Baron Oil Plc

Annual Report and Financial Statements

for the year ended 31 December 2014

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1 Corporate Information

Directors	**William Colvin** Chairman and Chief Executive **Camilo Merendoni** Non-Executive Director **Malcolm Butler** Non-Executive Director
Registered Office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Company Secretary	**Geoffrey Barnes**
Auditors	**Jeffreys Henry LLP** Finsgate 5-7 Cranwood Street London EC1V 9EE
Solicitors	**Kerman & Co LLP** 200 Strand London WC2R 1DJ
Nominated Advisor and Broker	**Cantor Fitzgerald Europe** One Churchill Place Canary Wharf London E14 5RD
Registrars	**Computershare Investor Services (Ireland) Limited** Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland
Communications	Website www.baronoilplc.com
Company number	05098776 (England and Wales)

2 Corporate Statement

Baron Oil Plc ("the Company") is an independent oil and natural gas exploration and exploitation company focused on the South American continent. Shares in the Company are listed in the UK on the AIM market of the London Stock Exchange – (BOIL.L).

The Company is seeking to maintain a balanced portfolio of higher risk and reward exploration assets supplemented by cash flow from producing assets which also contain further exploitation upside. This strategy is being pursued through establishing significant licence ownership positions concentrated in a few, highly prospective geographic areas. The Company, and its subsidiaries (together "the Group" or "Baron Oil") currently has a significant acreage position and is recognized as an approved operator for both onshore and offshore licences in Peru, and is an operator of production through its 50% subsidiary Inversiones Petroleras de Colombia SAS (also known as "Invepetrol SAS") onshore Colombia and also has a further ownership interest in an exploration licence onshore Colombia.

The Group's objective is to deliver shareholder value through generating substantial increases in our asset values by discovering commercial quantities of hydrocarbons while mitigating our costs as much as possible through farm-out and cost carry arrangements with our partners.

As previously announced in early January 2015, the Board were saddened to report the unexpected death of our Chairman and Chief Executive Officer, Mr Rudolph Berends, who passed away after a short illness. Mr Berends took over the running of the company at a difficult time in the company's history in 2012 and he steered the company into calmer waters through two significant transactions on our Peruvian exploration acreage, and also by raising additional equity capital to fund the survival and future growth of the company. Mr Berends will be sorely missed and the Board and shareholders are extremely grateful for the valuable contribution that he made during his tenure as our Chairman and CEO.

Mr Berends was replaced earlier this year by Mr Bill Colvin who was previously a non-executive director and who has worked closely with Mr Berends since early 2013.

3 Chairman's Statement and Operations Report

Finance and financial results

In the year ended 31 December 2014, the net result for the year was a loss before taxation of £3,347,000, which compares to a loss of £2,998,000 for the preceding financial year. Approximately two-thirds of this loss is accounted for by further impairment charges arising in Colombia, as set out below.

Turnover for the year was £2,830,000 compared to £2,211,000 in the preceding year. Although this is a significant increase over the preceding year we suffered a number of major disruptions to our production volumes in 2013, and the 2014 turnover actually reflects the significant impact of falling oil prices relative to the cost of production in the Colombian producing wells. This has led to a loss at the gross profit line of £880,000 as certain direct costs are fixed and do not vary directly with production. The current licence for the Nancy-Burdine-Maxine fields ("NBM") expires at the end of 2015 and, at this time, no extension has been offered to the Group. As detailed below, continuing disruptions to production and operating difficulties have led the Board to review its strategy in NBM and, as a result, the Board has decided to fully impair all remaining NBM assets. The impact of this is to increase impairment charges by £2.3 million.

In April 2014, the Group disposed of 50% of its equity in Inversiones Petroleras de Colombia SA ("Invepetrol") to C.I. International Fuels Ltd. ("CII") for US$2 million, this sum being fully invested in the ongoing operations of the fields. Baron Oil and CII are now equal partners in the NBM field where Baron Oil keeps the operatorship whilst CII will enhance the commercial side of the business. On the basis that the Group remains the operator, 100% of the operations of Invepetrol are consolidated into the Financial Statements with the interest of CII being shown as a non-controlling interest.

In September 2014, the Group signed an agreement with Vale Oil and Gas for Vale to transfer back to the Group its entire 70% interest in Block XXI Peru with an accompanying payment to the Group of US$3.5 million, of which US$2 million was received in the year. This receipt is treated as other operating income in the Financial Statements, with due provision for the potential local Peruvian tax charge that may arise.

At the end of the financial year, free cash reserves of the Group had improved to £7,181,000 from a level at the preceding year end of £2,078,000 (excluding funds held in escrow in respect of performance guarantees). The placing of shares in August 2014 raised a gross £3 million, with additional receipts in respect of Invepetrol and Vale as noted above, plus an additional US$0.5 million was received from the first phase of the 2013 Z34 farm-out. A further US$2.0 million remains due in respect of the Z34 farm-out.

With the current outlook for Colombia, it has been necessary to continue with the impairment of the carrying value of our assets; we now have a Balance Sheet that consists largely of current assets and a clear value for our remaining exploration assets. The Board continues to believe that positive results in both net income and cash flow in 2015 and beyond can be anticipated.

Exploration operations in Peru

Block Z-34 offshore

The Group has a 20% carried interest in this block along with our partners Union Oil and Gas Group ("UOGG") who own the remaining 80% interest. UOGG are still not yet confirmed as an approved oil company in Peru by Perupetro and therefore the final US$2 million payment (subject to local 30% income tax) to Baron Oil in respect of the original farm-in transaction, which was signed in 2013, remains outstanding.

Block Z34 is located within the Talara Basin offshore North West Peru and our block covers a very large area totalling 3,713 sq km. This highly prospective basin has historically produced more than 1.6 billion barrels of oil. Most of the remaining potential is believed to be in the offshore portion of the basin. The block is bordered to the east by Block Z2B which has been in production since the early 1950's.

A competent person's report prepared in 2012 for the Company by independent consultants DeGolyer and MacNaughton, using the results from the extensive 3D-seismic survey, has assessed the gross, un-risked potential of this offshore block to be in excess of 2 billion barrels of oil. There are several attractive individual prospects identified across this block from the 3D seismic interpretation work, several prospects and leads exceeding 100 million barrels.

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In June 2014 the government approved the Environmental Impact Assessment (“EIA”) for this block; in addition, later in the year the remaining phases of the work programme on the block were consolidated into a one well drilling obligation.

Both Block Z-34 and the adjacent Block Z-38 (operated by Karoon Gas) applied to have a Force Majeure clause in their contracts invoked due to the lack of a suitable deepwater drillship. Perupetro approved both the applications which has the effect of extending the time limit for an exploration well to be drilled. Both blocks currently remain in a force majeure condition.

UOGG have continued to evaluate the extensive 3D seismic data that has already been acquired on the block and they have focused their technical work on the large CUY prospect in the northern portion of the block. This prospect is an amplitude anomaly with multiple stacked reservoir sections which are thought to lie between 8,800 feet and 13,700 feet sub-surface. Some potential reservoir sections may be up to 700-800 feet thick. The CUY prospect lies in 6,000 feet of water and is approximately 8-12 miles offshore.

There are a further 22 leads and prospects that require further mapping on the block and along with this on-going mapping work and a planned Satellite Seep Study, UOGG are busy trying to farm-out the block to a major oil company who can operate an exploration well in this water depth. However the recent collapse in oil prices has made it more difficult to find suitable candidates to farm-in to deepwater wells as exploration budgets are squeezed across the entire upstream oil and gas industry.

The Board do not envisage an exploration well being drilled on this block during 2015 and the industry’s appetite for deepwater exploration drilling offshore Peru will be determined to a large extent by the recovery in world oil prices. We will stay in regular and active dialogue with Perupetro and UOGG and continue to press them to progress the block to unlock the potential value that we believe it contains.

Block XXI onshore

Vale Oil and Gas, Peru (“Vale”) decided to exit from E&P activities during 2014 and asked if they could be released from their commitments on this block. We signed an agreement with Vale in September 2014 and they agreed to pay us US$3.5 million and we returned to a full 100% ownership. To date they have paid US$2 million and we await the balance which will be in the form of cost reimbursements for the technical work we carry out on the block.

Developments in this large (3,030 sq km) onshore Block located in northern Peru are progressing more slowly than the Board had envisaged. On 16 December 2014 the company received overwhelming support from the local community to proceed with a new exploration phase for the block. However, at this time, the final EIA permit has not been approved by the Ministry of Energy and Mines in Peru. We do not know why there should be such a bureaucratic delay following such an extensive exercise undertaken in good faith by the Group, especially as the Group has already drilled two exploration wells on the block and acquired 8,000km of aeromagnetic and gravimetric data across the block.

Subject to the final EIA approval, the company has signed a seismic acquisition contract with Houston based Geo Survey Systems to acquire, process and interpret 180 kilometres of 2D seismic lines immediately after we obtain all necessary permits and EIA approval. The seismic lines will be acquired around the Minchales well control point which was drilled in 1954 and which logged several hundred feet of hydrocarbons using an electric resistivity log.

