

Company Registration No. 03896382 (England and Wales)

PROSPEX OIL & GAS PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

PROSPEX OIL & GAS PLC

COMPANY INFORMATION

Directors	William Smith Edward Dawson Richard Mays
Secretary	Gerry Desler FCA
Company number	03896382
Registered office	Stonebridge House Chelmsford Road Hatfield Heath Essex CM22 7BD
Auditors	Adler Shine LLP Chartered Accountants and Statutory Auditor Aston House Cornwall Avenue London N3 1LF
Business address	Stonebridge House Chelmsford Road Hatfield Heath Essex CM22 7BD
Bankers	Royal Bank of Scotland Plc London Blackfriars Branch 36 - 37 New Bridge Street London EC4V 6BJ
Solicitors	Charles Russell Speechlys LLP Fleet PI London EC4M 7RD
Nominated Adviser and Joint Broker	W H Ireland Limited 24 Martin Lane London EC4 0DR
Joint Broker	Peterhouse Corporate Finance Limited 3rd Floor, New Liverpool House 15 Eldon Street London EC2M 7LD
Joint Broker	Beaufort Securities Limited 131 Finsbury Pavement London EC2A 1NT
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Kent BR3 4TU

PROSPEX OIL & GAS PLC

CONTENTS

	Page
Chairman's statement	1
Strategic report	2 - 4
Directors' report	5 - 7
Independent auditors' report	8 - 9
Consolidated statement of comprehensive income	10
Consolidated statement of financial position	11
Company statement of financial position	12
Consolidated statement of changes in equity	13
Company statement of changes in equity	14
Consolidated statement of cash flows	15
Company statement of cash flows	16
Notes to the financial statements	17 - 42

PROSPEX OIL & GAS PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

2015 and the first part of 2016 was a transformational period for the Company. In April 2015, Prospex became an AIM investment company. Since April 2015, the new management team has reviewed over 20 projects and over the period the Company made several investments. The most significant investment to date is the acquisition of 49% of the shares of Hutton Poland which in turn holds the Kolo license.

Following extensive due diligence and assessment of geological data, the management team concluded that the Kolo license provides an attractive opportunity for the Company. This is borne out with the publication of the independent Competent Persons' Report ("CPR") on 26 May 2016 by AGR TRACS which included a gross best estimate for the Boleslaw prospect within the Kolo license at 87 bscf and a risked current valuation ranging from £5m to £8.4m (net to Prospex). This represents a significant premium over the £620,000 purchase price paid by the Company for the 49% interest in Hutton Poland, which completed in April 2016.

The CPR's economic results were used to interpolate indicative NPVs, which ranged from \$44m to \$95m (net to Prospex). The CPR modelled production scenarios at 3,333 - 6,666 boe per day from a single well. The directors believe that the anticipated well tests could give sufficient information that further appraisal may not be necessary and if so appraisal costs and the attendant shareholder dilution to fund them would be avoided.

Based on a successful Boleslaw well and the assumptions set out in the announcement dated 26 May 2016, the project could generate results in the upper end of the range the team is targeting. The directors believe the current state of the world energy market provides opportunities for the Company to make other investments at critical stages in a project's life cycle which could provide significant and tangible results for the Company's shareholders in a relatively short time frame.

As announced on 26 May 2016, a well on the Boleslaw prospect is planned for the 4th quarter 2016. The Company's £1.6 million equity raise in May 2016 includes funding for this well.

The management team and Board are actively seeking such additional investment opportunities.

On behalf of the Board I would like to thank Gavin Burnell for the significant contribution he made during his term as a director. Our thanks also go to the advisors and service providers who were and continue to be instrumental in this transformational phase.

William Smith
Chairman

9 June 2016

PROSPEX OIL & GAS PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their strategic report for the year ended 31 December 2015.

Principal activities

The principal activity of the Group up to 15 April 2015 was related to mineral exploration for gold and precious metals. The Group operated in Kyrgyzstan in the year under review. Following that date, the Company became an Investment Company.

Strategy

Up until 15 April 2015, Prospex Oil and Gas Plc was a gold exploration and development company quoted on the AIM market of the London Stock Exchange. It focused on gold opportunities in Central Asia, in particular Kyrgyzstan, where the Group's Cholokkaindy project, on the highly prospective Tien Shan gold belt, had numerous targets ready for drilling.

Following the general meeting held on 15 April 2015, the Company disposed of its entire interest in the Cholokkaindy Licence by selling the entire issued share capital of Central Asia Resources Limited in exchange for the Trivedi Capital Partners (I) LC reducing its loan from £630,000 to £nil. At the same time the Company changed its name from Premier Gold Resources Plc to Prospex Oil and Gas Plc.

Following the sale, the Company became an Investment Company and adopted a new Investing Policy. In summary the 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

Following the early exploration success in 2012, no further exploration was possible in the Kyrgyz Republic due to local groups holding up the work programmes illegally. Despite pressing the Kyrgyz authorities and threatening legal action against the government to ensure safe access to the area, little progress was made up to 15 April 2015. Additionally, the necessary and anticipated funds for the work were not available to the Company. As a result, the Company changed its strategy as detailed above.

In addition to the changes mentioned above, the Company entered into a Corporate Voluntary Arrangement ("CVA") with its creditors. The CVA enabled the Company to eliminate its historic debts and allow it to pursue its new strategy. The result of the CVA was to credit the income statement with £98,885 of amounts due to creditors which were no longer payable under the terms of the CVA.

A review of the development and performance of the Group, 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 £601,892 (2014: £452,056);
- fair value loss on the derivative financial assets £nil (2014: £168,188);
- net loss after taxation from continuing operations was £502,434 (2014: £687,701);
- profit for the year from discontinued operations £571,745 (2014: loss - £3,892,744)
- as at 31 December 2015, the Group had cash and cash equivalents of £382,216 (2014: £22,734);

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.

PROSPEX OIL & GAS PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Principal risks and uncertainties

The Board regularly reviews the risks to which the Group 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 Group 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.

Prior the 15 April 2015 when the company was a mineral exploration company the principal risks and uncertainties also included:

Operational

In common with other businesses operating in minerals exploration, the Group's activities were speculative and inherently subject to a high degree of risk.

The Group's operational work involved geological exploration and the implementation of geological work programmes. Interpretation of the results of these programmes was dependent upon judgements and assessments that by their very nature were speculative.

Work programmes involved drilling operations and other geological work that present significant engineering challenges which are subject to unexpected operational problems. The actual cost of programmed operations can vary significantly from planned levels as a result of such unexpected issues arising.

Political, economic, legal, regulatory and social

The Group operated in Kyrgyzstan which may be subject to political, economic and other uncertainties, including but not limited to terrorism, war or unrest, changes in national laws and energy policies and exposure to its legal system.

