Prospex Oil and Gas Plc / Index: AIM / Epic: PXOG / Sector: Oil and Gas

23 September

Prospex Oil and Gas Plc ('Prospex' or the 'Company')
Half Year Report

Prospex Oil and Gas Plc, the AIM quoted investment company, is pleased to announce its unaudited Interim Results for the six months ended 30 June 2019.

Advancing a portfolio of late stage, onshore European oil and gas projects focused on the foredeep play

Operational Overview

- *Podere Gallina Exploration Permit, onshore Italy - on course for first gas production in 2020*
    - Preliminary award of production concession keeps first gas at Selva field on track to commence in 2020 at a proposed initial rate of up to 150,000 scm/day
    - First reserves and contingent resources booked after Competent Person's Report assigns 2P reserves / 2C resources / prospective resources of 2.26 bcf / 2.40 bcf / 15.56 bcf, respectively, net to Prospex's 17% interest

- *EIV-1 Suceava Concession, onshore Romania - production at Bainet field continues in line with expectations*
    - Bainet field performing in line with average production rate of 15,000 m3 per day assumed by Joint Venture for 2019 budgeting purposes
    - Enlargement of Suceava Exploration Concession to 984 sq.km
    - The drilling of low cost Bainet-2 well targeting Bainet West, a lookalike Bainet gas prospect, resulted in a dry hole for estimated all in cost of €260,000 net to Prospex
    - Suceava still holds multiple prospects and leads including a gas discovery

- *Tesorillo Gas Project, onshore Spain - ongoing work programme at the 38,000ha exploration licence in Southern Spain*
    - De-risking up to 830 billion cubic feet of gas (Best Estimate) of gross unrisked Prospective Resources (Source: NSAI CPR 2015)
    - Working towards an informed decision of whether to drill and increase stake to 49.9%
    - Updated Competent Person's Report to be commissioned

Financial Overview

- £680,906 net loss after taxation from continuing operations (H1 2018 loss: £540,761)
- £52,861 increase in the shareholders total equity value to £6,349,995 (Full Year 2018: £6,297,134)
- 10% decrease in administrative expenses to £484,713 (H1 2018: £538,680)

- £800,000 raised via placing of 400,000,000 new ordinary shares to fund the Company's share of costs for the 2019 Suceava work programme, including drilling Bainet-2 well

Edward Dawson, Managing Director of Prospex, said, "The majority of the Company's shareholder equity value of £6,349,995 is backed by its 17% interest in the Podere Gallina licence in Italy following the commercial gas discovery there in 2018. During the period, our interest was assigned net 2P reserves of 2.26 bcf and net contingent and prospective resources of 2.40 bcf and 15.56 bcf, respectively in an updated CPR, which also assigned €4.6m (net) to the 2P reserves at the Selva field. Not only did the CPR demonstrate the significant asset backing behind the Company, but also the considerable run room that remains in terms of additional prospects and leads. Following preliminary government approval of a production concession application in January 2019, we are working with our partners to bring Selva into production at an initial rate of up to 150,000 scm/day in 2020, and in the process generate a material revenue stream for the Company.

"Elsewhere, in Spain a multi-strand work programme is underway at the Tesorillo gas project, to de-risk up to 830 billion cubic feet (Best Estimate) of gross unrisked Prospective Gas Resources and identify potential well locations. In Romania we are evaluating reprocessed seismic data before agreeing the best way forward for the Suceava concession with our partner. Whilst the Bainet-2 well result was disappointing, we believe there are still compelling prospects and leads, not dependant on Bainet-2's results, to be pursued in the concession. Finally, we continue to run the rule over a number of new ventures, as we focus on growing our portfolio of projects, building on our track record of participating in four new wells in three years, and at the same time adding to the two commercial gas discoveries we have made to date."