This airborne survey across the block showed the presence of several deep sedimentary basins creating potential mature “cooking pots” for generating hydrocarbons. However no seismic coverage exists at all over any of these gravity anomalies. Due to the lack of surplus cash in the company, the directors have decided to focus their seismic efforts around the specific area of the block containing the Minchales well. Once the seismic is acquired, processed and interpreted, the Board will report to the shareholders on the results and then decide how to progress work on the block. When acquired, the planned seismic programme will fulfil all our remaining work obligations on the block.

3 Chairman's Statement and Operations Report

Operations in Colombia

The Board are reviewing the Group's continued presence in Colombia after yet more civil disruption to production flow in the Nancy-Burdine-Maxine ("NBM") field over Easter. Operating conditions in the Putamayo region are extremely challenging, the government do not appear to have full control of the local security situation, plus the fiscal terms imposed on the field by Ecopetrol are extremely onerous.

In the light of the upcoming NBM licence expiry later this year, and with little recent movement from Ecopetrol on negotiating both a licence extension agreement and improved economic terms for NBM, the Board are minded to exit Colombia completely by the end of this calendar year.

Nancy Burdine Maxine Producing Fields

Following significant damage caused by the local terrorists on Group owned production equipment in late 2013, the operating costs of the field increased as the Group chose to lease production equipment locally due to the impending expiry deadline in 2015.

In April 2014, the Group disposed of 50% of the NBM operating company, Inversiones Petroleras de Colombia SA ("Invepetrol"), to a local Colombian bunkering company, CI Fuels International Ltd ("CII"). The US$2 million received for this 50% interest was retained within Invepetrol to cover ongoing field operating losses and overheads, also to fund capital works required in the NBM field.

The significant drop in oil prices since the summer of 2014 have rendered the Burdine field production uneconomic. The high water cut and solids produced from the Burdine well bore have caused our associated direct production costs to rise to over US$100 per bbl for this well. The well, which was producing 100 bbls per day, was shut-in during January 2015.

Production continues from the Nancy 1 well at rates varying around 400 bbls per day. The total field operating and trucking costs have been reduced substantially and are approximately US$48 per bbl. However, the Group also has to pay a 23% royalty to Ecopetrol and local partners on the gross revenue, plus fund all field capital costs and local social costs and Bogota head office overheads.

The recent blockage of our only export truck route from the field by the local community, who were demanding that the government immediately start work repairing the only local bridge over the River Acae, serves to highlight the ongoing problems in this area. We were forced into another unplanned production shutdown in the field and the reservoir formation around the well bore was damaged as a result of this, and required remedial work and costs to restore our production to the 400bbl per day level.

Rosa Blanca Block

Baron Oil is currently attempting to transfer its remaining 5% carried interest to the block operator.

New opportunities

The Company has begun to look for new opportunities outside of Peru and Colombia. The ongoing bureaucratic delays in Peru plus the difficult operating conditions in Colombia have necessitated a review of where the Company spends its remaining capital.

We have to be selective in looking for new opportunities as we do not have access to large amounts of capital. The first such opportunity has arisen closer to home in Northern Ireland where we have elected to part-fund a salt appraisal well on the large Islandmagee gas storage project. We were able to gain exposure to this project as the operator, InfraStrata Plc, were looking for US$2 million to bridge finance an EU infrastructure grant so that they could sign a rig contract to have the final appraisal well drilled. We will either receive our loan back (secured against the EU funding) plus 8% interest, or have the opportunity to enjoy a 15% share of any sale of the project over the next 18 months. Drilling has already commenced on the appraisal well and we are looking forward to seeing the results by the end of June.

3 Chairman's Statement and Operations Report

Conclusions

It has been an extremely difficult year for the company. The death of our Chairman and CEO, Mr Rudolph Berends, at the end of the year has cast a shadow on the year under review. The challenging operating conditions, oil price decline, and civil unrest in the Putamayo region of Colombia, plus the significant delays in Peruvian government approvals, have all contributed to those difficulties.

The Board will be strengthened over the coming months and several new projects are currently being evaluated. We are fortunate to have a supportive core group of shareholders and cash on the Balance Sheet which gives us a significant advantage over a large number of our competitors.

I would personally like to thank all Shareholders for their continued support.

Bill Colvin
Chairman and CEO

16 June 2015

4 Strategic Report

The directors now present their strategic report with the financial statements of Baron Oil Plc ("the company") and its subsidiaries (collectively "the group") for the year ended 31 December 2014.

Principal activities

The principal activity of the Group is that of oil and gas exploration and production.

Business review

A review of the Group's business during the financial period and its likely development is given in the Chairman's Statement and Operations Report.

Key performance indicators

At this stage in the company's development, the key performance indicators that the directors monitor on a regular basis are management of liquid resources, that is cash-flows and bank balances and also general administrative expenses, which are tightly controlled. Specific exploration-related key performance indicators that will be relevant in the future include: the probability of geological success (Pg), the probability of commerciality or completion (Pc) and the probability of economic success (Pe).

The following table summarises the key changes in the two KPIs during the period.

	Year ended 31 December 2014 £'000	**Year ended 31 December 2013 £'000**
Liquid cash reserves	7,181	2,078
Administrative expenses	1,356	2,043

Key risks and uncertainties

Exploration for hydrocarbons is speculative and involves significant degrees of risk. The key risks and their impact to the Group are summarised below along with the impact on the Group and the action that the board take to minimise those risks.

Oil prices

Baron Oil's results are strongly influenced by oil prices which are dependent on a number of factors impacting world supply and demand. Due to these factors, oil prices may be subject to significant fluctuations from year to year. The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international petroleum exchanges.

Impact

Oil prices can fluctuate widely and could have a material impact on the Group's asset values, revenues, earnings and cash flows. In addition, oil price increases could cause supply or capacity constraints in areas such as specialist staff or equipment.

Action

The Group keeps under regular review its sensitivity to fluctuations in oil prices. The Group does not as a matter of course hedge oil prices, but may enter into a hedge programme for oil where the Board determines it is in the Group's interest to provide greater certainty over future cash flows.

4 Strategic Report

Liquidity risk
The Group is exposed to liquidity risks, including the risk that borrowing facilities are not available to meet capital expenditure requirements, and the risk that financial assets cannot readily be converted to cash without the loss of value.

Impact
Failure to manage financing risks could have a material impact on the Group's cash flows, earnings and financial position as well as reducing the funds available to the Group for working capital, capital expenditure, acquisitions, dividends and other general corporate purposes.

Action
The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group.

Taxation
As the tax legislation in Colombia and Peru is developing, tax risks are substantially greater than typically found in countries with more developed tax systems. Tax law is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. Tax regulation and compliance is subject to review and investigation by the authorities who may impose severe fines, penalties and interest charges.

Impact
The uncertainty of interpretation and application, and the evolution, of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's cash flows, earnings and financial position.

Action
The Group makes every effort to comply with tax legislation. The Group is also of the opinion that all its contracts in Peru and Colombia are tax compliant. The Group takes appropriate professional tax advice and works closely with the tax authorities to ensure compliance.

By order of the Board

Bill Colvin
Chairman

16 June 2015

5 Report of the Directors

The directors submit their report together with the audited financial statements of Baron Oil Plc ("the Company") and its subsidiaries (collectively "the Group"), for the year ended 31 December 2014.

Directors

The following are biographical details of the directors of Baron Oil Plc.

William ("Bill") Colvin Non-Executive Director
Bill Colvin, aged 57, has over 30 years experience in the international oil and gas and healthcare sectors both in senior management and board positions of large corporations. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. From 1990 to 1992, Bill was Finance Manager at Oryx UK Energy. From 1984 to 1989, he worked in a variety of financial roles for Atlantic Richfield (ARCO) Inc. He qualified as a Scottish Chartered Accountant in 1982 and holds a Bachelor of Commerce degree from the University of Edinburgh. Bill is currently a non-executive Director of Energy XXI, a NASDAQ listed oil & gas exploration and production company, and Infrastrata PLC. He also advises the private equity firm Duke Street Capital.

Camilo Merendoni Non-Executive Director
Camilo Merendoni, aged 82, has more than 50 years of diversified experience in the Oil and Gas industry. He started as a Petroleum Engineer with Texas Petroleum Company in Colombia and has worked mainly in Latin America, the Middle East and Central Asia. His career included stints with Ecopetrol, Petrobras, Hocol, Shell and Bridas Energy. He has degrees in Petroleum Engineering from Pittsburgh University and Advanced Management from Universidad de los Andes.

Malcolm Butler Non-Executive Director (appointed 28 May 2015)
Malcolm Butler, aged 66, has extensive operational and financial experience having worked for over 25 years as an explorationist and senior executive in the international oil and gas industry before taking on a secondary role as an investment banker. He was responsible, as CEO, for the IPO of Industrial Scotland Energy and Brabant Resources and later became CEO of Houston-based Energy Development Corporation until its circa $800 million sale to Noble Energy. In 1998, Malcolm joined HSBC Investment Bank as Advisory Director responsible for oil & gas mandates in the UK, Libya, Russia, Indonesia and China, and following that acted as senior adviser on energy-related matters to Seymour Pierce Limited from 2003 to 2013. Malcolm holds a BSc in Geology from Aberystwyth and a PhD in Geology from Bristol. He has been awarded the Aberconway Medal of The Geological Society of London, in recognition of his contributions to the oil and gas industry and in 1995 he was appointed an Honorary Professor at the University of Aberystwyth.