The Group assesses legal and political risks as part of its evaluation of potential projects. It actively monitors legal and political developments in Kyrgyzstan where its operation is located. The Group actively engages in dialogue with the local government and legal policy makers to discuss all key legal and regulatory developments applicable to its operations.

PROSPEX OIL & GAS PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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.

Remuneration committee

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

Audit committee

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

Edward Dawson
Chief Executive Officer

9 June 2016

PROSPEX OIL & GAS PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report and financial statements for the year ended 31 December 2015.

On 16 April 2015, the company changed its name from Premier Gold Resources Plc to Prospex Oil and Gas Plc.

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 26 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. These projections include the planned expenditure necessary to implement the Investment Policy.

Directors

The following directors were appointed during the year:

Edward Dawson	(Appointed 14 April 2015)
Richard Mays	(Appointed 14 April 2015)
William Smith	(Appointed 14 April 2015)
Gavin Burnell	(Appointed 14 April 2015 and resigned 28 April 2016)

The following directors resigned during the year:

Richard Nolan	(Resigned 14 April 2015)
Gerry Desler	(Resigned 14 April 2015)
Christian Schaffalitzky	(Resigned 14 April 2015)
Garth Earls	(Resigned 14 April 2015)

Directors' interests

Share interests

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

	31 December 2015	1 January 2015
	No. of shares	No. of shares
Edward Dawson	1,639,344	-
Richard Mays	1,311,474	-
William Smith	1,639,344	-
Gavin Burnell (appointed 14 April 2015, resigned 28 April 2016)	721,311	-
Richard Nolan (Resigned 14 April 2015)	-	20,000
Gerry Desler (Resigned 14 April 2015)	-	42,300
Christian Schaffalitzky (Resigned 14 April 2015)	-	92,700
Garth Earls (Resigned 14 April 2014)	-	20,000
	<hr/>	<hr/>
	5,311,473	175,000
	<hr/>	<hr/>

PROSPEX OIL & GAS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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.

	31 December 2015	1 January 2015
	No. of shares	No. of shares
Edward Dawson	680,212	-
Richard Mays	541,726	-
William Smith	541,726	-
Gavin Burnell (appointed 14 April 2015, resigned 28 April 2016)	541,726	-
Richard Nolan (Resigned 14 April 2015)	-	40,000
Gerry Desler (Resigned 14 April 2015)	-	56,000
Christian Schaffalitzky (Resigned 14 April 2015)	-	40,000
Garth Earls (Resigned 14 April 2014)	-	40,000
	<u>2,305,390</u>	<u>176,000</u>

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 Group, 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 23 May 2016 are as follows:

	Number of ordinary shares	% of issued share capital
Edward Dawson	1,639,344	4.02%
Richard Mays	1,311,474	3.21%
William Smith	1,639,344	4.02%
Charles Fry	<u>1,639,344</u>	<u>4.02%</u>

The market value of the Company's shares at 31 December 2015 was 1.75p and the high and low share prices during the period were 4.5p and 0.05p respectively.

Charitable donations	2015	2014
	£	£
During the year the company made the following payments:		
Charitable donations	<u>-</u>	<u>1,000</u>

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.

PROSPEX OIL & GAS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 Group and 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 the Group and of the profit or loss of the Company and the Group for that period.

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 group and 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 and the group 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

9 June 2016

PROSPEX OIL & GAS PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PROSPEX OIL & GAS PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Prospex Oil & Gas Plc for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 page 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 Group's and the Parent 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 Group's and the Parent Company's affairs as at 31 December 2015 and of the Group's 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

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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent 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

9 June 2016
Aston House
London
N3 1LF

PROSPEX OIL & GAS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £	2014 £
Continuing operations			
Administrative expenses		(601,892)	(452,056)
Operating loss	4	(601,892)	(452,056)
Surplus as a result of the CVA		98,885	-
		(503,007)	(452,056)
Finance income	5	162	34
Fair value loss on derivative financial assets	14	-	(168,188)
Finance expense	6	-	(67,491)
Loss before income taxation		(502,845)	(687,701)
Income tax expense	7	411	-
Loss on ordinary activities after taxation from continuing operations		(502,434)	(687,701)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	11	571,745	(3,892,744)
Profit/(loss) for the year		69,311	(4,580,445)
Non-controlling interests		-	771,232
Profit/(loss) for the year and total comprehensive income attributable to owners of the parent		69,311	(3,809,213)
Earnings/(loss) per share - basic and diluted			
From continuing operations	8	(1.64)p	(12.63)p
From discontinued operations		1.86p	(57.33)p

The notes on pages 17 - 42 form an integral part of these financial statements.

PROSPEX OIL & GAS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Notes	2015 £	2014 £
ASSETS			
Non current assets			
Tangible assets	9	1,274	10,355
Derivative financial assets	14	-	-
		<u>1,274</u>	<u>10,355</u>
Current assets			
Inventories	12	-	977
Trade and other receivables	13	155,909	33,928
Derivative financial assets	14	-	46,359
Cash and cash equivalents	15	382,216	22,734
		<u>538,125</u>	<u>103,998</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	(80,875)	(365,873)
Borrowings	17	-	(479,784)
		<u>(80,875)</u>	<u>(845,657)</u>
Net current assets/(liabilities)		<u>457,250</u>	<u>(741,659)</u>
Net assets/(liabilities)		<u>458,524</u>	<u>(731,304)</u>
EQUITY			
Share capital	20	2,657,234	2,304,398
Share premium account		6,732,714	6,063,208
Equity component - convertible loan note		-	100,216
Capital redemption reserve		43,333	43,333
Merger reserve		2,416,667	2,416,667
Profit and loss account		(11,391,424)	(11,531,728)
Foreign currency reserve		-	39,467
		<u>458,524</u>	<u>(564,439)</u>
Non-controlling interests		<u>-</u>	<u>(166,865)</u>
Total equity/(deficit)		<u>458,524</u>	<u>(731,304)</u>

Approved by the Board and authorised for issue on 9 June 2016

Edward Dawson
Director

Richard Mays
Director

Company Registration No. 03896382

The notes on pages 17 - 42 form an integral part of these financial statements.

