Profit and loss account		(9,754,371)	(11,391,424)
		<u>4,553,552</u>	<u>458,524</u>

Approved by the Board and authorised for issue on 2 May 2017

Edward Dawson  
Director

Richard Mays  
Director

Company Registration No. 03896382

The notes on pages 14 - 31 form an integral part of these financial statements.

# PROSPEX OIL & GAS PLC

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Share premium	Retained earnings	Foreign currency reserve	Capital redemption reserve	Merger reserve	Non controlling interests	Convertible loan note	Total
	£	£	£	£	£	£	£	£	£
Balance at 1 January 2015	2,304,398	6,063,208	(11,531,728)	39,467	43,333	2,416,667	(166,865)	100,216	(731,304)
<b>Changes in equity for 2015</b>									
Total comprehensive income for the year	-	-	69,311	-	-	-	-	-	69,311
Issue of shares	352,836	723,314	-	-	-	-	-	-	1,076,150
Costs in respect of shares issued	-	(53,808)	-	-	-	-	-	-	(53,808)
On completion of CVA	-	-	-	-	-	-	-	(100,216)	(100,216)
Equity-settled share-based payments	-	-	70,993	-	-	-	-	-	70,993
On disposal of subsidiaries	-	-	-	(39,467)	-	-	166,865	-	127,398
Balance at 31 December 2015	2,657,234	6,732,714	(11,391,424)	-	43,333	2,416,667	-	-	458,524
<b>Changes in equity in 2016</b>									
Total comprehensive income for the year	-	-	1,567,464	-	-	-	-	-	1,567,464
Issue of shares	15 2,450,545	70,455	-	-	-	-	-	-	2,521,000
Costs in respect of shares issued	-	(63,025)	-	-	-	-	-	-	(63,025)
Equity-settled share-based payments	14 -	-	69,589	-	-	-	-	-	69,589
<b>Balance at 31 December 2016</b>	<b>5,107,779</b>	<b>6,740,144</b>	<b>(9,754,371)</b>	<b>-</b>	<b>43,333</b>	<b>2,416,667</b>	<b>-</b>	<b>-</b>	<b>4,553,552</b>

### Merger reserve

The merger reserve has been created as a result of the acquisition of the whole of the issued share capital of Central Asia Resources Limited ('CAR') by the Company in exchange for shares in the Company and the nominal value. It represents the difference between the fair value of the share capital issued by the Company and the nominal value.

# PROSPEX OIL & GAS PLC

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
£	£	£
<b>Cash flows from operating activities</b>		
Operating loss	(778,093)	(601,892)
Depreciation of property, plant and equipment	425	425
Increase in inventories	-	-
Increase/(decrease) in trade and other receivables	124,143	(130,552)
Increase/(decrease) in trade and other payables	6,701	(96,409)
Equity-settled share based payments	69,589	70,993
Other movement	-	33,955
<b>Net cash used in operating activities - continuing operations</b>	<b>(577,235)</b>	<b>(723,480)</b>
<b>Investing activities</b>		
Finance income	-	162
<b>Net cash (outflow)/inflow investing activities</b>	<b>-</b>	<b>162</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible assets	-	(1,699)
Payments to acquire investments	(1,796,543)	-
<b>Net cash (outflow)/inflow for capital expenditure</b>	<b>(1,796,543)</b>	<b>(1,699)</b>
<b>Acquisitions and disposals</b>		
Cash on disposal of subsidiary undertaking	-	(247)
<b>Net cash outflow for acquisitions and disposals</b>	<b>-</b>	<b>(247)</b>
<b>Financing activities</b>		
Issue of share capital	2,521,000	1,076,150
Proceeds received from issue of derivative financial asset	-	12,404
Cost of share issue	(63,025)	(53,808)
Convertible unsecured loan notes	-	50,000
<b>Net cash generated from financing activities</b>	<b>2,457,975</b>	<b>1,084,746</b>
<b>Net increase in cash and cash equivalents in year</b>	<b>84,197</b>	<b>359,482</b>
Cash and cash equivalents at beginning of the year	382,216	22,734
<b>Cash and cash equivalents at end of the year</b>	<b>466,413</b>	<b>382,216</b>

The notes on pages 14 - 31 form an integral part of these financial statements.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1 Accounting policies and basis of preparation

##### 1.1 General information

Prospect Oil and Gas Plc is incorporated in England and Wales and is quoted on the AIM Market of the London Stock Exchange Plc. The address of its registered office is Stonebridge House, Chelmsford Road, Hatfield Heath, Essex CM22 7BD. The registered number of the company is 03896382.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

##### 1.2 Going concern

The current economic environment is challenging and the Company has reported an operating loss for the year. These losses are expected to continue in the current accounting year to 31 December 2017.