Mr Rudolph Berends was a director for the whole of the year under review, passing away on 2 January 2015.

Proposed dividend

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2014.

Political and charitable contributions

In the year ended 31 December 2014 the Group made no political or charitable contributions.

Policy and practice on payment of creditors

The Group and Company policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transactions and to abide by those terms. The Group and the Company do not follow any code or statement on payment policy. The creditors' days as at 31 December 2014 were 66 days (2013: 165 days).

5 Report of the Directors

Activities and results

A loss of £4,095,000 (2013: £3,565,000), of which £3,806,000 (2013: £3,565,000) was attributable to equity shareholders, was recorded for the year. Net assets of the Group at 31 December 2014 amounted to £8,692,000 (2013: £8,343,000), of which £7,923,000 (2013: £8,343,000) was attributable to equity shareholders. No dividends or transfers to reserves are proposed.

Details of the Group's affairs and the development of its various activities during the period, important events since the period end, and details of the Company's plans for the next year are given in the Chairman's Statement and Operations Report.

Issue of shares

On 19 August 2014, the Company placed 206,896,551 Ordinary Shares at a subscription price of £0.0145, raising £2,985,000 after expenses.

The environment

The Company is firmly committed to protecting the environment wherever we do business. We will do our upmost to minimise the impact of the business on the environment. Both the Company and its employees will try and be recognised by regulatory agencies, environmental groups and governments where we do business for our efforts to safeguard the environment.

Community

We believe it is our responsibility as a good corporate citizen to improve the quality of life in the communities in which we do business. Where we can we will seek to contribute towards local cultural and educational organisations.

Future outlook

Details of the Group's affairs and the development of its various activities during the period, important events since the period end, and details of the Company's plans for the next year are given in the Chairman's Statement and the Operations Report.

Directors' interests

The interests of the directors who were in office at the year end, and their families, in the issued share capital of the company are as follows:

	31 December 2014		**31 December 2013**	
	Number of Ordinary shares	**% Holding**	**Number of Ordinary shares**	**% Holding**
R Berends	40,333,335	2.9%	39,098,335	3.3%
C Merendoni	–	–	–	–
W Colvin	1,000,000	0.1%	–	–
	41,333,335	3.0%	39,098.335	3.3%

5 Report of the Directors

Options held by the directors are as follows:

	31 December 2014 Number of options £0.0075*	31 December 2013 Number of options £0.0075*
R Berends	22,000,000	22,000,000
	Number of options £0.016**	**Number of options £0.016****
W Colvin	11,250,000	11,250,000
	Number of options £0.0167***	**Number of options £0.0167*****
W Colvin	2,990,431	2,990,431
	36,240,431	36,240,341

*Each £0.0075 option grants the holder the right to subscribe for one Ordinary Share at £0.0075 per share, and is exercisable at any time prior to 27 January 2016. These options can be exercised by the Estate of Mr Berends up to one year after the date of death.

**Each £0.016 option grants the holder the right to subscribe for one Ordinary Share at £0.016 per share, and are granted under one option contract exercisable at any time prior to 27 June 2016.

***Each £0.0167 option grants the holder the right to subscribe for one Ordinary Share at £0.0167 per share, and are granted under one option contract exercisable at any time prior to 27 June 2016.

There have been no contracts or arrangements of significance during the period in which the directors of the Company were interested.

Currently there are service contracts in place with all directors of the Company and the contracts are available for inspection at the registered office of the company on request.

Remuneration policy

The Remuneration Committee takes into account both Company and individual performance, market value and sector conditions in determining director and senior employee remuneration. The Company has maintained a policy of paying only minimum salaries compared with peer companies in the oil and gas independent sector until the Company established a good position with acreage, assets, income and cash at hand. All current salaries are without pension benefits.

Basic salaries

Basic salaries are reviewed annually or when individuals change positions or responsibility or the Company's position changes. Details of the salaries are shown below.

	2014 £	2013 £
Chairman		
R Berends	206,669	170,925
Non Executive Directors		
C Merendoni	36,749	38,787
W Colvin	50,000	46,987
	293,418	256,699

The share options held by the directors are disclosed above and no pension contributions were made during the period for the directors.

Employees

The Group seeks to keep employees informed and involved in the operations and progress of the business by means of regular staff meetings by country open to all employees and directors.

The Group operates an equal opportunities policy. The policy provides that full and fair consideration will be given to disabled applications for employment and that existing employees who become disabled will have the opportunity to retrain and continue in employment wherever possible.

Event after the reporting period

On 1 May 2015, the company signed a Convertible Loan Agreement with InfraStrata plc, under which it provides €1.8 million with respect to the Islandmagee gas storage project in Northern Ireland.

Financial review

Liquidity & Share Trading

The Board believes that high liquidity is important in attracting both small and institutional investors to Baron Oil. During the last financial period Baron Oil has had a reasonably high stock liquidity on the E&P sector on AIM.

Shares in Issue and Shareholders Profile

The number of shares in issue at 3 June 2015 was 1,376,409,576 Ordinary Shares, each share having equal voting rights.

Baron Oil Plc has 1,266 shareholders.

The shareholding distribution at 3 June 2015 is as follows:

Range	Number of shares	Number of shareholders
>10%	272,849,195	1
5-10%	193,851,732	2
1-5%	608,557,202	20
0.5-1%	66,348,868	7
<0.5%	234,802,579	1,236
	1,376,409,576	1,266

5 Report of the Directors

Significant shareholdings

The Company has been informed that, as 3 June 2015, the following shareholders own 3% or more of the issued share capital of the Company:

Name	Shares	% of company
Fitel Nominees Limited	272,849,195	19.82%
W B Nominees Limited	116,880,610	8.49%
Lynchwood Nominees Limited	76,971,122	5.59%
Rock Nominees Limited	67,726,733	4.92%
Redmayne Nominees Limited	66,063,218	4.80%
Barclayshare Nominees Limited	55,321,092	4.02%
TD Direct Investing Nominees	49,978,598	3.63%
Securities Services Nominees	43,531,852	3.16%
Total	749,322,420	54.43%

Listing

The Company's ordinary shares have been traded on the AIM market of the London Stock Exchange since 14 July 2004. Cantor Fitzgerald Europe is the Company's Nominated Adviser and Broker. The closing mid-market price on 3 June 2015 was 1.00p.

Financial instruments

Details of the financial risk management objectives and policies, and details on the use of financial instruments by the Company and its subsidiary undertakings, are provided in note 23 to the financial statements.

Going concern

With the cash reserves the Group's medium term investment plans in Peru and Colombia show, in the directors' opinion, that there is a reasonable expectation that the resources available to the Company will allow it to continue operations. Thus, the going concern basis for the preparation and reporting of accounts has been adopted.

Publication on Company's website

Financial statements are published on the Company's website (www.baronoilplc.com). The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other countries.

Indemnity of officers

The Group may purchase and maintain, for any director or officer, insurance against any liability and the Group does maintain appropriate insurance cover against legal action bought against its directors and officers.

By order of the Board

Geoffrey Barnes
Secretary

16 June 2015

6 Corporate Governance Statement

The directors recognise the importance of sound corporate governance commensurate with the Group's size and the interests of shareholders. As the Group grows, policies and procedures that reflect the FRC's UK Corporate Governance Code will be developed. The Company has sought to comply with a number of the provisions in the Code in so far as it considers them to be appropriate for a company of this size and nature.

The Board

The board comprises one executive director and two non-executive directors, details of whom are contained in the Report of the Directors included in this report.

The board meets at least four times a year.

The board is responsible for the strategy, review and approval of acquisition opportunities, capital expenditures, budgets, trading performance and all significant financial and operational issues.

The Audit Committee

The Audit Committee is comprised of three directors with, Bill Colvin as Chairman, Malcolm Butler and Camilo Merendoni are the other members. The Audit Committee meets at least twice a year and the external auditors have the opportunity to meet with members of the Audit Committee without any executive management being present. The Audit Committee´s terms of reference include the review of the Interim and Annual Accounts, review of internal controls, risk management and compliance procedures, consideration of the Company accounting policies and all issues with the annual audit.

The Remuneration Committee

The Remuneration Committee is comprised of three directors with, Bill Colvin as Chairman, Malcolm Butler and Camilo Merendoni are the other members. The Remuneration Committee determines the contract terms, remuneration and other benefits of the directors and senior employees. The Remuneration Committee meets as required, but at least twice a year.

The Nominations Committee

Due to the small size of the Group, it is not considered necessary to have a Nominations Committee at this time in the Company´s development and the board reserves to itself the process by which a new director is appointed.

Communications

The Company provides information on Group activities by way of press releases, Interim and Annual Accounts and also the website (www.baronoilplc.com). The Company website is updated regularly and contains all operational reports, press releases and Interim and Annual Accounts.

Internal control

The board has the overall responsibility for identifying, evaluating and taking the necessary action to manage the risks faced by the Company and the Group. The process of internal control is not to eliminate risk, but to manage the risk to reasonably minimise loss.

7 Statement of Directors' Responsibilities

in respect of the Strategic Report, the Report of the Directors and the Financial Statements

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period in accordance with applicable law and International Financial Reporting Standards ("IFRS") 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 Group and Company and of the profit and loss of the Group for that year. The directors are also required to prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing those financial statements, the directors are required:

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

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group auditors are aware of that information.