PROSPEX OIL & GAS PLC

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	£	2015 £	£	2014 £
ASSETS					
Non current assets					
Tangible assets	9		1,274		-
Investments	10		100		-
Derivative financial assets	14		-		-
			<u>1,374</u>		<u>-</u>
Current assets					
Trade and other receivables	13	155,909		25,357	
Derivative financial assets	14	-		46,359	
Cash and cash equivalents	15	382,216		22,487	
		<u>538,125</u>		<u>94,203</u>	
LIABILITIES					
Current liabilities					
Trade and other payables	16	(80,975)		(338,233)	
Borrowings	17	-		(479,784)	
		<u></u>		<u></u>	
Net current assets/(liabilities)			<u>457,150</u>		<u>(723,814)</u>
Net assets/(liabilities)			<u>458,524</u>		<u>(723,814)</u>
EQUITY					
Share capital	20		2,657,234		2,304,398
Share premium account			6,732,714		6,063,208
Equity component - convertible loan note			-		100,216
Capital redemption reserve			43,333		43,333
Merger reserve			2,416,667		2,416,667
Profit and loss account			(11,391,424)		(11,651,636)
			<u>458,524</u>		<u>(723,814)</u>

The financial statements were approved by the Board on 9 June 2016

Edward Dawson
Director

Richard Mays
Director

Company Registration No. 03896382

The notes on pages 17 - 42 form an integral part of the financial statements.

PROSPEX OIL & GAS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	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 2014	2,288,898	6,059,750	(7,722,515)	(3,874)	43,333	2,416,667	598,512	89,283	3,770,054
Changes in equity for 2013									
Total comprehensive income for the year	-	-	(3,809,213)	-	-	-	(771,232)	-	(4,580,445)
Issue of shares	15,500	7,750	-	-	-	-	-	-	23,250
Costs in respect of shares issued	-	(4,292)	-	-	-	-	-	-	(4,292)
Convertible loan note - equity component	-	-	-	-	-	-	-	10,933	10,933
Currency translation differences on foreign currency net investments	-	-	-	43,341	-	-	5,855	-	49,196
Balance at 31 December 2014	2,304,398	6,063,208	(11,531,728)	39,467	43,333	2,416,667	(166,865)	100,216	(731,304)
Changes in equity in 2014									
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

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Share premium	Retained earnings	Capital redemption reserve	Merger reserve	Convertible loan note	Total
	£	£	£	£	£	£	£
Balance at 1 January 2014	2,288,898	6,059,750	(6,998,504)	43,333	2,416,667	89,283	3,899,427
Changes in equity for 2013							
Total comprehensive income for the year	-	-	(4,653,132)	-	-	-	(4,653,132)
Issue of shares	15,500	7,750	-	-	-	-	23,250
Costs in respect of shares issued	-	(4,292)	-	-	-	-	(4,292)
Convertible loan note - equity component	17	-	-	-	-	10,933	10,933
Balance at 31 December 2014	2,304,398	6,063,208	(11,651,636)	43,333	2,416,667	100,216	(723,814)
Changes in equity in 2014							
Total comprehensive income for the year	-	-	189,219	-	-	-	189,219
Issue of shares	20	352,836	723,314	-	-	-	1,076,150
Costs in respect of shares issued	-	(53,808)	-	-	-	-	(53,808)
Equity-settled share-based payments	19	-	70,993	-	-	-	70,993
On completion of CVA	17	-	-	-	-	(100,216)	(100,216)
Balance at 31 December 2015	2,657,234	6,732,714	(11,391,424)	43,333	2,416,667	-	458,524

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. It represents the difference between the fair value of the share capital issued by the Company and nominal value.

PROSPEX OIL & GAS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
£	£	£
Cash flows from operating activities		
Operating loss	(601,892)	(615,023)
Depreciation of property, plant and equipment	425	2,946
Increase in inventories	-	(977)
Increase in trade and other receivables	(130,552)	(17,483)
(Decrease)/increase in trade and other payables	(96,409)	87,308
Equity-settled share based payments	70,993	-
Other movement	33,955	85,516
Net cash used in operating activities - continuing operations	(723,480)	(457,713)
Investing activities		
Finance income	162	34
Finance expense	-	(5,883)
Net cash generated from/(used in) investing activities	162	(5,849)
Capital expenditure		
Payments to acquire intangible assets	-	(12,333)
Payments to acquire tangible assets	(1,699)	(196)
Net cash outflow for capital expenditure	(1,699)	(12,529)
Acquisitions and disposals		
Cash on disposal of subsidiary undertaking	(247)	-
Net cash outflow for acquisitions and disposals	(247)	-
Financing activities		
Issue of share capital	1,076,150	-
Proceeds received from issue of derivative financial asset	12,404	148,578
Cost of share issue	(53,808)	(4,292)
Convertible unsecured loan notes	50,000	80,000
Net cash generated from financing activities	1,084,746	224,286
Net increase/(decrease) in cash and cash equivalents in year	359,482	(251,805)
Cash and cash equivalents at beginning of the year	22,734	274,539
Cash and cash equivalents at end of the year	382,216	22,734

The notes on pages 17 - 42 form an integral part of these financial statements.

PROSPEX OIL & GAS PLC

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	£	£
Cash flows from operating activities		
Operating loss	(540,239)	(452,055)
Depreciation of property, plant and equipment	425	-
Increase in trade and other receivables	(130,552)	(104,147)
Increase in trade and other payables	(158,062)	90,318
Equity-settled share based payments	70,993	-
Other movement	33,955	-
	<hr/>	<hr/>
Net cash used in operating activities	(723,480)	(465,884)
Investing activities		
Finance income	162	34
Finance expense	-	(5,884)
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	162	(5,850)
Capital expenditure		
Payments to acquire tangible assets	(1,699)	-
	<hr/>	<hr/>
Net cash inflow for capital expenditure	(1,699)	-
Financing activities		
Issue of share capital	1,076,150	-
Proceeds received from issue of derivative financial asset	12,404	148,578
Cost of share issue	(53,808)	(4,292)
Convertible unsecured loan notes	50,000	80,000
	<hr/>	<hr/>
Net cash generated from financing activities	1,084,746	224,286
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents in the year	359,729	(247,448)
Cash and cash equivalents at beginning of the year	22,487	269,935
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	382,216	22,487
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 17 - 42 form an integral part of these financial statements.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies and basis of preparation

1.1 General information

Prospex Oil and Gas Plc (formerly Premier Gold Resources 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

During the year ended 31 December 2015, the Directors proposal for a Company Voluntary Arrangement ("CVA") was approved by creditors and members. The Company also completed a settlement deed with Tridevi Capital Partner (I) LP ("Tridevi"), disposing of the entire issued share capital of Central Asia Resource Limited ("CAR"), the Company's wholly owned subsidiary, to Tridevi in full and final settlement of the outstanding loan of approximately £580,000 under the Convertible Loan Agreement. The Company also raised £1,076,150 (before expenses) through the issue of 35,283,591 New Ordinary Shares to advance the Company's Investing Policy, of which £50,000 was transferred to the Company in order to enable it to make an improved offer of settlement to the unsecured Creditors of the Company under the CVA. As a result of the above, the directors are of the opinion that the financial statements should be prepared on a going concern basis.