*** * ENDS * ***

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

Edward Dawson	Prospex Oil and Gas Plc	Tel: +44 (0) 20 3948 1619
Rory Murphy	Strand Hanson Limited	Tel: +44 (0) 20 7409 3494
Ritchie Balmer		
Jack Botros		
Colin Rowbury	Novum Securities Limited	Tel: +44 (0) 20 7399 9427
John Belliss		
Duncan Vasey	Peterhouse Corporate Finance	Tel: +44 (0) 20 7469 0932
Frank Buhagiar	St Brides Partners Ltd	Tel: +44 (0) 20 7236 1177
Priit Piip		

CHAIRMAN'S STATEMENT

The Company holds a multistage portfolio of late stage European onshore projects in Italy, Romania and Spain, which includes commercial gas discoveries at the Podere Gallina permit onshore Italy, and at the Suceava Concession in Romania where production commenced in September 2018. The review period saw significant milestones being achieved in Italy and as a result we are confident the Selva field in Podere Gallina is on course to become our second producing field in 2020, at which point it will provide us with a highly cash generative platform with which to grow the Company further.

The Company's first announcement of 2019 noted the receipt by operator Po Valley Energy Limited of preliminary government approval of the production concession application to develop the Selva Malvezzi Gas-Field ('Selva') in northern Italy which was discovered by the Podere Maiar well in December 2017. The field is to be developed in two stages with stage one involving the low-cost installation of a fully automated gas plant at the well site and laying of a 1km pipeline to connect the plant to the grid. Based on dynamic reservoir studies, stage one is targeting a gross daily production rate of up to 150,000 cubic metres (5.3 mmscf/d).

The size of the natural gas resources at Podere Gallina was highlighted in an updated CPR in April 2019. Having previously assigned zero gross contingent resources ('2C') and 52.7 bcf gross prospective resources to already identified prospects and leads, CGG Services (UK) Limited ('CGG') now estimates the licence area holds 14.1 bcf gross 2C and 91.5 bcf gross prospective resources (Best Estimate). These are in addition to the 13.3 bcf of 2P reserves assigned to Selva in February 2019. Prospex's 17% interest in Podere Gallina therefore equates to net 2P reserves / 2C resources / prospective resources of 2.26 bcf / 2.40 bcf / 15.56 bcf respectively. Notably, the €4.6m value of Prospex's 2.26bcf gas reserves exceeds our current market cap, highlighting the value case behind the Company.

Monetising Selva's reserves is subject to receipt of final government approval which in turn requires the completion of the usual regulatory permitting processes. This includes an Environmental Impact Assessment, complemented with a micro-seismicity study and the agreement of an ongoing monitoring plan, all of which are currently being reviewed by the regulator. We remain confident that final government approval will be granted in 2019. Importantly, the production concession area will cover areas with prospects and leads which together account for the above 14.1 bcf gross 2C resources and 91.5 bcf gross prospective resources. As a result, it is anticipated the permitting process for the development of any new discoveries will be considerably shorter. These prospects will be targeted in stage two, as we look to upgrade more of the considerable resource base to the more valuable reserves categories, which in turn will open up non-dilutive sources of funding such as reserves-based lending.

Selva remains on course to become Prospex's second producing asset after the Bainet field in Romania came online in September 2018. In March 2019, we provided a six-month production update for Bainet which included a 15,000 m^3 per day assumed production rate for 2019 budgeting purposes. Six months on and we are pleased to report that Bainet continues to perform in line with expectations. Our aim in Romania has always been to drill multiple wells and bring several fields into production to generate material cash flows for further drilling. With this in mind, March 2019 saw us announce the enlargement of the

Suceava Exploration Concession, which added the Bainet West target to our prospect inventory. In the summer of 2019, we participated with the operator Raffles Energy S.R.L. in the drilling of the Bainet-2 well, targeting Bainet West. This failed to encounter commercial volumes of hydrocarbons, however, at an all-in cost of €260,000 net to Prospex, Bainet-2 was a low cost well which, combined with targeting a lookalike prospect to the nearby producing Bainet field, had an attractive risk / reward profile. Technical data gained from the well will provide further insight into the use of advanced geophysical techniques in the forward plan for the concession, which, being in an area of multiple historic discoveries and producing fields, remains a key asset in our portfolio.