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 20, since the year end, the Company has raised £850,000 before expenses, through the issue of new ordinary shares.

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

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

##### 1.3 Basis of preparation

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

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

##### 1.4 Basis of consolidation

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

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

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1 Accounting policies (continued)

##### 1.5 Property plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings & equipment	25% per annum on the reducing balance
Motor vehicles	

##### 1.6 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

##### 1.7 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.

##### 1.8 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.

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

##### 1.9 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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1 Accounting policies

(continued)

##### 1.10 Financial liabilities and equity

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

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

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

Equity comprises the following:

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

##### 1.11 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.

##### 1.12 Taxation

The income tax expense or taxation recoverable represents the sum of tax currently payable or recoverable and deferred tax.

The tax currently payable is based on the taxable profit for the period using the tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **1 Accounting policies**

**(continued)**

#### **1.13 Leasing**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### **1.14 Investments**

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

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

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

#### **1.15 Pensions**

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1 Accounting policies (continued)

##### 1.16 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.

		<b>Effective date (period beginning on or after)</b>
<b>IFRS 2</b>	Amendments - Classification and measurement of share-based payments transactions	<b>01/01/2018</b>
<b>IFRS 4</b>	Amendment - applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	<b>01/01/2018</b>
<b>IFRS 9</b>	Financial instruments – incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition	<b>01/01/2018</b>
<b>IFRS 12</b>	Disclosure of interests in other activities - amendments resulting from Annual Improvements 2014 - 2016 cycle. (clarifying scope)	<b>01/01/2017</b>
<b>IFRS 15</b>	Revenue from contracts with customers, and the related clarifications	<b>01/01/2018</b>
<b>IFRS 16</b>	Leases - recognition, measurement, presentation and disclosure.	<b>01/01/2019</b>
<b>IAS 7</b>	Statement of cash flows – Amendments resulting from the disclosure initiative	<b>01/01/2017</b>
<b>IAS 12</b>	Income taxes - Amendments regarding recognition of deferred tax assets for unrealised losses	<b>01/01/2017</b>
<b>IAS 28</b>	Amendment resulting from Annual Improvement 2014 - 2016 cycle, clarifying certain fair value measurements	<b>01/01/2018</b>
<b>IAS 40</b>	Amendment - Transfers of investment property	<b>01/01/2018</b>

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.

<b>IFRIC 22</b>	Foreign currency translations and advance consideration	<b>01/01/2018</b>
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# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 2 Critical accounting estimates and judgements

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

##### ***Investment entities***

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

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

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

##### ***Impairment of assets***

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

##### ***Recoverability of other financial assets***

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

##### ***Share based payments***

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

##### ***Deferred tax assets***

Deferred taxation is provided for using the liability method. Deferred tax assets are recognised in respect of tax losses where the Directors believe that it is probable that future profits will be relieved by the benefit of tax losses brought forward. The Board considers the likely utilisation of such losses by reviewing budgets and medium term plans for the Company. The Directors have decided that no deferred tax asset should be recognised at 31 December 2016. 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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 3 Segmental information

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 2016 as shown on the Statement of Financial Position all relate to the Investment activity.

#### 4 Operating loss

	2016	2015
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	425	425
Loss on foreign exchange transactions	4,584	250
Auditors' remuneration		
- Fees payable to the company's auditor for the audit of the company's financial statements	16,250	17,545
- Fees payable to the company's auditors for non-audit services	-	2,000
	<u>          </u>	<u>          </u>

#### 5 Finance income

	2016	2015
	£	£
Bank interest received	-	162
	<u>          </u>	<u>          </u>

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 6 Income tax expense

	2016 £	2015 £
<b>Domestic current year tax</b>		
Adjustment for prior years	-	(411)
<b>Total tax expenses</b>	-	(411)
<b>Factors affecting the tax charge for the year</b>		
Profit before income taxation	<b>1,567,464</b>	68,900
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.00% (2015 - 20.00%)	<b>313,493</b>	13,780
Effects of:		
Non deductible expenses	<b>15,768</b>	20,207
Depreciation add back	<b>85</b>	85
Capital allowances	-	(340)
Tax losses not utilised	<b>139,765</b>	(80,650)
Unrealised chargeable gains	<b>(469,111)</b>	-
Prior year	-	(411)
Other tax adjustments	-	46,918
<b>Total tax expense</b>	-	(411)