1.3 Basis of preparation

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

1.4 Parent company profit and loss account

A separate profit and loss account for the parent company, Prospex Oil and Gas Plc, has been omitted under the provisions of Section 408 of the Companies Act 2006. The profit dealt with in the financial statements of the parent company was £189,219 (2014: loss - £4,653,132).

1.5 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries ('the Group'). Subsidiaries include all entities over which the Group 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 Group 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies (continued)

1.6 Business combination

The Group adopts the acquisition method in accounting for the acquisition of subsidiaries. On acquisition the cost is measured at the fair value of the assets given, plus equity instruments issued and liabilities incurred or assumed at the date of exchange. The assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration over the fair value of the identifiable net assets acquired is recorded as goodwill.

Any deficiency of the fair value of the consideration below the fair value of identifiable net assets acquired is credited to the income statement in the period of the acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

1.7 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable net assets and contingent liabilities acquired. Identifiable assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but tested annually, or when trigger events occur, for impairment and is carried at cost less accumulated impairment losses.

Goodwill is initially recognised at fair value. Any negative goodwill is credited to the income statement in the year of acquisition. If an undertaking is subsequently sold, the amount of goodwill carried on the balance sheet at the date of disposal is charged to the income statement in the period of disposal as part of the gain or loss on disposal.

1.8 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:

Land and buildings - Leasehold	over the length of the lease
Fixtures, fittings & equipment	1 - 5 years, straight line
Motor vehicles	3 - 9 years, straight line

1.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

1.10 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.

1.11 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(continued)

1.13 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 Group'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 Group'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.

1.14 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently carried at fair value with the changes in fair value recognised in the income statement.

1.15 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.

1.16 Convertible debt

The component of convertible debt that exhibits characteristics of debt is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity. The carrying amount of the equity component is not re-measured in subsequent years. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(continued)

1.17 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.

1.18 Equity-settled share-based payment

The Company makes equity-settled share-based payments. The fair value of options and warrants 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.

1.19 Foreign currency translation

Transactions in currencies other than Sterling, the presentational and functional currency of the Company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas entities (none of which has the currency of a hyper-inflationary economy) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(continued)

1.20 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.

1.21 Leasing

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

1.22 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 2015

1 Accounting policies (continued)

1.23 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 2	Share based payments – Amendments resulting from the annual improvements cycle 2010-2012 (definition of “vesting conditions”)	01/02/2015
IFRS 3	Business combinations – Amendments resulting from the annual improvements cycle 2010-2012 (scope exception for joint ventures”)	01/02/2015
IFRS 3	Business combinations – Amendments resulting from the annual improvements cycle 2011-2013 (scope exception for joint ventures”)	01/01/2015
IFRS 5	Non-current assets held for sale and discontinued operations - Amendments resulting from September 2014 annual improvements to IFRSs	01/01/2016
IFRS 7	Financial instruments disclosure - Amendments resulting from September 2014 annual improvements to IFRSs	01/01/2016
IFRS 8	Operating segments - Amendments resulting from the annual improvements cycle 2010-2012 (aggregation of segments, reconciliation of segment assets)	01/02/2015
IFRS 9	Financial instruments – incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition	01/01/2018
IFRS 10	Consolidated financial statements – Amendments regarding the the application of consolidation exception	01/01/2016
IFRS 12	Disclosure of interests in other entities - Amendments regarding the the application of consolidation exception	01/01/2016
IFRS 13	Fair value measurement - Amendments resulting from the annual improvements cycle 2011-2013 (scope of the portfolio exception)	01/01/2015
IAS 1	Presentation of financial Statements – Amendments resulting from the disclosure initiative	01/01/2016
IAS 7	Statement of cash flows – Amendments resulting from the disclosure initiative	01/01/2017
IAS 12	Income taxes – Amendments regrading recognition of deferred tax assets for unrealised losses	01/01/2017
IAS 16	Property, plant and equipment – Amendments resulting from the annual improvements cycle 2010-2012 (proportionate restatement of accumulated depreciation on revaluation)	01/02/2015
IAS 16	Property, plant and equipment – clarification of acceptable methods of depreciation and amortisation and amendments bringing bearer plants into the scope of IAS 16	01/01/2016
IAS 16	Property, plant and equipment – Amendments bringing bearer plants into scope of IAS 16	01/01/2016
IAS 19	Employee benefits – Amendment to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	01/02/2015
IAS 19	Employee benefits – Amendment resulting from September 2014 Annual Improvements to IFRSs	01/01/2016
IAS 24	Related party disclosures –Amendments resulting from annual improvements 2010-2012 cycle (management entities)	01/02/2015

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1	Accounting policies	(continued)
IAS 27	Separate financial statements – Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	01/01/2016
IAS 28	Investments in associates and joint ventures – Amendments regarding the application of the consolidation exception	01/01/2016
IAS 36	Impairment of assets – clarification of acceptable methods of depreciation and amortisation	01/01/2016
IAS 38	Intangible assets – Amendments resulting from annual improvements 2010-2012 cycle (proportionate restatement of accumulated depreciation and revaluation)	01/02/2015
IAS 39	Intangible assets – Amendments regarding the clarification of acceptable methods of depreciation and amortisation	01/02/2015

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.

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:

Impairment of assets

The Group 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.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

(continued)

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 each taxable entity within the Group. The Directors have decided that no deferred tax asset should be recognised at 31 December 2014. If the actual profits earned by the Group differs from the budgets and forecasts used then the value of such deferred tax assets may differ from that shown in these financial statements.

Valuation of derivative financial asset

The Company placed 250 million shares with Lanstead Capital L.P. ('Lanstead') for a consideration of £1 million and a second tranche of 150 million shares for a consideration of £260,000. At the same time, the Company and Lanstead entered into equity swap and interest rate swap agreements in respect of the placings for which consideration will be received on a monthly basis over a 24 month period (note 16). The amount receivable each month is dependent on the Company's share price at the settlement date. The Directors have made assumptions in the financial statements about the funds receivable at the year end. However, there is significant uncertainty underlying these assumptions due to the unpredictable nature of the share price.

3 Segmental information

In April 2015, the Company disposed of its one primary business segment, gold and precious mineral exploration and in one principal geographical area, Kyrgyzstan. Details of the profit and loss in respect of this disposal are disclosed in note 11 to the accounts under disposal of subsidiaries.

Following the disposal, the Company became 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 2015 as shown on the Statement of Financial Position all relate to the Investment activity.