Our third core asset, the 38,000ha Tesorillo Project in southern Spain, sits at the opposite end of the spectrum to Romania when it comes to volumetrics. As with all our projects, Tesorillo lies in a proven hydrocarbon region and holds historic discoveries including the Almarchal-1 discovery well which flowed gas to surface on testing in 1957. According to a 2015 report by Netherland Sewell and Associates, Tesorillo could hold gross unrisked Prospective Resources of 830 Bcf of gas (Best Estimate), with upside in excess of 2 Tcf. Proving up these Company-making resources via the drill bit is central to the ongoing work programme at Tesorillo, which is focused on de-risking targets and confirming the preferred location of future wells. It is intended to high grade two well locations and take them through the permitting process.

Work carried out to date includes general field studies as part of the Environmental and Social Impact Assessment ('ESIA') required for the permitting of new wells, the first of which is likely to investigate the same or similar trap configuration to the Almarchal-1 discovery well. Newly reprocessed 2D seismic data recently interpreted and integrated with new detailed surface structural geology is providing more confidence about the subsurface geometry of the exploration target - the Aljibe sandstone in the Lowermost Miocene, consisting of several folds and thrust ramps of 3 to 5km length which could be potential gas traps.

Importantly, four very promising leads have been identified in the northern half of the concession following work to integrate new structural maps and cross sections, well reinterpretation and satellite images. This additional prospectivity is very good news but will require further imaging and mapping, either through magneto telluric data or with seismic data acquisition in the future. The high degree of geological complexity in Tesorillo requires us to return to the field during the autumn in order to re-calibrate a small number of magneto telluric stations, which will allow a better imaging of the subsurface. As it stands, the limited data set is precluding us from undertaking a new CPR at this point.

We are encouraged by the basin wide work which is producing additional areas of previously uncharted prospectivity. We are also encouraged by our partner’s enthusiasm and support for the project. In March 2019, Petrel Energy changed its name to Warrego Energy following a reverse takeover of the company. Warrego Energy, which has a seasoned European management team with a very strong drilling background, is in the process of completing the deepest well ever drilled onshore Australia (5100m TD) at West Erregulla where it has a 50% interest. Drilling commenced in May and results to date support the pre-drill resource estimate in excess of 1 TCF. We welcome them as partners and hope to build on what is already a positive working relationship.

Financial Review

For the six months ended 30 June 2019, the Company is reporting a net loss after taxation from continuing operations of £680,906 (H1 2018 loss £540,761). Unrealised losses arising on revaluation of financial assets at fair value totalled £207,999 (H1 2018 loss £20,553). Administrative expenses of £484,713 for the year-to-date, compares with £538,680 for the six-month period ended 30 June 2018. In March 2019, the Company raised £800,000 gross via an oversubscribed placing of 400,000,000 new ordinary shares primarily to fund the Company's share of costs for the 2019 work programme at Suceava including the drilling of the Bainet-2 well. As at 30 June 2019, the Company held cash and cash equivalents of £265,094 (30 June 2018: £489,497). Since 30 June, PXOG Marshall has recovered €196,000 of Italian VAT and it has used these funds to repay part of its loan to the PLC. As at the end of August 2019, the Company held cash balances of £319,539.

Outlook

In the last three years, Prospex Oil & Gas has participated in the drilling of four wells, made two gas discoveries, one of which is already in production, and booked its maiden reserves. While in the Board's eyes our share price does not reflect the progress made to date, our financial performance is starting to do so, specifically in the shareholders total equity value of our investments which stood at £6,349,995 as at 30 June 2019. With a pipeline of prospects already identified, work programmes underway to de-risk these to the point of drilling, and production on course to commence at Selva, there remains considerable scope across our portfolio of projects to drive future financial performance. In tandem with this, we continue to evaluate new ventures which match our investment criteria. I look forward to providing further updates on our progress, as we focus on realising the potential of our asset base and generating value for our shareholders.

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

Bill Smith
Non-Executive Chairman
September 2019

Prospex Oil and Gas Plc
Interim results
For the six months ended 30 June 2019

Consolidated statement of comprehensive income

	Six months ended 30 June 2019 (unaudited) £	Six months ended 30 June 2018 (unaudited) £	Year ended 31 December 2018 (audited) £
CONTINUING OPERATIONS			
Administrative expenses	(484,713)	(538,680)	(1,064,151)
Other income	22,045	18,472	60,601
OPERATING LOSS	(462,668)	(520,208)	(1,003,550)
Gain/(loss) on revaluation of investments	(207,999)	(20,553)	1,710,418
Gain/(loss) on disposal of investment	14,791	-	(8,407)
	(655,876)	(540,761)	698,461
Finance income	-	-	92,283
Finance costs	(25,030)	-	(10,840)
(LOSS)/PROFIT BEFORE INCOME TAX	(680,906)	(540,761)	779,904
Income tax	-	-	-
(LOSS)/PROFIT AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(680,906)	(540,761)	779,904
(Loss)/Earnings per share			
- Basic and diluted	(0.047)p	(0.045)p	0.065p

