12 October 2018

Prospex Oil and Gas Plc (‘Prospex’ or the ‘Company’)
Issue of Loan Notes

Highlights

- £480,000 raised via issue of unsecured Loan Notes
- Proceeds to help fund 2019 development costs at the Selva gas discovery on the Podere Gallina Permit, Italy
- Loan Notes and additional non-equity funding expected to fund the full development of Selva as well as further exploration in the proposed production concession
- This debt financing follows first gas production in Romania in September 2018, which has opened up non-equity funding to the Company

Prospex Oil and Gas Plc, the AIM quoted investment company, is pleased to announce that it has raised £480,000 via the issue of unsecured Loan Notes (‘the Loan Notes’) to new and existing investors (‘the Subscribers’), including several directors of the Company. In addition, the Subscribers have been issued with 55 warrants (‘the Warrants’) for each £1 of Loan Note subscribed. Each Warrant confers to the Subscriber the right to acquire one Ordinary Share at 0.6p.

The proceeds of the Loan Notes will be used to fund the Company’s share of the budgeted early stage development costs (including environmental monitoring) at the Selva gas discovery (‘Selva’) on the Podere Gallina Permit in Italy (‘Podere Gallina’) in 2019 and cover the Company’s general expenditure in 2019. The Company anticipates being able to fund the full development of the gas discovery and further exploration in the proposed production concession from this and further non-equity funding as the project progresses.

The Loan Notes will pay 10% interest biannually, capitalised to 30 June 2019, with the first cash payment 31 December 2019. Repayments start in December 2020 with final repayment on 30 June 2022 (four equal payments) and fit conservatively with expected first production at Selva in Q1/Q2 in 2020.

The Directors believe the issue of the Loan Notes reflects the considerable progress made by Prospex over the last twelve months across its portfolio of European onshore projects. In addition to the Podere Maiar discovery, the Company participated in a gas discovery on the EIV-1 Suceava Concession in onshore Romania which has since been brought into production (see announcement of September 2018 for further details). This marked a significant milestone as following first gas production from this discovery, Prospex is now a revenue generative oil and gas investment company. Cash flow from Romania and expected cash flow from Italy, which will significantly scale up Prospex’s revenue profile, have opened up non-equity financing options to the Company to fund future development, as demonstrated by the issue of the Loan Notes.

Prospex holds a 17% interest in Podere Gallina where a significant gas discovery was confirmed in January 2018 following highly positive flow testing results at the Podere Maiar-1d appraisal/redevelopment well ('Podere Maiar'). A production concession application has since been submitted to the Italian Government to develop the gas field with first phase production targeted to commence in Q1/Q2 2020 at a rate of up to 150,000 cubic metres (5.3 mmscf/day). The operator, Po Valley Energy, estimates the gross capex required to bring the discovery into production is €2.4 million (€408,000 net to Prospex).

Prospex non-executive Chairman, Bill Smith, said, "The market may not have fully recognised the significance to the Company of first gas production in Romania and ongoing work to advance the Selva gas field in Italy towards development, but the Subscribers to the Loan Notes have done. Not only is Prospex generating revenues for the first time, but the presence of copycat prospects at Suceava and large structures at Podere Gallina offer multiple low cost, low risk opportunities to rapidly scale up production and revenues. To fully monetise the potential of these two assets as well as the Tesorillo project in Spain, which we believe could hold up to 2TCF (gross) of unrisked prospective resources, development capital will be required. With this in mind, it is highly encouraging that first production in Romania has opened up non-equity funding options to the Company.

"Our focus on generating shareholder value is dual focused: build and develop a portfolio of high quality European projects with clear lines of sight towards high impact activity such as drilling and production; and protect the capital structure of the Company by minimising dilution. We firmly believe a huge disconnect has opened up between the underlying value of our projects and our current market valuation. We expect this valuation gap to close as the various workstreams that are underway to monetise our investments are advanced to the point where their considerable potential is visible to all. Until this value gap closes, however, we intend to take full advantage of the non-equity funding opportunities we now have at our disposal."

Further Information on the Warrants

The Subscribers have been issued with 55 warrants ('the Warrants') for each £1 of Loan Notes subscribed for. Each warrant confers to the Subscriber the right to acquire one ordinary share at 0.6p. This equates to the Subscribers having the right to invest a further 33p for each £1 of Loan Note subscribed to. The warrants expire two years from issue of the Loan Notes. Assuming full exercise the Company would issue 26,400,000 ordinary 0.1p shares for a total subscription of £158,400.

Further Information on the Subscribers and the Loan Note

The £480,000 Loan Notes have been issued to eleven individual subscribers, including the following three Directors of the Company:

Director	Amount
Bill Smith	£50,000
Richard Mays (and family)	£50,000
James Smith	£25,000

Interest up to 30 June 2019 shall be capitalised on 30 June 2019. Interest thereafter shall be paid biannually beginning on 31 December 2019 and thereafter 30 June and 31 December of each succeeding year until all Loan Notes are repaid.

The Company can elect to pay the interest in Euros by giving 10 business days' notice. Loan Note holders can elect, on a change of control of the Company, where a single party has over 50% of the issued share capital of the Company, to convert some or all of their Loan Notes, including capitalised interest, into ordinary shares at the prevailing market price. Likewise, Loan Note holders in the limited period, from 1 September 2019 to 30 August 2020, can convert into the same class of shares as are issued in any future equity financing of £1.5m or less and at a 10% discount to the price paid per share in that financing. In addition, Loan Note holders can at their election redeem their Loan Notes on any future equity financing of £2.5m or more before 31 August 2020.

The Company can elect to repay the Loan notes in full or part at any time by giving the holders 30 days' notice otherwise the Company shall repay the Loan Notes in four equal instalments on 31 December 2020, 30 June 2021, 31 December 2021 and finally on 30 June 2022.

Related Party Transaction

The issue of the Loan Notes to the Directors is a related party transaction pursuant to Rule 13 of the AIM Rules for Companies. Accordingly, Edward Dawson, independent Director in relation to the Loan Notes, having consulted with the Company's Nominated Adviser, Strand Hanson Limited, considers that the terms of the Directors' Participation in the Loan Note subscription are fair and reasonable insofar as the Company's shareholders are concerned.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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For further information visit www.prospexoilandgas.com or contact the following:

Edward Dawson	Prospex Oil and Gas Plc	Tel: +44 (0) 203 9481619
Rory Murphy Ritchie Balmer Jack Botros	Strand Hanson Limited	Tel: +44 (0) 20 7409 3494
Duncan Vasey	Peterhouse Corporate Finance	Tel: +44 (0) 20 7469 0932
Frank Buhagiar Charlotte Page	St Brides Partners Ltd	Tel: +44 (0) 20 7236 1177

Notes

Prospex Oil and Gas Plc is an AIM quoted investment company focussed on high impact onshore and shallow offshore European opportunities with short timelines to production. The Company's strategy is to acquire undervalued projects with multiple, tangible value trigger points that can be realised within 12 months of acquisition and then applying low cost re-evaluation techniques to identify and de-risk prospects.