4 Operating loss

	2015	2014
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	425	2,946
Loss on foreign exchange transactions	250	81,850
Auditors' remuneration		
- Fees payable to the company's auditor for the audit of the company's financial statements	17,545	19,500
- Fees payable to the company's auditors for non-audit services	2,000	-

5 Finance income

	2015	2014
	£	£
Bank interest received	162	34

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

6	Finance costs	2015 £	2014 £
	Other interest	-	67,491
<hr/>			
7	Income tax expense	2015 £	2014 £
	Domestic current year tax		
	Adjustment for prior years	(411)	-
	Total tax expenses	(411)	-
<hr/>			
	Factors affecting the tax charge for the year		
	Profit/(loss) before income taxation	68,900	(4,580,445)
	Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.00% (2014 - 20.00%)	13,780	(916,089)
	Effects of:		
	Non deductible expenses	20,207	803,977
	Depreciation add back	85	-
	Capital allowances	(340)	-
	Tax losses not utilised	(80,650)	112,112
	Prior year	(411)	-
	Other tax adjustments	46,918	-
	Total tax expense	(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 arising from the accumulated tax losses of approximately £3.4m (2014: £3.2m) carried forward has not been recognised but may become recoverable against future trading profits.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

8 Earnings/loss per share

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

	2015	2014
	£	£
Basic:		
Continuing operations	(502,434)	(687,701)
Discontinued operations	571,745	(3,121,512)
	<u>69,311</u>	<u>(3,809,213)</u>
Loss for the financial period	<u>69,311</u>	<u>(3,809,213)</u>
Weighted average of ordinary shares	<u>30,677,884</u>	<u>5,444,473</u>

There was no dilutive effect from the options outstanding during the period (note 19).

The number of shares included in the comparative figure for 2014 has been updated to give effect to the restructuring of the share capital which took place during the current year (note 20).

9 Tangible fixed assets

	Plant and machinery £
Cost	
At 1 January 2015	13,872
Additions	1,699
Disposals	(13,872)
	<u>1,699</u>
At 31 December 2015	<u>1,699</u>
Depreciation	
At 1 January 2015	3,517
On disposals	(3,517)
Charge for the year	425
	<u>425</u>
At 31 December 2015	<u>425</u>
Net book value	
At 31 December 2015	<u>1,274</u>
At 31 December 2014	<u>10,355</u>

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

10 Investments in subsidiary undertakings

The Company

	£
Cost	
At 1 January 2015	2,503,270
Additions	100
Disposals	(2,503,270)
	<hr/>
At 31 December 2015	100
	<hr/>
Provisions for diminution in value	
At 1 January 2015	2,503,270
On disposals	(2,503,270)
	<hr/>
At 31 December 2015	-
	<hr/>
Net book value	
At 31 December 2015	100
	<hr/> <hr/>
At 31 December 2014	-
	<hr/> <hr/>

Subsidiary undertakings:

During the year, the Company disposed of its entire shareholding of the following companies.

Company	Country of registration or incorporation	Shares held	
		Class	%
Central Asia Resources Limited	England & Wales	Ordinary	100
Premier Asia Resources LLC	Kyrgyz Republic	Ordinary	80

During the year, the Company acquired the entire shareholding of the following company.

PXOG County Limited	England & Wales	Ordinary	100
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PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

11 Disposal of subsidiaries

On 14 April 2015, the Company disposed of Central Asia Resources Limited, being the holding company of Premer Asia Resources LLC and the company that holds the Group's 80% interest in the Exploration Licence in the Kyrgyz Republic.

Consideration received

	£
Settlement of Convertible Loan Note	580,000
Additional consideration	50,000
Interest accrued on the Convertible Loan Note	61,653
	<hr/>
	691,653
	<hr/> <hr/>

Assets and liabilities over which control was lost

	£
<i>Current assets</i>	
Inventories	977
Trade and other receivables	8,571
Cash and cash equivalents	247
<i>Non-current assets</i>	
Property, plant and equipment	10,355
<i>Current liabilities</i>	
Trade and other payables	(27,640)
	<hr/>
Net liabilities disposed of	(7,490)
	<hr/> <hr/>

Gain on disposal of subsidiary

	£
Consideration received	691,653
Net liabilities disposed of	7,490
Cumulative exchange gain in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	39,467
Minority interest's share of net assets of subsidiaries	(166,865)
	<hr/>
	571,745
	<hr/> <hr/>

The gain on disposal is included in the profit for the year from discontinued operations.

Net cash inflow on disposal of subsidiaries

	£
Additional consideration in cash and cash equivalents	50,000
Less: cash and cash equivalent balances disposed of	(247)
	<hr/>
	49,753
	<hr/> <hr/>

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

11 Disposal of subsidiaries (continued)

Analysis of profit/(loss) for the year from discontinued operations

The results of the discontinued operations included in the profit/loss for the year are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

	2015 £	2014 £
Administrative expenses	-	(162,967)
Impairment charges	-	(3,729,777)
	-	(3,892,744)
Gain on disposal of operation	571,745	-
Profit/(loss) for the year from discontinued operations	571,745	(3,892,744)

Cash flows from discontinued operations

	2015 £	2014 £
Net cash outflows from operating activities	-	(4,357)
Net cash inflows from financing activities	50,000	-
Net cash inflows/(outflows)	50,000	(4,357)

12 Inventories 2015 The Group £ 2014 £

Finished goods and goods for resale	-	977
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13 Trade and other receivables	The Group		The Company	
	2015 £	2014 £	2015 £	2014 £
Trade receivables	-	7,451	-	-
Other receivables	138,779	14,434	138,779	13,314
Prepayments and accrued income	17,130	12,043	17,130	12,043
	155,909	33,928	155,909	25,357

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

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

14 Derivative financial assets

	2015	2014
	£	£
Due within one year	-	46,359

Lanstead 1 Agreement

In December 2012, the Company issued 250 million new shares of 0.1p per share at a price of 0.4p per share to Lanstead Capital L.P. ('Lanstead') with a notional value of £1 million. The Company entered into an equity swap price mechanism with Lanstead for a notional 75% of these shares with a notional reference price of 0.5333p per share. Lanstead have hedged the consideration they pay for shares in the Company against the performance of the Company's share price over a 24 month period. All 250 million shares were allotted with full rights on the date of the transaction.

To the extent that the share price is greater or lower than the reference price at each swap settlement, the Company will receive greater or lower consideration calculated on pro-rata basis i.e. share price / reference price multiplied by the monthly transfer amount. The valuation for each settlement is determined to be the average share price for the preceding 5 trading days up to settlement date.

As the amount of the consideration receivable by the Company from Lanstead will vary subject to the change in the Company's share price and will be settled in the future, the receivable is treated as a derivative financial asset and has been designated at fair value through profit or loss.