Consolidated statement of financial position
As at 30 June 2019

	30 June 2019 *(unaudited)* £	30 June 2018 *(unaudited)* £	31 December 2018 *(audited)* £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	-	219	-
Investment	4,021,066	2,406,236	4,307,617
Loans and other financial assets	1,308,741	2,107,546	1,013,129
Trade and other receivables	937,401	-	897,371
	6,267,208	4,514,001	6,218,117
CURRENT ASSETS			
Trade and other receivables	458,191	37,740	396,626
Cash and cash equivalents	265,094	489,497	233,138
	723,285	527,237	629,764
TOTAL ASSETS	6,990,493	5,041,238	6,847,881
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	6,435,587	6,035,587	6,035,587
Share premium account	10,085,220	9,756,759	9,756,759
Capital redemption reserve	43,333	43,333	43,333
Merger reserve	2,416,667	2,416,667	2,416,667
Retained earnings	(12,630,812)	(13,275,877)	(11,955,212)
TOTAL EQUITY	6,349,995	4,976,469	6,297,134
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	240,000	-	360,000
CURRENT LIABILITIES			
Trade and other payables	160,498	64,769	70,747
Financial liabilities - borrowings			
Interest bearing loans and borrowings	240,000	-	120,000
	400,498	64,769	190,747
TOTAL LIABILITIES	640,498	64,769	550,747
TOTAL EQUITY AND LIABILITIES	6,990,493	5,041,238	6,847,881

Statement of changes in equity
For the six months ended 30 June 2019

	Share capital	Share premium	Retained earnings	Capital redemption reserve	Merger reserve	Total
	£	£	£	£	£	£
Unaudited						
At 1 January 2019	6,035,587	9,756,759	(11,955,212)	43,333	2,416,667	6,297,134
Total comprehensive income for the period	-	-	(680,906)	-	-	(680,906)
Issue of shares	400,000	400,000	-	-	-	800,000
Costs in respect of shares issued	-	(66,233)	-	-	-	(66,233)
Equity settled share-based payment	-	(5,306)	5,306	-	-	-
At 30 June 2019	6,435,587	10,085,220	(12,630,812)	43,333	2,416,667	6,349,995
Unaudited						
At 1 January 2018	5,835,587	8,862,779	(12,735,116)	43,333	2,416,667	4,423,250
Total comprehensive income for the period	-	-	(540,761)	-	-	(540,761)
Issue of shares	200,000	1,000,000	-	-	-	1,200,000
Costs in respect of shares issued	-	(106,020)	-	-	-	(106,020)
At 30 June 2018	6,035,587	9,756,759	(13,275,877)	43,333	2,416,667	4,976,469
Audited						
At 1 January 2018	5,835,587	8,862,779	(12,735,116)	43,333	2,416,667	4,423,250
Total comprehensive income for the year	-	-	779,904	-	-	779,904
Issue of shares	200,000	1,000,000	-	-	-	1,200,000
Costs in respect of shares issued	-	(106,020)	-	-	-	(106,020)
At 31 December 2018	6,035,587	9,756,759	(11,955,212)	43,333	2,416,667	6,297,134