There is no provision for UK Corporation Tax due to adjusted losses for tax purposes, subject to agreement with HM Revenue and Customs. The deferred asset of approximately £686,000 (2015: £578,000) arising from the accumulated tax losses of approximately £4.0m (2015: £3.4m) carried forward has not been recognised but may become recoverable against future trading profits.

#### 7 Earnings/loss per share

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

	2016 £	2015 £
Basic:		
Continuing operations	<b>1,567,464</b>	(502,434)
Discontinued operations	-	571,745
Loss for the financial period	<b>1,567,464</b>	69,311
Weighted average of ordinary shares	<b>163,085,489</b>	30,677,884

There was no dilutive effect from the options outstanding during the period (note 14).

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 8 Tangible fixed assets

	Plant and machinery £
<b>Cost</b>	
At 1 January 2016 & at 31 December 2016	1,699
<b>Depreciation</b>	
At 1 January 2016	425
Charge for the year	425
At 31 December 2016	850
<b>Net book value</b>	
At 31 December 2016	849
At 31 December 2015	1,274

#### 9 Investments

The Company	Investment at fair value £	Investment entity subsidiaries		Total £
		Shares £	Loans £	
<b>Cost</b>				
At 1 January 2016	-	100	-	100
Additions	194,655	-	1,601,888	1,796,543
Fair value movement	37,057	2,308,500	-	2,345,557
<b>At 31 December 2016</b>	<b>231,712</b>	<b>2,308,600</b>	<b>1,601,888</b>	<b>4,142,200</b>

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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 9 Investments

(continued)

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

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

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

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

#### Subsidiary

The Company owns the whole of the issued share capital of PXOG County Limited, a company registered in England and Wales. This company owns the Company's principal investment, a 49% shareholding in Hutton Poland Limited. Full details of this investment is set out in the Chairman's report.

At the balance sheet date PXOG County Limited had net assets of £3,910,488 and had made a profit of £2,308,500 for the period then ended.

#### 10 Trade and other receivables

	2016	2015
	£	£
Other receivables	21,484	138,779
Prepayments and accrued income	10,282	17,130
	<u>31,766</u>	<u>155,909</u>

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

#### 11 Cash and cash equivalents

	2016	2015
	£	£
Cash at bank and in hand	<u>466,413</u>	<u>382,216</u>

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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### 12 Trade and other payables

	2016	2015
	£	£
Trade payables	53,123	1,349
Taxes and social security costs	9,138	9,829
Other payables	-	26,751
Accruals and deferred income	25,415	42,946
	<u>87,676</u>	<u>80,975</u>

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

### 13 Pension and other post-retirement benefit commitments Defined contribution

	2016	2015
	£	£
Contributions payable by the company for the year	<u>9,000</u>	<u>7,125</u>

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 14 Share-based payments

##### Share options

At 31 December 2015 and 31 December 2016 outstanding awards to subscribe for ordinary shares of 1p each in the Company, granted in accordance with the rules of the share option scheme, were as follows:

31 December 2015	Shares under option	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	268,400	6.3	143.62
Granted	3,659,116	-	3.05
Lapsed	(24,000)	-	(2.08)
Carried forward	3,903,516	9.1	11.86
31 December 2016	Shares under option	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	3,903,516	9.1	11.86
Granted	20,728,545	-	1.03
Lapsed	-	-	-
Carried forward	24,632,061	3.59	2.74p

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

The following share-based payment arrangements were in existence during the current and prior years.