Auditors

A resolution for the reappointment of Jeffreys Henry LLP as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Bill Colvin
Chairman

16 June 2015

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

We have audited the Group and Parent Company financial statements of Baron Oil Plc for the year ended 31 December 2014, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

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 Statement of Directors' Responsibilities, 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 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 financial and non-financial information in the Corporate Statement, Chairman's Statement and Strategic Report, Report of the Directors and Corporate Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently 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 Parent Company's affairs as at 31 December 2014 and of the Group's loss and Group's and Parent Company's cash flow for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Opinion on other matter prescribed by the Companies Act 2006

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

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 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.

David Warren
Senior Statutory Auditor
For and on behalf of Jeffreys Henry LLP, Statutory Auditor

Finsgate
5-7 Cranwood Street
London EC1V 9EE
United Kingdom

16 June 2015

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Consolidated Income Statement

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Revenue		2,830	2,211
Cost of sales		(3,710)	(2,397)
Gross (loss)/profit		(880)	(186)
Intangible asset impairment	11	(140)	(384)
Loss on disposal of investment		–	(88)
Loss on destruction of oilfield assets		–	(232)
Property, plant and equipment impairment	10	(1,392)	–
Goodwill impairment	12	(922)	(526)
Receivables impairment	3	(773)	–
Administration expenses		(1,356)	(2,043)
Other operating Income	4	2,152	486
Operating loss	3	(3,311)	(2,973)
Finance cost	6	(63)	(68)
Finance income	6	27	43
(Loss) on ordinary activities before taxation		(3,347)	(2,998)
Income tax expense	7	(748)	(567)
(Loss) on ordinary activities after taxation		(4,095)	(3,565)
Dividends		–	–
(Loss) for the year		(4,095)	(3,565)
(Loss) on ordinary activities after taxation is attributable to:			
Equity shareholders		(3,806)	(3,565)
Non-controlling interests		(289)	–
		(4,095)	(3,565)
Earnings per ordinary share – continuing			
Basic	9	(0.31p)	(0.31p)
Diluted		(0.31p)	(0.31p)

10 Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Loss on ordinary activities after taxation attributable to the parent	(3,806)	(3,565)
Other comprehensive income:		
Share based payments	–	205
Exchange difference on translating foreign operations	401	197
Total comprehensive income for the year	(3,405)	(3,163)
Total comprehensive income attributable to owners of the parent	(3,405)	(3,163)

11 Consolidated Statement of Financial Position

as at 31 December 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	10	5	2,405
– others	10	–	–
Intangibles	11	2,188	2,275
Goodwill	12	–	922
		2,193	5,602
Current assets			
Inventories	14	204	235
Trade and other receivables	15	1,199	2,211
Cash and cash equivalents	16	9,508	4,354
		10,911	6,800
Total assets		13,104	12,402
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	18	344	292
Share premium account	19	30,237	27,304
Share option reserve	19	205	205
Foreign exchange translation reserve	19	1,890	1,489
Retained earnings	19	(24,753)	(20,947)
Capital and reserves attributable to non-controlling interests	20	769	–
Total equity		8,692	8,343
Current liabilities			
Trade and other payables	17	3,504	3,290
Taxes payable	17	908	769
		4,412	4,059
Total equity and liabilities		13,104	12,402

The financial statements were approved and authorised for issue by the Board of Directors on 16 June 2015 and were signed on its behalf by:

Bill Colvin
Director

Malcolm Butler
Director

Company number: 05098776

12 Company Statement of Financial Position

as at 31 December 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	10	–	110
Intangibles	11	–	–
Investments	13	25	1,108
		25	1,218
Current assets			
Trade and other receivables	15	618	1,606
Cash and cash equivalents	16	5,378	2,501
		5,996	4,107
Total assets		6,021	5,325
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	18	344	292
Share premium account	19	30,237	27,304
Share option reserve	19	205	205
Foreign exchange translation reserve	19	(108)	(64)
Retained earnings	19	(26,169)	(23,150)
Total equity		4,509	4,587
Current liabilities			
Trade and other payables	17	1,510	658
Taxes payable	17	2	80
		1,512	738
Total equity and liabilities		6,021	5,325

The financial statements were approved and authorised for issue by the Board of Directors on 16 June 2015 and were signed on its behalf by:

Bill Colvin
Director

Malcolm Butler
Director

Company number: 05098776

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2014

GROUP

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Share Option Reserve £'000	Foreign Exchange Translation £'000	Non-controlling Interests £'000	Total Equity £'000
As at 1 January 2013	223	25,323	(17,382)	–	1,292	–	9,456
Shares issued	69	1,981	–	–	–	–	2,050
Transactions with owners	69	1,981	–	–	–	–	2,050
(Loss) for the year attributable to equity shareholders	–	–	(3,565)	–	–	–	(3,565)
Share based payments	–	–	–	205	–	–	205
Foreign exchange translation adjustments	–	–	–	–	197	–	197
Total comprehensive income for the period	–	–	(3,565)	205	197	–	(3,163)
As at 1 January 2014	292	27,304	(20,947)	205	1,489	–	8,343
Shares issued	52	2,933	–	–	–	–	2,985
Transactions with owners	52	2,933	–	–	–	–	2,985
(Loss) for the year attributable to equity shareholders	–	–	(3,806)	–	–	(289)	(4,095)
Disposal of interest	–	–	–	–	–	1,058	1,058
Share based payments	–	–	–	–	–	–	–
Foreign exchange translation adjustments	–	–	–	–	401	–	401
Total comprehensive income for the period	–	–	(3,806)	–	401	769	(2,636)
As at 31 December 2014	344	30,237	(24,753)	205	1,890	769	8,692

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of those shares net of share issue expenses.

The share option reserve represents the amount charged to the Consolidated Income Statement in respect of share based payments.

Retained earnings represent the cumulative loss of the company attributable to equity shareholders.

Foreign exchange translation occurs on consolidation of the translation of the subsidiaries balance sheets at the closing rate of exchange and their income statements at the average rate.

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2014

COMPANY

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Share Option Reserve £'000	Foreign Exchange Translation £'000	Total Equity £'000
As at 1 January 2013	223	25,323	(18,878)	–	214	6,882
Shares issued	69	1,981	–	–	–	2,050
Transactions with owners	69	1,981	–	–	–	2,050
(Loss) for the year	–	–	(4,272)	–	–	(4,272)
Share based payments	–	–	–	205	–	205
Foreign exchange translation adjustments	–	–	–	–	(278)	(278)
Total comprehensive income for the period	–	–	(4,272)	205	(278)	(4,345)
As at 1 January 2014	292	27,304	(23,150)	205	(64)	4,587
Shares issued	52	2,933	–	–	–	2,985
Transactions with owners	52	2,933	–	–	–	2,985
(Loss) for the year	–	–	(3,019)	–	–	(3,019)
Share based payments	–	–	–	–	–	–
Foreign exchange translation adjustments	–	–	–	–	(44)	(44)
Total comprehensive income for the period	–	–	(3,019)	–	(44)	(3,063)
As at 31 December 2014	344	30,237	(26,169)	205	(108)	4,509

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of those shares net of share issue expenses.

Retained earnings represent the cumulative loss of the group attributable to equity shareholders.

Foreign exchange translation occurs on consolidation of the translation of the subsidiaries balance sheets at the closing rate of exchange and their income statements at the average rate.

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2014

	Group 2014 £'000	Company 2014 £'000	Group 2013 £'000	Company 2013 £'000
Operating activities	2,386	1,144	(1,470)	(4,492)
Investing activities				
Return from investment and servicing of finance	27	3	43	3
Sale of Intangible assets	–	–	2,579	–
Disposal of tangible assets	809	–	640	189
Loan to subsidiaries (advanced)/repaid	–	(1,306)	–	2,181
Acquisition of intangible assets	(775)	–	(438)	–
Acquisition of tangible fixed assets	(329)	–	(2,276)	–
	(268)	(1,303)	548	2,373
Financing activities				
Proceeds from issue of share capital	2,985	2,985	2,050	2,050
Net cash inflow/(outflow)	5,103	2,826	1,128	(69)
Cash and cash equivalents at the beginning of the year	2,078	225	950	294
Cash and cash equivalents at the end of the year	7,181	3,051	2,078	225
Reconciliation to Consolidated Statement of Financial Position				
Cash not available for use	2,327	2,327	2,276	2,276
Cash and cash equivalents at the end of the year	9,508	5,378	4,354	2,501

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2014

Notes to the Statement of Cash Flows

	Group 2014 £'000	Company 2014 £'000	Group 2013 £'000	Company 2013 £'000
Operating activities				
Loss for the year attributable to controlling interests	(3,806)	(3,019)	(3,565)	(4,272)
Depreciation, amortisation and impairment charges	3,792	110	1,411	2,065
Loss on disposal of assets	–	–	320	–
Non-cash movement arising on consolidation of non-controlling interests	769	–	555	–
Non-cash movement arising on transfer of assets to subsidiary undertaking	–	–	–	764
Share based payments	–	–	205	205
Impairment of investment	–	2,389	–	927
Finance income shown as an investing activity	(27)	(3)	(43)	(3)
Tax expense	748	–	567	–
Foreign exchange translation	260	(95)	174	(301)
Operating cash outflows before movements in working capital	1,736	(618)	(376)	(615)
Increase/(decrease) in inventories	31	–	(122)	18
Increase/(decrease) in receivables	1,011	988	213	(794)
Tax paid	(609)	(78)	(36)	33
Increase/(decrease) in payables	217	852	(1,149)	(3,134)
Net cash inflows/(outflows)from operating activities	2,386	1,144	(1,470)	(4,492)

15 Notes to the Financial Statements

for the year ended 31 December 2014

General information

Baron Oil Plc is a company incorporated in England and Wales and quoted on the AIM market of the London Stock Exchange. The address of the registered office is disclosed on page 2 of the financial statements. The principal activity of the Group is described in the Strategic Report in section 4.