Cash flow statement
For the six months ended 30 June 2019

	Six months ended 30 June 2019 (unaudited) £	Six months ended 30 June 2018 (unaudited) £	Year ended 31 December 2018 (audited) £
Operating activities			
(Loss)/profit before income tax	(680,906)	(540,761)	779,904
Depreciation of property plant and equipment	-	210	429
(Gain)/loss on disposal of investments	(14,791)	-	8,407
Loss/(gain) on revaluation of investments	207,999	20,553	(1,797,438)
(Increase)/decrease in trade and other receivables	(397,207)	111,491	(1,057,746)
Increase/(decrease) in trade and other payables	64,721	(1,077)	(1,439)
Finance income	-	-	(5,263)
Finance expense	25,030	-	10,840
Net cash used in operating activities	(795,154)	(409,584)	(2,062,306)
Investing activities			
Purchase of investments	-	-	(246,040)
Sale of investments	93,343	-	67,223
Interest received	-	-	2
Dividends received	-	-	5,261
Net cash generated/(used in) from investing activities	93,343	-	(173,554)
Financing activities			
New loans in period	-	-	480,000
Loan (payments)/repayments in period	-	(1,044,959)	44,958
Issue of share capital	800,000	1,200,000	1,200,000
Costs in respect of share issue	(66,233)	(106,020)	(106,020)
Net cash generated from financing activities	733,767	49,021	1,618,938
Net increase in cash and cash equivalents	31,956	(360,563)	(616,922)

Cash and cash equivalents at start of period	233,138	850,060	850,060
Cash and cash equivalents at end of period	265,094	489,497	233,138

Notes to the interim financial statements

1 General information

Prospex Oil and Gas Plc is a company incorporated in the United Kingdom, which is listed on the Alternative Investment Market of the London Stock Exchange Plc. The address of its registered office is Stonebridge House, Chelmsford Road, Hatfield Heath, Essex CM22 7BD. The Group is primarily involved in the exploration for, and production of, natural gas.

2 Financial information

The interim financial information for the six months ended 30 June 2019 has not been audited or reviewed and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2018 has been derived from the audited financial statements for that period. A copy of those statutory financial statements for the year ended 31 December 2018 has been delivered to the Registrar of Companies. The report of the independent auditors on those financial statements was unqualified and did not contain a statement under Sections 498 (2) or (3) of the Companies Act 2006.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and under the historical cost convention. They have also been on a basis consistent with the accounting policies expected to be applied for the year ending 31 December 2019 and which are also consistent with those set out in the statutory accounts of the Company for the year ended 31 December 2018, except for the adoption of new standards and interpretations.

3 Taxation

On the basis of these accounts there is no tax charge for the period.

4 Earnings per share

The earnings and number of shares used in the calculation of earnings per share are as follows:

	Six months ended 30 June 2019 *(unaudited)*	Six months ended 30 June 2018 *(unaudited)*	Year ended 31 December 2018 *(audited)*
Basic and diluted			
(Loss)/profit for the financial period	(680,906)	(540,761)	779,904
Weighted average number of shares	1,445,637,335	1,205,858,239	1,202,086,287
(Loss)/earnings per share	(0.047)p	(0.045)p	0.065p

The loss/profit and the weighted average number of shares used for calculating the diluted loss/earnings per share are identical to those for the basic loss/earnings per share. The exercise prices of the outstanding share options and share warrants are above the average market price of the shares and would therefore not be dilutive under IAS 33 'Earnings per Share'.

5 Non-current investment

	Shares in group undertakings	Investments Listed	Unlisted	Totals
	£	£	£	£
Unaudited				
At 1 January 2019	4,154,065	78,552	75,000	4,307,617
Revaluations	(207,999)	-	-	(207,999)
Disposals	-	(78,552)	-	(78,552)
At 30 June 2019	**3,946,066**	**-**	**75,000**	**4,021,066**
Unaudited				
At 1 January 2018	2,143,247	183,542	100,000	2,426,789
Revaluations	-	(20,553)	-	(20,553)
At 30 June 2018	2,143,247	162,989	100,000	2,406,236
Audited				
At 1 January 2018	2,143,247	183,542	100,000	2,426,789
Additions	246,040	-	-	246,040
Disposals	-	(75,630)	-	(75,630)
Revaluations	1,764,778	(29,360)	(25,000)	1,710,418
At 31 December 2018	4,154,065	78,552	75,000	4,307,617

The investments in subsidiary undertakings are accounted for at fair value through the profit and loss, as the Company is deemed to be an Investment Entity.

6 Dividends

The directors do not propose to declare a dividend for the period.

7 Copies of interim results

Copies of the interim results can be obtained from the website www.prospexoilandgas.com. From this site you may access our financial reports and presentations, recent press releases and details about the Company and its operations.