The Company also issued 25 million shares to Lanstead as a value payment in connection with the equity swap agreement.

The fair value of the derivative financial assets has been determined by reference to the Company's share price and has been estimated as follows:

	Share price	Notional number of shares outstanding	Fair value £
Value of derivative financial assets at 1 January 2014	0.14p	109,375,000	153,125
Consideration received		(93,750,000)	(96,988)
Loss on revaluation of derivative financial asset			(47,278)
Value of derivative financial assets at 31 December 2014	0.05p	15,625,000	8,859
Consideration received		(15,625,000)	(8,859)
Loss on revaluation of derivative financial asset			-
Value of derivative financial assets at 31 December 2015		-	-

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

14 Derivative financial assets

(continued)

Lanstead 2 Agreement

In December 2013, the Company issued 200 million new shares of 0.1p per share at a price of 0.13p per share to Lanstead Capital L.P. ('Lanstead') with a notional value of £260,000. The Company entered into an equity swap price mechanism with Lanstead for a notional 75% of these shares with a notional reference price of 0.17333p per share. Lanstead have hedged the consideration they pay for shares in the Company against the performance of the Company's share price over a 24 month period. All 150 million shares were allotted with full rights on the date of the transaction.

The Company also issued 20 million shares to Lanstead as a value payment in connection with the equity swap agreement.

As with the Lanstead 1 Agreement, the consideration receivable from Lanstead has been treated as a derivative financial asset and has been designated at fair value through profit or loss. The fair value of the derivative financial asset has been determined by reference to the Company's share price and has been estimated as follows:

	Share price	Notional number of shares outstanding	Fair value £
Value of derivative financial assets at 1 January 2014	0.14p	150,000,000	210,000
Consideration received		(75,000,000)	(51,590)
Gain on revaluation of derivative financial asset			(120,910)
Value of derivative financial assets at 31 December 2014	0.05p	75,000,000	37,500
Consideration received		(75,000,000)	(3,545)
Other movement			(33,955)
Value of derivative financial assets at 31 December 2015		-	-

15 Cash and cash equivalents

	The Group		The Company	
	2015	2014	2015	2014
	£	£	£	£
Cash at bank and in hand	382,216	22,734	382,216	22,487

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 2015

16 Trade and other payables	The Group		The Company	
	2015	2014	2015	2014
	£	£	£	£
Trade payables	1,349	138,096	1,349	137,989
Corporation tax	-	411	-	411
Other taxes and social security costs	9,829	1,580	9,829	771
Other payables	26,751	138,321	26,851	111,597
Accruals and deferred income	42,946	87,465	42,946	87,465
	<u>80,875</u>	<u>365,873</u>	<u>80,975</u>	<u>338,233</u>

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

17 Borrowings	2015	2014
	£	£
Convertible loan note	-	479,784
	<u>-</u>	<u>479,784</u>

In 2013, the Company entered into a convertible loan note agreement for £1 million of which £500,000 was drawn down by 31 December 2013, with further draw downs totalling £80,000 during 2014. The interest rate on the loan is 10% per annum. The loan matures five years from the issue date at their nominal value. The Loan Note Holder can convert their loan, and accrued interest, into shares at the holder's option commencing six months after the issue date of the loan and up to the maturity date at the rate of 500 shares per £1. The Company has the right to repay the loan at any time up to the maturity date. The values of the liability component and the equity conversion component were determined at issuance of the loan.

The convertible loan recognised in the balance sheet is calculated as follows:

	2015	2014
	£	£
Nominal value of convertible loan issued	-	580,000
Equity component	-	(100,216)
Liability component on initial recognition and at 31 December 2015	<u>-</u>	<u>479,784</u>

Interest of £nil (2014: £61,608) has been charged in respect of the convertible loan note to the statement of comprehensive income and included in trade and other payables under accruals and deferred income.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

18 Pension and other post-retirement benefit commitments

Defined contribution

	2015 £	2014 £
Contributions payable by the company for the year	7,125	-

19 Share-based payments

Share options

At 31 December 2014 and 31 December 2015 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 2014	Shares under option	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	273,400	7.6	157.5
Granted	-	-	-
Lapsed	(5,000)	-	(562.5)
Carried forward	<u>268,400</u>	<u>6.3</u>	<u>150</u>
31 December 2015	Shares under option	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	268,400	6.3	150
Granted	3,659,116	-	3.05
Lapsed	(24,000)	-	(2.08)
Carried forward	<u>3,903,516</u>	<u>9.1</u>	<u>0.9</u>

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

The number of share options included in the comparative figures for 2014, and the weighted average exercise price, have been updated to give effect to the restructuring of the share capital which took place during the year (note 20).

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

19 Share-based payments

(continued)

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 18 November 2005	16,000	18/11/2015	250.0p	10.0p
2. Granted 31 July 2007	36,400	31/07/2017	250.0p	82.5p
3. Granted 30 April 2012	208,000	30/04/2022	125.0p	47.5p
4. Granted 1 September 2012	8,000	01/09/2022	125.0p	5.0p
5. Granted 16 April 2015	2,847,116	15/04/2025	3.0p	1.94p
6. Granted 16 April 2015	812,000	15/04/2018	3.0p	1.94p

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 18 November 2005	37.5p	250.0p	100%	5 years	4.4%
2. Granted 31 July 2007	212.5p	250.0p	100%	5 years	4.4%
3. Granted 30 April 2012	175.0p	125.0p	32%	3.5 years	0.24% - 0.43%
4. Granted 1 September 2012	75p	125.0p	32%	3.5 years	0.24% - 0.43%
5. Granted 16 April 2015	4.0p	3.0p	71.5%	3 years	0.71%
6. Granted 16 April 2015	4.0p	3.0p	71.5%	3 years	0.71%

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 £70,993 (2014: £nil).

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

20	Share capital	2015 Number	2014 Number	2015 £	2014 £
	Allotted, called up and fully paid				
	Ordinary shares of 1p each	40,731,291		407,313	-
	Ordinary shares of 0.1p each	-	1,361,935,975	-	1,361,936
	Deferred shares of 0.1p each	942,462,000	942,462,000	942,462	942,462
	Deferred shares of £24 each	54,477	-	1,307,459	-
		<u> </u>	<u> </u>	<u>2,657,234</u>	<u>2,304,398</u>

In April 2015, the Company carried out a capital reorganisation whereby the existing ordinary share capital was consolidated by the issue of 1 Consolidation Share of £25 each for every 25,000 existing ordinary shares of 0.1p each. The Consolidation Shares were then subdivided into 100 New Ordinary Shares of 1p each and 1 Deferred Share of £24 each

At the same time, the Company raised £1,076,150 through the issue of 35,283,591 New Ordinary Shares of 1p each to provide capital for the Company's Investing Policy. £50,000 of the funds raised were utilised in settlement of the unsecured Creditors in the Corporate Voluntary Arrangement that the Company entered into.