1 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Going concern basis

These financial statements have been prepared on the assumption that the Group is a going concern.

When assessing the foreseeable future, the directors have looked at a period of twelve months from the date of approval of this report. The forecast cash-flow requirements of the business are contingent upon the ability of the Group to generate future sales and seek investment partners for its assets.

The uncertainty as to the timing and volume of the future growth in sales and source of funds from investment partners requires the directors to consider the group's ability to continue as a going concern. Notwithstanding this uncertainty, the directors believe that the group has demonstrated progress in achieving its objective of positioning the assets for future investment.

After making enquiries, the directors firmly believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Were the Group to be unable to continue as a going concern, adjustments may have to be made to the statement of financial position of the Group to reduce statement of financial position values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations issued by the International Accounting Standard Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

1 Significant accounting policies continued

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

Reference	Title	Summary	Application date of standard	Application date of Group
Amendments to IFRS 2, IFRS 3	Amendments resulting from Annual Improvements 2010-12 Cycle	IFRS 2: clarifies definition of vesting conditions IFRS 3: clarifies contingent consideration in a business combination	1 July 2014	1 July 2014
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	Clarifies that the treatment of contributions when they are independent of the number of years of service	Periods commencing on or after 1 July 2014	1 January 2015
IFRS 9	Financial Instruments	Revised standard for accounting for financial instruments	Periods commencing on or after 1 January 2015	1 January 2015
IFRS 14	Regulatory deferral accounts	Aims to enhance the comparability of financial reporting by entities subject to rate-regulations	Periods commencing on or after 1 January 2016	1 January 2016

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and associated undertakings.

Subsidiaries

Subsidiaries are all entities over which Baron Oil Plc has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights, or where Baron Oil Plc exercises effective operational control. 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 fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

15 Notes to the Financial Statements

for the year ended 31 December 2014

1 Significant accounting policies continued

Joint ventures

Where the Group is engaged in oil and gas exploration and appraisal through unincorporated joint ventures, the Group accounts for its share of the results and net assets of these joint ventures as jointly controlled assets. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. In addition, where the Group acts as operator of the joint venture, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint venture are included in the Consolidated Statement of financial position.

Business combinations

The Group has chosen to adopt IFRS 3 prospectively from the date of transition and not restate historic business combinations from before this date. Business combinations from the date of transition are accounted for under IFRS 3 using the purchase method.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

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.

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

15 Notes to the Financial Statements

for the year ended 31 December 2014

1 Significant accounting policies continued

Impairment of non-financial assets continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets

Oil and gas assets: exploration and evaluation

The Group has continued to apply the 'successful efforts' method of accounting for Exploration and Evaluation ("E&E") costs, having regard to the requirements of IFRS 6 'Exploration for the Evaluation of Mineral Resources'.

The successful efforts method means that only the costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised. Such costs may include costs of license acquisition, technical services and studies, seismic acquisition; exploration drilling and testing but do not include costs incurred prior to having obtained the legal rights to explore the area. Under successful efforts accounting, exploration expenditure which is general in nature is charged directly to the income statement and that which relates to unsuccessful drilling operations, though initially capitalised pending determination, is subsequently written off. Only costs which relate directly to the discovery and development of specific commercial oil and gas reserves will remain capitalised and to be depreciated over the lives of these reserves. The success or failure of each exploration effort will be judged on a well-by-well basis as each potentially hydrocarbon-bearing structure is identified and tested. Exploration and evaluation costs are capitalised within intangible assets. Capital expenditure on producing assets is accounted for in accordance with SORP 'Accounting for Oil and Gas Exploration'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible or property, plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to tangible assets as 'Developed oil and gas assets' following an impairment review and depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Costs are amortised on a field by field unit of production method based on commercial proven and probable reserves, or to the expiry of the licence, whichever is earlier.

The calculation of the 'unit of production' amortisation takes account of the estimated future development costs and is based on the current period and un-escalated price levels. Changes in reserves and cost estimates are recognised prospectively.

E&E costs are not amortised prior to the conclusion of appraisal activities.

15 Notes to the Financial Statements

for the year ended 31 December 2014

1 Significant accounting policies continued

Property, plant and equipment

Oil and gas assets: development and production

Development and production ("D&P") assets are accumulated on a well by well basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above. The carrying values of producing assets are depreciated on a well by well basis using the unit of production method based on entitlement to provide by reference to the ratio of production in the period to the related commercial reserves of the well, taking into account any estimated future development expenditures necessary to bring additional non producing reserves into production.

An impairment test is performed for D&P assets whenever events and circumstances arise that indicate that the carrying value of development or production phase assets may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of each well, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

The cost of the workovers and extended production testing is capitalised within property, plant and equipment as a D&P asset.

The D&P assets for Nancy-Burdine- Maxine wells are amortised evenly over the remaining life of the licence, subject to any impairment review.

Decommissioning

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the field to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Any change in restoration costs or assumptions will be recognised as additions or charges to the corresponding asset and provision when they occur. For permanently closed sites, changes to estimated costs are recognised immediately in the income Statement.

Non oil and gas assets

Non oil and gas assets are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

The annual rate of depreciation for each class of depreciable asset is:

Equipment and machinery	4-10 years

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the income statement.

Investments

Investments are stated at cost less provision for any impairment in value.

1 Significant accounting policies continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Inventories

Inventories, including materials, equipment and inventories of gas and oil held for sale in the ordinary course of business, are stated at weighted average historical cost, less provision for deterioration and obsolescence or, if lower, net realisable value.

Revenue

Oil and gas sales revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the Group's share of oil and gas supplied in the period. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the oil and gas produced is despatched and received by the customers.

Taxation

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit or loss differs from profit or loss as reported in the same income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

15 Notes to the Financial Statements

for the year ended 31 December 2014

1 Significant accounting policies continued

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Fair values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Group at the statement of financial position date approximated their fair values, due to relatively short term nature of these financial instruments.

The Company provides financial guarantees to licensed banks for credit facilities extended to a subsidiary company. The fair value of such financial guarantees is not expected to be significantly different as the probability of the subsidiary company defaulting on the credit lines is remote.

Share-based compensation

The fair value of the employee and suppliers services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share based payments (Note 21)

The fair value of share-based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

Equity instruments

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

15 Notes to the Financial Statements
for the year ended 31 December 2014

1 Significant accounting policies continued

Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Foreign currencies

(i) **Functional and presentation currency**

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which are mainly in Pounds Sterling (£), US Dollars (USD), Colombian Pesos (COP) and Peruvian Nuevo Sol (PEN). The financial statements are presented in Pounds Sterling (£), which is the Group's presentation currency.

(ii) **Transactions and balances**

Foreign currency transactions are translated into the presentational currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) **Group companies**

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1 Significant accounting policies continued

Management of capital

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of committed expenditure in respect of its ongoing exploration work. To achieve this aim, it seeks to raise new equity finance and debt sufficient to meet the next phase of exploration and where relevant development expenditure.

The Board receives cash flow projections on a monthly basis as well as information on cash balances. The Board will not commit to material expenditure in respect of its ongoing exploration work prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

Dividends will be issued when there are sufficient reserves available.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The resulting accounting estimates will, by definition, differ from the related actual results.

Plant and equipment, intangible assets & impairment of goodwill

Intangible assets plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Additionally, goodwill arising on acquisitions is subject to impairment review. The Group's management undertakes an impairment review of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

The discount rate used by the group during the period for impairment testing was 10%.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

The directors have carried out a detailed impairment review in respect of goodwill. The group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flows forecasts which have been discounted at 10%. The cash flow projections are based on the assumption that the group can realise projected sales. A prudent approach has been applied with no residual value being factored. At the period end, based on these assumptions there was no indication of impairment of the value of goodwill.

However, if the projected sales do not materialise there is a risk that the value of the intangible assets shown above would be impaired.

15 Notes to the Financial Statements

for the year ended 31 December 2014

1 Significant accounting policies continued

Commercial reserves estimates

Oil and gas reserve estimates: estimation of recoverable reserves include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs all of which impact future cashflows. It also requires the interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in estimated reserves can impact developed and undeveloped property carrying values, asset retirement costs and the recognition of income tax assets, due to changes in expected future cash flows. Reserve estimates are also integral to the amount of depletion and depreciation charged to income.

Decommissioning costs

Asset retirement obligations: the amounts recorded for asset retirement obligations are based on each field's operator's best estimate of future costs and the remaining time to abandonment of oil and gas properties, which may also depend on commodity prices.