Options	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 31 July 2007	36,400	31/07/2017	250.0p	82.5p
2. Granted 30 April 2012	208,000	30/04/2022	125.0p	47.5p
3. Granted 16 April 2015	2,847,116	15/04/2025	3.0p	1.94p
4. Granted 16 April 2015	812,000	15/04/2018	3.0p	1.94p
5. Granted 22 September 2016	1,434,209	22/09/2019	1.0p	0.53p
6. Granted 22 September 2016 *	13,694,584	22/09/2019	1.0p	0.31p
7. Granted 22 September 2016 *	4,164,000	22/09/2019	1.1p	0.29p
8. Granted 23 December 2016 *	1,436,000	23/12/2019	1.1p	0.53p

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 14 Share-based payments

(continued)

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

Options	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 31 July 2007	212.5p	250.0p	100%	5 years	4.4%
2. Granted 30 April 2012	175.0p	125.0p	32%	3.5 years	0.24% - 0.43%
3. Granted 16 April 2015	4.0p	3.0p	71.5%	3 years	0.71%
4. Granted 16 April 2015	4.0p	3.0p	71.5%	3 years	0.71%
5. Granted 22 September 2016	1.7p	1.0p	71.0%	3 years	0.10%
6. Granted 22 September 2016 *	1.7p	1.0p	71.0%	3 years	0.10%
7. Granted 22 September 2016 *	1.7p	1.1p	71.0%	3 years	0.10%
8. Granted 23 December 2016 *	2.5p	1.1p	79.0%	3 years	0.28%

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

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

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the above options are equity settled and the charge for the year is £69,589 (2015: £70,993).

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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15 Share capital	2016 Number	2015 Number	2016 £	2015 £
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each	<b>285,785,836</b>	40,731,291	<b>2,857,858</b>	407,313
Deferred shares of 0.1p each	<b>942,462,000</b>	942,462,000	<b>942,462</b>	942,462
Deferred shares of £24 each	<b>54,477</b>	54,477	<b>1,307,459</b>	1,307,459
			<b>5,107,779</b>	2,657,234

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In June 2016, the Company raised £1.64m, before expenses, through the issue of 164,600,000 New Ordinary Shares of 1p each at a price of 1p per share to provide capital for the Company's Investing Policy.

In August 2016, the Company raised £100,000, before expenses, through the issue of 10,000,000 New Ordinary Shares of 1p each at a price of 1p per share to provide capital for the Company's Investing Policy.

In September 2016, the Company raised £775,000, before expenses, through the issue of 70,454,545 New Ordinary Shares of 1p each at a price of 1.1p per share to provide capital for the Company's Investing Policy.

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.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 16 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.

	2016 £	2015 £
<b>Directors</b>		
<b>Emoluments for qualifying services</b>	<b>97,665</b>	126,659
<b>Benefit in kind</b>	<b>4,200</b>	2,975
<b>Pension contributions</b>	<b>9,000</b>	7,125
	<u><b>110,865</b></u>	<u>136,759</u>

Directors and key management personnel				2016	2015
	Salaries and fees £	Benefit in kind £	Pension £	Total £	£
<b>Directors' emoluments</b>					
Edward Dawson	80,750	4,200	9,000	93,950	82,350
William Smith	8,500	-	-	8,500	8,500
Richard Mays	8,000	-	-	8,000	9,000
Gavin Burnell (resigned 28 April 2016)	-	-	-	-	8,576
James Smith (appointed 22 December 2016)	415	-	-	415	-
Gerry Desler (resigned 14 April 2015)	-	-	-	-	10,000
Christian Schaffalitzky (resigned 14 April 2015)	-	-	-	-	3,333
Garth Earls (resigned 14 April 2015)	-	-	-	-	5,000
Richard Nolan (resigned 14 April 2015)	-	-	-	-	10,000
	<u><b>97,665</b></u>	<u><b>4,200</b></u>	<u><b>9,000</b></u>	<u><b>110,865</b></u>	<u>136,759</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2015 - 1).

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### 16 Directors' emoluments

(continued)

The Directors interests in share options as at 31 December 2016 are as follows:

Director	Options at 31 December 2016	Exercise price	Date of grant	First date of exercise	Final date of exercise
Edward Dawson	680,212	3.05p	14/04/2015	14/04/2015	14/04/2025
Edward Dawson	971,663	1.0p	22/09/2016	22/09/2016	22/09/2019
Edward Dawson *	4,438,000	1.0p	22/09/2016	22/09/2016	22/09/2019
Edward Dawson *	1,292,000	1.1p	22/09/2016	22/09/2016	22/09/2019
Richard Mays	541,726	3.05p	14/04/2015	14/04/2015	14/04/2025
Richard Mays	20,196	1.0p	22/09/2016	22/09/2016	22/09/2019
Richard Mays *	2,327,418	1.0p	22/09/2016	22/09/2016	22/09/2019
Richard Mays *	1,436,000	1.1p	22/09/2016	22/09/2016	22/09/2019
William Smith	541,726	3.05p	14/04/2015	14/04/2015	14/04/2025
William Smith	20,196	1.0p	22/09/2016	22/09/2016	22/09/2019
William Smith *	2,327,418	1.0p	22/09/2016	22/09/2016	22/09/2019
William Smith *	1,436,000	1.1p	22/09/2016	22/09/2016	22/09/2019
James Smith *	1,436,000	1.1p	23/12/2016	23/12/2016	23/12/2019

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

#### 17 Employees

##### Number of employees

There were 5 employees during the year including the directors (2015: 5).