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 2015

21 Directors' emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Group, including all directors of the Company.

	2015 £	2014 £
Directors		
Emoluments for qualifying services	126,659	215,083
Benefit in kind	2,975	
Equity-settled share based payment (note 19)	44,724	-
Pension contributions	7,125	-
	<u>181,483</u>	<u>215,083</u>

Directors and key management personnel					2015	2014
	Salaries and fees £	Benefit in kind £	Equity- settled share based payment £	Pension £	Total £	£
Directors' emoluments						
Edward Dawson	72,250	2,975	13,197	7,125	95,547	-
William Smith	8,500	-	10,509	-	19,009	-
Richard Mays	9,000	-	10,509	-	19,509	-
Gavin Burnell	8,576	-	10,509	-	19,085	-
Gerry Desler	10,000	-	-	-	10,000	35,500
Christian Schaffalitzky	3,333	-	-	-	3,333	21,667
Garth Earls	5,000	-	-	-	5,000	52,500
Richard Nolan	10,000	-	-	-	10,000	60,000
Colonel Robert Stewart	-	-	-	-	-	20,416
Dr Reza Tabrizi	-	-	-	-	-	25,000
	<u>126,659</u>	<u>2,975</u>	<u>44,724</u>	<u>7,125</u>	<u>181,483</u>	<u>215,083</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2014 - 0).

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

22 Employees

Number of employees

There were 5 employees during the year including the directors (2014: 14).

Employment costs

	2015	2014
	£	£
Wages and salaries	211,659	264,158
Social security costs	20,186	14,070
Other pension costs	7,125	-
Equity settled share-based payments	70,993	-
	<u>309,963</u>	<u>278,228</u>

23 Control

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

24 Related party transactions

During the year there were consultancy fees and property related expenses of £nil (2014: £39,521) charged by Eurasia Mining Plc and included in trade payables at the year end is £nil (2014: £38,081) owing to Eurasia Mining Plc. Christian Schaffalitzky is a director of Eurasia Mining Plc.

During the year, there were consultancy fees of £17,200 (2014: £nil) charged by Sallork Legal and Commercial Consulting Limited ("Sallork") and included in trade payables at the year end is £1,200 (2014: £nil) 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 2015.

	2015	2014
	£	£
Christian Schaffalitzky	-	13,333
Garth Earls	-	36,119
Gerry Desler	-	25,423
Richard Nolan	-	36,722
	<u>-</u>	<u>135,607</u>

In the Company's own accounts, full provision has been made against balances due from Central Asia Resources Limited and Premier Asia Resources LLC amounting to £nil (2014: £772,715) and £nil (2014: £689,546) respectively.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

25 Subsequent events

Investment in Hutton Poland

in April 2016, PXOG County Limited ("PXOG"), the Company's wholly owned subsidiary, completed its acquisition of 210,700 ordinary shares and 588,000 £1 loan notes of Hutton Poland Limited ("Hutton Poland") for a total consideration of £620,000, being 49% of the issued share capital of Hutton Poland and its loan notes outstanding at completion, from Hutton Energy Limited ("Hutton"). the remaining 51% of the ordinary shares and loan notes are owned by Hutton.

Hutton has been active in Poland since 2009, holding various stakes in exploration licenses, and in the process has gathered a geologic and geophysical data set. Hutton Poland presently has seven license applications in process. The most advanced is the Kolo License application which was recently offered to Hutton Poland by the regulatory authorities.

The Kolo license was formally awarded in late April 2016.

The Kolo License area is located in the Lodz Trough within the Polish Central Lowlands, c120 km west of Warsaw. The directors of Prospex believe the region is well serviced by oil and gas surface facilities and sits on major European transport arteries. The Kolo License area is 1,150 square kilometres and is elongated in a NW-SE direction along the strike of the Lodz Trough, a well-known Mesozoic sedimentary basin. This basin is known in Poland by its salt mines (Klodava) but also by important manifestations of gas and oil in shallow water wells.

Hutton has 1400km of vintage 2D seismic data over the license area and gathered a further 250km of 2D seismic data in 2014. Recent geological studies and interpretation of geophysical data by Prospex have indicated that the Lodz Trough has the potential to contain commercial oil and gas accumulations at deeper and shallow levels in early and late Cretaceous sedimentary reservoir rocks, similarly to hydrocarbon provinces like the North Sea and the Baltic region.

Prospex believes the prospectivity of the license is in conventional targets as opposed to unconventional regional plays. In particular Prospex, from the data, has identified a number of conventional oil and gas exploration targets, between 1,000 and 4,000 metres below surface.

The Company has been advised by the directors of Hutton Poland that the Boleslaw prospect on the Kolo Licence is ready for drilling, with a drill location determined and a target spud date in the fourth quarter of 2016. The Boleslaw prospect has been worked up using 1650km of 2D seismic already owned by Hutton. Although timing is subject to a number of factors including environmental permitting and confirmation of a suitable rig.

In May 2016, Prospex received a Competent Persons Report which reviews the Kolo Licence from both a geological and economic perspective. A copy of the report is located on the Company's website: www.prospexoilandgas.com.

The Competent Persons Report's Key Points:

- Gross Best Estimate Technical Unrisked Prospective Resources for the Boleslaw prospect (within the Kolo Licence) are estimated at 87.1 Bscf. The indicative NPV ranges from \$44m to \$95m (net to Prospex).
- Economic assessments clearly indicated that in the case of a gas discovery with N2 content less than 50mol% a Gas-to-Power (combined heat and power, "CHP") development concept would be economically robust above a minimum threshold of around 25Bscf GIIP of gas.
- The notional CHP development scenarios were based on a single well assuming production rates of 20MMscf to 40MMscf per day (3333 to 6666 boe/d).
- The economic assessment based on the AGR TRACS N2 risk profile indicated a risked EMV of £5.0m (net to Prospex), while corresponding evaluations assuming Prospex's N2 risk profile suggested a risked EMV of £8.4m (net to Prospex), where both estimates were derived assuming current electricity prices.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

25 Subsequent events

(continued)

Loan

On completion of the purchase of Hutton Poland PXOG entered into a loan agreement with Hutton to borrow £490,000. The loan is interest bearing from the date of the Kolo License award at LIBOR plus 2%. The loan and interest accrued are repayable on the latter of 31 August 2016 or 90 days after the unconditional award of the Kolo License. The loan is secured against PXOG's shares and loan notes in Hutton Poland. Hutton's recourse in default is limited to PXOG's shares and loans note in Hutton Poland.