Share based payments (Note 21)

The fair value of share based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

The preparation of the consolidated financial statements requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The resulting accounting estimates will, by definition, differ from the related actual results.

2 Segmental Information

In the opinion of the Directors the Group has one class of business, being the exploration for, and development and production of, oil and gas reserves, and other related activities.

The Group's primary reporting format is determined to be the geographical segment according to the location of the oil and gas asset. There are currently two geographic reporting segments: South America, which is involved in production, development and exploration activity, and the United Kingdom being the head office.

Exploration and production
year ended 31 December 2014

	United Kingdom £'000	South America £'000	Total £'000
Revenue – oil	–	2,830	2,830
Cost of sales	–	(3,710)	(3,710)
Gross profit	–	(880)	(880)
Intangible asset impairment	–	(140)	(140)
Property, plant and equipment impairment	–	(1,392)	(1,392)
Goodwill impairment	–	(922)	(922)
Receivables impairment	–	(773)	(773)
Administration expenses	(578)	(778)	(1,356)
Other operating income	–	2,152	2,152
Operating (loss)/profit	(578)	(2,733)	(3,311)
Finance costs	–	(63)	(63)
Finance income	3	24	27
(Loss)/Profit before taxation	(575)	(2,772)	(3,347)
Income tax expense	–	(748)	(748)
Loss/(Profit) before taxation	(575)	(3,520)	(4,095)
Assets and liabilities			
Segment assets	14	3,582	3,596
Cash and cash equivalents	5,296	4,212	9,508
Total assets	5,310	7,794	13,104
Segment liabilities	244	3,260	3,504
Current tax liabilities	–	908	908
Total liabilities	244	4,168	4,412
Other segment items			
Capital expenditure	–	1,104	1,104
Depreciation, amortisation and impairment charges	–	2,385	2,385

2 Segmental Information continued

Exploration and production
year ended 31 December 2013

	United Kingdom £'000	South America £'000	Total £'000
Revenue – oil	–	2,211	2,211
Cost of sales	–	(2,397)	(2,397)
Gross profit	–	(186)	(186)
Intangible asset impairment	–	(384)	(384)
Loss on disposal of investment	–	(88)	(88)
Goodwill impairment	–	(526)	(526)
Destruction of oilfield assets	–	(232)	(232)
Administration expenses	(965)	(1,078)	(2,043)
Other operating income	–	486	486
Operating (loss)/profit	(965)	(2,008)	(2,973)
Finance costs	–	(68)	(68)
Finance income	3	40	43
(Loss)/Profit before taxation	(962)	(2,036)	(2,998)
Income tax expense	–	(567)	(567)
Loss/(Profit) before taxation	(962)	(2,603)	(3,565)
Assets and liabilities			
Segment assets	8	8,040	8,048
Cash and cash equivalents	2,415	1,939	4,354
Total assets	2,423	9,979	12,402
Segment liabilities	289	3,001	3,290
Current tax liabilities	–	769	769
Total liabilities	289	3,770	4,059
Other segment items			
Capital expenditure	–	2,714	2,714
Depreciation, amortisation and impairment charges	–	663	663

3 (Loss) from operations

The loss on ordinary activities before taxation is stated after charging:

	2014 £'000	2013 £'000
Auditors' remuneration		
Group – audit	42	46
Group – prior year audit	–	–
Company – audit	30	28
Company – prior year audit	–	–
Group – other non-audit services	12	12
Company – other non-audit services	–	–
Depreciation of non oil and gas assets	–	5
Depreciation of oil and gas assets	1,339	1,209
Loss on disposal of investment	–	88
Impairment of intangible assets	1,062	384
Impairment of property, plant and equipment	1,392	–
Impairment of foreign tax receivables	773	–
(Profit)/loss on exchange	(255)	104

The analysis of development and administrative expenses in the consolidated income statement by nature of expense is:

	2014 £'000	2013 £'000
Employee benefit expense	420	599
Depreciation, amortisation and impairment charges	2,385	663
Legal and professional fees	168	410
(Gain)/loss on exchange	(255)	104
Other expenses	943	651
	3,661	2,427

4 Other operating income

	2014 £'000	2013 £'000
Farminee compensation	2,128	–
Colombia cost recoveries	–	445
Other	24	41
	2,152	486

The farminee compensation arises from the agreement with Vale Oil & Gas to release them from their obligations under the Peru Block XXI farm-in.

15 Notes to the Financial Statements

for the year ended 31 December 2014

5 Staff numbers and cost

The average number of persons employed by the Group (including directors) during the year, analysed by category, were as follows:

	2014 Number	2013 Number
Directors	3	3
Technical and production	20	22
Administration	8	9
Total	31	34

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	432	365
Directors' salaries	293	257
Share based payments	–	205
Social security costs	4	26
	729	853

6 Finance income

	2014 £'000	2013 £'000
Bank interest received	27	43
Finance cost	(63)	(68)
Total	(36)	(25)

7 Income tax expense

The tax charge on the loss on ordinary activities was:

	2014 £'000	2013 £'000
UK Corporation Tax – current	–	–
Foreign taxation	748	567
	748	567

The total charge for the year can be reconciled to the accounting profit as follows:

	2014 £'000	2013 £'000
(Loss) before tax		
Continuing operations	(3,347)	(2,998)
Tax at composite group rate of 23% (2013: 25%)	(770)	(750)
Effects of:		
Losses/(profits) not subject to tax	(742)	(906)
Change of tax rate on brought forward tax loss	(332)	(157)
Increase in tax losses	1,844	1,813
Foreign taxation	748	567
Tax expense	748	567

At 31 December 2014, the Group has tax losses of £19,119,000 (31 December 2013: £17,733,000) to carry forward against future profits. The deferred tax asset on these tax losses at 23% of £4,397,000 (31December 2013: at 25%, £4,433,000) has not been recognised due to the uncertainty of the recovery.

15 Notes to the Financial Statements

for the year ended 31 December 2014

8 Loss for the period

As permitted by section 408 of the Companies Act 2006, the Parent Company's income statement has not been included in these financial statements. The loss for the financial year is made up as follows:

	2014 £'000	2013 £'000
Parent company's loss	3,019	4,272

9 Earnings per share

	2014	2013
Loss per ordinary share		
– Basic	(0.31p)	(0.31p)
– Diluted	(0.31p)	(0.31p)

Earnings per ordinary share is based on the Group's loss attributable to controlling interests for the year of £3,806,000 (2013: £3,565,000).

The weighted average number of shares used in the calculation is the weighted average ordinary shares in issue during the year.

	2014 Number	2013 Number
Weighted average ordinary shares in issue during the year	1,246,036,407	1,151,995,217
Potentially dilutive warrants issued	38,914,404	32,474,523
Weighted average ordinary shares for diluted earnings per share	1,284,950,811	1,184,469,740

Due to the Group's results for the year, the diluted earnings per share is deemed to be the same as the basic earnings per share.

15 Notes to the Financial Statements

for the year ended 31 December 2014

10 Property, plant and equipment

GROUP	Development and production costs £'000	Equipment and machinery £'000	Vehicles £'000	Total £'000
Cost				
At 1 January 2013	49	3,344	23	3,416
Foreign exchange translation adjustment	–	(1)	–	(1)
Expenditure	–	2,276	–	2,276
Disposals	–	(731)	–	(731)
At 1 January 2014	49	4,888	23	4,960
Foreign exchange translation adjustment	–	1	–	1
Expenditure	–	329	–	329
Disposals	–	–	–	–
At 31 December 2014	49	5,218	23	5,290
Depreciation				
At 1 January 2013	28	1,472	23	1,523
Foreign exchange translation adjustment	–	(1)	–	(1)
Charge for the period	9	1,205	–	1,214
Disposals	–	(181)	–	(181)
At 1 January 2014	37	2,495	23	2,555
Foreign exchange translation adjustment	–	–	–	–
Acquisition of minority interest	–	–	–	–
Charge for the period	8	1,330	–	1,338
Disposals	–	–	–	–
Impairment charge	4	1,388	–	1,392
At 31 December 2014	49	5,213	23	5,285
Net book value				
At 31 December 2014	–	5	–	5
At 31 December 2013	12	2,393	–	2,405

The impairment of all intangible assets has been reviewed, giving rise to the following impairment charges, or reduction in impairment charges.

Block Z34 offshore Peru: the carrying value of this asset has been set by reference to the value of the farm-out to Union Oil & Gas, which was US$6,000,000 for an 80% interest, equating to an overall value of US$7,500,000. As of the end of the year, phase 2 of the farmout representing a 30% interest had not been completed and intangible assets continue to account for a 50% interest in the asset. There has been no adjustment to the impairment of this asset in the year.

Nancy, Burdine, Maxine Colombia: all property, plant and equipment is now fully impaired in recognition of the impeding licence expiry and uncertain prospects for renewal.

Peru Block XXI, Colombia Rosa Blanca and Colombia Azar: all these fields are impaired fully due to their uncertain prospects.