##### Employment costs

	2016 £	2015 £
Wages and salaries	192,665	211,659
Social security costs	19,015	20,186
Other pension costs	9,000	7,125
Equity settled share-based payments	69,589	70,993
	<u>290,269</u>	<u>309,963</u>

#### 18 Control

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

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 19 Related party transactions

Included in trade and other receivables is an amount of £1,601,888 (2015: £nil) due from PXOG County Limited, the company's wholly owned subsidiary.

During the year, there were consultancy fees of £15,200 (2015: £17,200) charged by Sallork Legal and Commercial Consulting Limited ("Sallork") and included in trade payables at the year end is £nil (2015: £1,200) owing to Sallork. Richard Mays is a director and shareholder of Sallork.

Included in trade and other payables are the following balances due to Directors as at 31 December 2016.

	2016	2015
	£	£
Edward Dawson	<u>13,660</u>	<u>3,881</u>

#### 20 Subsequent events

##### **Share reorganisation**

On 20 February 2017, the Company held a General Meeting at which shareholders approved a share capital reorganisation. The reorganisation was effected through the subdivision of each of the Existing Ordinary Shares of 1p each into one New Ordinary Share of 0.1p each and one New Deferred Share of 0.9p each.

##### **Placing**

In February 2017, following shareholder approval of the share reorganisation, the Company completed a placing to raise approximately £850,000, before expenses, from the issue of 170,000,000 new ordinary shares of 0.1p each ("New Ordinary Shares") at a price of 0.5p per share (the "Placing"). The funds raised will be used towards the Company's ongoing evaluation of a number of potential projects, in line with its strategy to build a portfolio of investments in the European oil and gas sector, and will also be used for general working capital purposes.

##### **Investment valuation**

Drilling operations at the Boleslaw-1 well ('Boleslaw-1' or 'the Well') commenced on 10 December 2016 and continued until 10 January 2017. However no recoverable hydrocarbons were indicated on the mud logs. As a result, the operator advised the Company that the Well was to be plugged and abandoned.

While the outcome was disappointing, Boleslaw was drilled safely, on schedule, and on budget. The Directors believe this is testament to the performance of the engineering crew on the ground as well as the quality of the pre-drill technical work undertaken by the partners. Boleslaw was the first well to be drilled on the Kolo licence, which covers an area of 1,150 sq. km and which is located in a working hydrocarbon system. Further technical work will be conducted to generate an updated geological and hydrocarbon system model, as the partners plan the next steps for the Licence. This work will incorporate all the data and geological samples recovered from the Well.

In accordance with IAS10 "Events after the reporting period" no adjustment has been made to the carrying value of the Company's investment in its 'Investment Entity Subsidiary', as the evidence that the Well was dry was obtained after the balance sheet date.

The result of this first well is likely to have a negative impact on the value of the Company's investment, which at the balance sheet date was valued at US\$4.8m. The valuation was based on a Competent Person's Report which was completed mid-2016.

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 21 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:

	2016	2015
	£	£
<b>Financial assets</b>		
<b><i>Loans and receivables</i></b>		
Trade and other receivables	31,766	155,909
Cash and cash equivalents	466,413	382,216
	<hr/>	<hr/>
<b>Total financial assets</b>	<b>498,179</b>	<b>538,125</b>
	<hr/> <hr/>	<hr/> <hr/>
	2016	2015
	£	£
<b>Financial liabilities</b>		
Trade and other payables	87,676	80,975
	<hr/> <hr/>	<hr/> <hr/>

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

#### *Financial risk management*

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

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

#### *Credit risk*

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

# PROSPEX OIL & GAS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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### 21 Financial instruments

(continued)

#### *Liquidity risk and interest rate risk*

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

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

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

#### *Foreign currency exposure*

The Company has no exposure to foreign currency risk.