Further investments

In addition to the Hutton Poland investment detailed above, the company made 3 additional investments: Elephant Oil Limited, MOL Hungarian Oil and Gas Public Limited Company and OMV Aktiengesellschaft. The directors believe these additional investments give the portfolio some further diversity providing exposure to a wider range of market capitalisations, up and downstream activities, and geopolitical risks.

In April 2016, the Company acquired 587,120 new Ordinary Shares in Elephant Oil Limited ("Elephant") for a consideration of £100,000. It now holds a 2.54% interest in Elephant..

In April 2016, the Company acquired 1,100 ordinary shares in MOL Hungarian Oil and Gas Public Limited Company ("MOL") for a consideration of \$67,714 through the market. MOL is the parent company of the MOL group an integrated group of Oil and Gas companies headquartered in Hungary.

The Company has acquired 2,300 Ordinary Shares in OMV Aktiengesellschaft ("OMV") for a consideration of €55,418, through the market. OMV is the parent company of the OMV group, an integrated group of Oil and Gas companies headquartered in Austria.

Placing

In May 2016, the Company completed a placing to raise approximately £1.64 million from the issue of 164,600,000 new ordinary shares of 1p each ("New Ordinary Shares") at a price of 1p per share (the "Placing"), through WH Ireland Limited, Beaufort Securities Limited and Peterhouse Corporate Finance Limited. Dealings are expected to commence on 10 June 2016. The funds raised will be used to:

- Support the 2016 activities of Hutton Poland Limited;
- Repay the loan from Hutton Energy Limited (see above); and
- For general working capital purposes.

Investing Policy

On 13 April 2016 announced that it had implemented its original Investment Policy adopted on 14 April 2015.

On 11 May 2016 the shareholders, at a general meeting, gave approval to the existing investing policy with an amendment. The full investing policy is set out below, with the approved amendment shown in the final paragraph.

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 to the extent that the Directors consider that valuable opportunities exist and returns can be achieved.

In selecting investment opportunities, the Directors will focus on businesses, assets and/or projects that are available at attractive valuations and hold opportunities to unlock embedded value. Where appropriate, the Directors may seek to invest in businesses where it may influence the business at a board level, add their expertise to the management of the business, and utilise their significant industry relationships and access to finance; as such investments are likely to be actively managed.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

25 Subsequent events

(continued)

The Company's interests in a proposed investment and/or acquisition may range from a minority position to full ownership and may comprise one investment or multiple investments. The proposed investments may be in either quoted or unquoted companies; be made by direct applications, acquisitions or farm-ins; and may be in companies, partnerships, earn-in joint ventures, debt or other loan structures or direct or indirect interests in assets, projects or licences. The Directors may focus on investments where intrinsic value can be achieved from the restructuring of investments or merger of complementary businesses.

The Directors expect that investments will typically be held for the medium to long term, although short term disposal of assets cannot be ruled out if there is an opportunity to generate an attractive return for Shareholders. The Directors will place no minimum or maximum limit on the length of time that any investment may be held.

There is no limit on the number of projects into which the Company may invest, and the Company's financial resources may be invested in a number of propositions or in just one investment, which may be deemed to be a reverse takeover under the AIM Rules. The Directors intend to mitigate risk by appropriate due diligence and transaction analysis. Any transaction constituting a reverse takeover under the AIM Rules will also require Shareholders' approval. The Directors consider that as investments are made, and new promising investment opportunities arise, further funding of the Company may also be required.

Where the Company builds a portfolio of related assets it is possible that there may be cross holdings between such assets. The Company does not currently intend to fund any investments with debt or other borrowings but may do so if appropriate. Investments in early stage assets are expected to be mainly in the form of equity, with debt potentially being raised later to fund the development of such assets. Investments in later stage assets are more likely to include an element of debt to equity gearing. The Directors may also offer new Ordinary Shares by way of consideration as well as cash, thereby helping to preserve the Company's cash for working capital and as a reserve against unforeseen contingencies including, for example, delays in collecting accounts receivable, unexpected changes in the economic environment and operational problems.

The Directors will conduct initial due diligence appraisals of potential business or projects and, where they believe further investigation is warranted, intend to appoint appropriately qualified persons to assist. The Directors believe they have a broad range of contacts through which they are aware of various opportunities which may prove suitable, although at this point only preliminary due diligence has been undertaken. The Directors believe their expertise will enable them to determine quickly which opportunities could be viable and so progress quickly to formal due diligence. The Company will not have a separate investment manager. The Company proposes to carry out a comprehensive and thorough project review process in which all material aspects of a potential project or business will be subject to rigorous due diligence, as appropriate. Due to the nature of the sector in which the Company is focused it is unlikely that cash returns will be made in the short to medium term; rather the Company expects a focus on capital returns over the medium to long term.

Amendment

The Company will undertake an acquisition or acquisitions within the natural resources and/or energy sector, which constitutes a reverse takeover under AIM Rule 14 of the AIM Rules for Companies within 12 months of the date of the general meeting.

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

26 Financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows

- Derivative financial assets
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

A summary of the financial instruments held by category is provided below:

	2015	2014
	£	£
Financial assets		
<i>Loans and receivables</i>		
Trade and other receivables	155,909	33,928
Cash and cash equivalents	382,216	22,734
Derivative financial assets	-	46,359
	<u>538,125</u>	<u>103,021</u>

	2015	2014
	£	£
Financial liabilities		
Trade and other payables	80,875	845,657
	<u>80,875</u>	<u>845,657</u>

Fair value measurement

	Level 1	Level 2	Level 3
	£	£	£
<i>Derivative financial assets</i>			
At 31 December 2015	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2014	-	46,359	-
	<u>-</u>	<u>46,359</u>	<u>-</u>

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 Group'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 Group manages these risks through an effective risk management programme and through this programme, the Board seeks to minimise potential adverse effects on the Group'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

PROSPEX OIL & GAS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

26 Financial instruments

(continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its receivables and its cash deposits. It is Group 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 Group's management of working capital. It is the risk that the Group 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 Group is principally funded by equity and invests in short-term deposits, having access to these funds at short notice. The Group'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 Group had entities which operated in Kyrgyzstan and were therefore exposed to foreign exchange risk arising from currency exposure to the Kyrgyzstan Som, the functional currency of those subsidiaries. The overseas subsidiaries operated separate bank accounts which were used solely for those subsidiaries, thus managing the currency in that country. The Group's net assets arising from the overseas subsidiaries were exposed to currency risk resulting in gains or losses on retranslation into sterling. In April 2015, the Company disposed of these subsidiaries and since then, it is no longer exposed to this risk.