10 Property, plant and equipment continued

COMPANY	Development and production costs £'000	Equipment and machinery £'000	Total £'000
Cost			
At 1 January 2013	34	1,665	1,699
Transferred to subsidiary undertakings	(34)	(1,335)	(1,369)
Disposals	–	(19)	(19)
At 1 January 2014	–	311	311
Expenditure	–	–	–
Disposals	–	–	–
At 31 December 2014	–	311	311
Depreciation			
At 1 January 2013	20	698	718
Transferred to subsidiary undertakings	(20)	(566)	(586)
Charge for the year	–	79	79
Disposals	–	(10)	(10)
At 1 January 2014	–	201	201
Charge for the period	–	77	77
Impairment charge	–	33	33
At 31 December 2014	–	311	311
Net book value			
At 31 December 2014	–	–	–
At 31 December 2013	–	110	110

The exploration and evaluation costs above represent the cost in acquiring, exploring and evaluating the company's and group's assets. The Nancy Burdine Maxine oil fields have commercial reserves and are currently in production but, with impending expiry of the licence and uncertain prospects for renewal, these assets have been fully impaired.

The acquisition of licence relates to the 20% interest in the Azar field in Colombia through the company's subsidiary, Red River Capital Advisors SA. Exploration activities in this field have now ceased and, as a result, the asset is fully impaired, along with its associated exploration and evaluation costs.

15 Notes to the Financial Statements

for the year ended 31 December 2014

11 Intangible fixed assets

GROUP	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2013	1,896	5,756	7,652
Foreign exchange translation adjustment	–	(19)	(19)
Expenditure	–	438	438
Disposals	–	(1,620)	(1,620)
At 1 January 2014	1,896	4,555	6,451
Foreign exchange translation adjustment	–	87	87
Expenditure	–	775	775
Disposals	–	(809)	(809)
At 31 December 2014	1,896	4,608	6,504
Impairment			
At 1 January 2013	1,896	3,717	5,613
Charge for the period	–	(328)	(328)
Disposals	–	(1,109)	(1,109)
At 1 January 2014	1,896	2,280	4,176
Charge for the period	–	140	140
Disposals	–	–	–
At 31 December 2014	1,896	2,420	4,316
Net book value			
At 31 December 2014	–	2,188	2,188
At 31 December 2013	–	2,275	2,275

15 Notes to the Financial Statements

for the year ended 31 December 2014

11 Intangible fixed assets continued

COMPANY	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2013	–	5,636	5,636
Expenditure	–	–	–
Disposals	–	(2,917)	(2,917)
At 1 January and 31 December 2014	–	2,719	2,719
Impairment			
At 1 January 2013	–	3,470	3,470
Charge for the year	–	1,986	1,986
Disposals	–	(2,737)	(2,737)
At 1 January and 31 December 2014	–	2,719	2,719
Net book value			
At 31 December 2014	–	–	–
At 31 December 2013	–	–	–

The exploration and evaluation costs above represent the cost in acquiring, exploring and evaluating the company's and group's assets. The Nancy Burdine Maxine oil fields have commercial reserves and are currently in production but, with impending expory of the licence and uncertain prospects for renewal, these assets have been fully impaired.

The acquisition of licence relates to the 20% interest in the Azar field in Colombia through the company's subsidiary, Red River Capital Advisors SA. Exporation activities in this field have now ceased and, as a result, the asset is fully impaired, along with its associated exploration and evaluation costs.

12 Goodwill

GROUP	Goodwill on consolidation of subsidiaries £'000
Cost	
At 1 January 2013	2,882
Adjustment to goodwill	(556)
At 1 January 2014	2,326
Adjustment to goodwill	–
At 31 December 2014	2,326
Impairment	
At 1 January 2013	878
Charge for the year	526
At 1 January 2014	1,404
Charge for the period	922
At 31 December 2014	2,326
Net book value	
At 31 December 2014	–
At 31 December 2013	922

The carrying value of goodwill represents the acquisition of Inversiones Petroleras de Colombia SA. This asset is now fully impaired in recognition of the expiry of the current licence in 2015.

13 Investments

COMPANY	Loans to group undertaking £'000	Shares in group undertaking £'000	Total £'000
Cost			
At 1 January 2013	5,568	7,139	12,707
Expenditure	379	–	379
Disposals	(2,560)	–	(2,560)
Exchange rate adjustment	–	–	–
At 1 January 2014	3,387	7,139	10,526
Expenditure	509	797	1,306
Exchange rate adjustment	–	–	–
At 31 December 2014	3,896	7,936	11,832
Impairment			
At 1 January 2013	3,092	5,399	8,491
Charge for the year	295	632	927
At 1 January 2014	3,387	6,031	9,418
Charge for the year	509	1,880	2,389
At 31 December 2014	3,896	7,911	11,807
Carrying value			
At 31 December 2014	–	25	25
At 31 December 2013	–	1,108	1,108

In April 2014, the Group disposed of a 50% interest in Inversiones Petroleras de Colombia SA, incorporated in Colombia. As the company continues to act as the operator of the field, the results of the company's operations are consolidated with the 50% no longer held by the Group being shown as a non-controlling interest.

The company has made provision on the investment in Gold Oil Peru S.A.C. of £6,525,000 (2013: £6,016,000) to reflect the underlying impairment of exploration and evaluation assets in the subsidiary.

The Company's subsidiary undertakings at the year end were as follows:

Subsidiary/ controlled entity	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment	Nature of business
Gold Oil Plc Sucursal Colombia	Colombia	100	100	equity method	Exploration and production of oil and gas
Gold Oil Peru S.A.C	Peru	100	100	equity method	Exploration of oil and gas
Gold Oil Caribbean Limited	Commonwealth of Dominica	100	100	equity method	Exploration of oil and gas
Ayoopco Ltd*	England	100	100	equity method	Exploration and production of oil and gas
Red River Capital Advisors SA	Panama	100	100	equity method	Holding company
Union Temporal II & B (i)	Colombia	100	100	equity method	Exploration and production of oil and gas
Nexxus Energy Corporation	Panama	100	100	equity method	Holding company
Inversiones Petroleras de Colombia SA (ii)	Colombia	50	50	equity method	Exploration and production of oil and gas
Invepetrol Limited	England	100	100	equity method	Dormant

All shareholdings are in ordinary, voting shares.

*Ayoopco Limited is entitled to exemption from audit of its individual Financial Statements under Section 479A of the Companies Act 2006, and the Company has agreed that Ayoopco Limited should exercise its right to exemption. The Company has irrevocably guaranteed all debts and liabilities of Ayoopco Limited entered into in the year ended 31 December 2014 in accordance with Section 479C of the Companies Act 2006.

15 Notes to the Financial Statements

for the year ended 31 December 2014

13 Investments continued

The results of subsidiaries is as follows:

	2014 £'000	2013 £'000
Gold Oil Plc Sucursal Colombia		
Aggregate capital and reserves	1,369	1,529
Profit for the year	(22)	(3,114)
Gold Oil Peru S.A.C		
Aggregate capital and reserves	(613)	(677)
Profit/(Loss) for the year	185	(780)
Gold Oil Caribbean Limited		
Aggregate capital and reserves	1,364	1,287
Profit for the year	47	(741)
Ayoopco Ltd		
Aggregate capital and reserves	–	–
(Loss) for the year	(12)	(12)
Red River Capital Advisors SA		
Aggregate capital and reserves	–	–
(Loss) for the year	–	–
Union Temporal II & B (i)		
Aggregate capital and reserves	(320)	(2,040)
Profit for the year	(687)	(2,259)
Nexxus Energy Corporation		
Aggregate capital and reserves	–	–
Profit/(loss) for the year	–	–
Inversiones Petroleras de Colombia SA (ii)		
Aggregate capital and reserves	–	267
Profit/(loss) for the year	(130)	199
Invepetrol Limited		
Aggregate capital and reserves	–	–
Profit for the year	–	–

(i) The Union Temporal II & B ("UT") is a joint venture operating in the Nancy-Burdine-Maxine fields in southern Colombia. It is now effectively 100% controlled by Inversiones Petroleras de Colombia SA.
(ii) Held by Nexxus Energy Corporation.

14 Inventories

	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Exploration materials and consumables	140	–	78	–
Crude oil	64	–	157	–
	204	–	235	–

The amount of brought forward inventories to form part of cost of sales during the year was £157,000 (2013: £90,000).

15 Notes to the Financial Statements
for the year ended 31 December 2014

15 Trade and other receivables

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	126	–	685	–
Other receivables	1,055	63	1,494	33
Amounts owed by subsidiary and associate undertakings	–	546	–	1,567
Prepayments and accrued income	18	9	32	6
	1,199	618	2,211	1,606

16 Cash and cash equivalents

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank current accounts	478	491	26	21
Bank deposit accounts	9,030	4,887	4,328	2,480
	9,508	5,378	4,354	2,501

Bank deposit accounts comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and earn interest at respective short-term deposit rates. The carrying amount of these assets approximates to their fair value.

As at 31 December 2014, bank deposits included £2,327,229 (2013: £2,276,083) that is being held as a guarantee in respect of a letter of credit and is not available for use until the Group fulfills certain licence commitments in Peru and Colombia. This is not considered to be liquid cash and has therefore been excluded from the cash flow statement.

17 Trade and other payables

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	–	–	12	–
Trade payables	924	99	1,881	54
Other payables	2,550	279	666	338
Amounts owed by subsidiary and associate undertakings	–	1,102	–	235
Accruals and deferred income	30	30	678	31
Provisions	–	–	53	–
Taxation	908	2	769	80
	4,412	1,512	4,059	738

18 Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
Equity: 1,376,409,576 (2013: 1,169,513,025) ordinary shares of £0.00025 each	344	292

During the year, the Company issued 206,896,551 ordinary shares at a price of 1.45p each.

15 Notes to the Financial Statements

for the year ended 31 December 2014

19 Share premium and reserves

GROUP	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	27,304	205	1,489	(20,947)
Loss for the year attributable to controlling interests	–	–	–	(3,806)
Foreign exchange translation adjustments	–	–	401	–
Premium on share issues	2,948	–	–	–
Costs of issuing shares	(15)	–	–	–
	30,237	205	1,890	(24,753)

COMPANY	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	27,304	205	(64)	(23,150)
Loss for the year	–	–	–	(3,019)
Foreign exchange translation adjustments	–	–	(44)	–
Premium on share issues	2,948	–	–	–
Costs of issuing shares	(15)	–	–	–
	30,237	205	(108)	(26,169)

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2014 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2014 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2014 Number
26 October 2011	26 October 2014	£0.055	4,000,000	–	–	4,000,000	–
27 January 2013	27 January 2016	£0.0075	22,000,000	–	–	–	22,000,000
27 June 2013	27 June 2016	£0.0160	11,250,000	–	–	–	11,250,000
27 June 2013	27 June 2016	£0.0167	2,990,431	–	–	–	2,990,431
			40,240,431	–	–	4,000,000	36,240,431

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2013 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2013 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2013 Number
17 February 2010	17 February 2013	£0.04	4,000,000	–	–	4,000,000	–
26 October 2011	26 October 2014	£0.055	4,000,000	–	–	–	4,000,000
27 January 2013	27 January 2016	£0.0000	–	22,000,000	–	–	22,000,000
27 June 2013	27 June 2016	£0.0000	–	11,250,000	–	–	11,250,000
27 June 2013	27 June 2016	£0.0000	–	2,990,431	–	–	2,990,431
			8,000,000	36,240,431	–	4,000,000	40,240,431

15 # Notes to the Financial Statements
for the year ended 31 December 2014

20 Non-controlling interests

	2014 £'000	2013 £'000
Non-controlling interest arising on the part-disposal of Inversiones Petroleras de Colombia SA (note 13)	1,058	–
Share of loss for the year	(289)	–
	769	–

At the end of the year, 50% of the issued share capital of Inversiones Petroleras de Colombia SA was held by CII International Fuels Limited. As the Group has operational control over the underlying assets, 100% of the operations of this company are consolidated.

21 Share based payments

The fair values of the options granted have been calculated using Black-Scholes model assuming the inputs shown below:

Grant date	**27 June 2013**	**27 June 2013**	**27 January 2013**
Number of warrants granted	2,990,431	11,250,000	22,000,000
Share price at grant date	1.45p	1.45p	1.80p
Exercise price at grant date	1.67p	1.6p	0.75p
Option life	3 years	3 years	3 years
Risk free rate	0.85%	0.85%	0.59%
Expected volatility	80%	80%	80%
Expected dividend yield	0%	0%	0%
Fair value of option	0.36p	0.36p	0.75p

The warrants and options will not normally be exercisable during a closed period, and furthermore can only be exercisable if the performance conditions are satisfied. Subsisting warrants and options will lapse no later than 3 years after the date of grant. Warrants and options, which have vested immediately before either the death of a participant or his ceasing to be an eligible employee by reason of injury, disability, redundancy, retirement or dismissal (otherwise than for good cause) shall remain, exercisable (to the extent vested) for 12 months after such cessation, and all non-vested options shall lapse.

22 Directors' emoluments

	2014 £'000	2013 £'000
Directors' remuneration	207	171
Directors' fees	87	86
Share based payments	–	205
	294	462

Highest paid director emoluments and other benefits are as listed below.

	2014 £'000	2013 £'000
Remuneration	207	171
Share based payments	–	205
	207	376

15 Notes to the Financial Statements

for the year ended 31 December 2014

23 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, cash flow interest rate risk, foreign currency risk, liquidity risk, price risk and capital risk. The Group's activities also expose it to non-financial risks: market risk. The Group's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the Group's financial performance. The Board, on a regular basis, reviews key risks and, where appropriate, actions are taken to mitigate the key risks identified.

Financial instruments – Risk Management

The Group is exposed through its operations to the following risks:

- Credit risk
- Cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk
- Price risk
- Capital risk
- Market risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

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

- Loans and receivables
- Trade and other receivables
- Cash and cash equivalents
- Short term investments
- Trade and other payables

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining responsibility for them it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receive regular updates from the Executive Directors through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

15 Notes to the Financial Statements

for the year ended 31 December 2014

23 Financial instruments continued

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies. The Group's credit risk is primarily attributable to its trade. The amounts presented in the statement of financial position are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experiences, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

As at 31 December 2014 the ageing analysis of trade receivables is as follows:

	Total £'000	Neither past due nor impaired £'000
31 December 2014	126	126
31 December 2013	688	688

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from its deposits of cash and cash equivalents with banks. The cash balances maintained by the Group are proactively managed in order to ensure that the maximum level of interest is received for the available funds but without affecting the working capital flexibility the Group requires.

The Group is not at present exposed to cash flow interest rate risk on borrowings as it has no significant debt. No subsidiary company of the Group is permitted to enter into any borrowing facility or lease agreement without the prior consent of the Company.

Interest rates on financial assets and liabilities

The Group's financial assets consist of cash and cash equivalents, loans, trade and other receivables. The interest rate profile at period end of these assets was as follows:

31 December 2014	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	881	38	919
US dollar (USD)	3,937	2,250	6,187
Colombian pesos (COP)	1,799	214	2,013
Peruvian Nuevo Sol (PEN)	1,563	25	1,588
	8,180	2,527	10,707

15 Notes to the Financial Statements

for the year ended 31 December 2014

23 Financial instruments continued

Interest rates on financial assets and liabilities continued

31 December 2013

	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	200	14	214
US dollar (USD)	2,194	1,297	3,491
Colombian pesos (COP)	453	1,164	1,617
Peruvian Nuevo Sol (PEN)	264	979	1,243
	3,111	3,454	6,565

The Group earned interest on its interest bearing financial assets at rates between 0.1% and 5% (2013: 0.1% and 5%) during the period.

A change in interest rates on the statement of financial position date would increase/(decrease) the equity and the anticipated annual income or loss by the theoretical amounts presented below. The analysis is made on the assumption that the rest of the variables remain constant. The analysis with respect to 31 December 2013 was prepared under the same assumptions.

	Change of 1.0% in the interest rate as of			
	31 December 2014		31 December 2013	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Instruments bearing variable interest (£'000)	82	(82)	31	(31)

It is considered that there have been no significant changes in cash flow interest rate risk at the reporting date compared to the previous period end and that therefore this risk has had no material impact on earnings or shareholders' equity.

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which other Group companies are operating. Although its geographical spread reduces the Group's operation risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on retranslation into Sterling. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations, as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques. It is the Group's policy to ensure that individual Group entities enter into local transactions in their functional currency wherever possible and that only surplus funds over and above working capital requirements should be transferred to the parent company treasury. The Group considers this policy minimises any unnecessary foreign exchange exposure.

In order to monitor the continuing effectiveness of this policy the Board through their approval of both corporate and capital expenditure budgets and review of the currency profile of cash balances and management accounts, considers the effectiveness of the policy on an ongoing basis.

The following table discloses the major exchange rates of those currencies utilised by the Group:

Foreign currency units to £1 UK Sterling (rounded)	USD	EUR	COP	PEN
Average for year ended 31 December 2014	1.64	1.24	3,262	4.60
At 31 December 2014	1.55	1.28	3,651	4.55
Average for year ended 31 December 2013	1.57	1.18	2,934	4.17
At 31 December 2013	1.65	1.20	3,175	4.55

15 Notes to the Financial Statements

for the year ended 31 December 2014

23 Financial instruments continued

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances (or agreed facilities) to meet expected requirements for a period of at least 60 days. The Group currently has no long term borrowings.

Price risk

Oil and gas sales revenue is subject to energy market price risk. The Group's oil and gas sales revenue in 2014 have been affected by the decrease in crude oil price during this period.

Given current production levels, it is not considered appropriate for the Group to enter into any hedging activities or trade in any financial instruments, such as derivatives. This strategy will continue to be subject to regular review through 2014 as the production levels increase.

It is considered that price risk of the Group at the reporting date has not increased compared to the previous period end given the Group's increase in hydrocarbon production levels in percentage terms and the volatility in oil and gas prices seen during 2014 which has continued in to 2015.

Volatility of crude oil prices

A material part of the Group's revenue will be derived from the sale of oil that it expects to produce. A substantial or extended decline in prices for crude oil and refined products could adversely affect the Group's revenues, cash flows, profitability and ability to finance its planned capital expenditure. The movement of crude oil prices is shown below:

	31 December 2014	Average price 2014	31 December 2013
Per barrel – US$	53	92	102
Per barrel – £	34	56	65

Baron Oil's results are strongly influenced by oil prices which are dependent on a number of factors impacting world supply and demand. Due to these factors, oil prices may be subject to significant fluctuations from year to year. The Group's normal policy is to sell its products under contract at prices determined by reference to prevailing market prices on international petroleum exchanges.

Capital risk

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Market risk

The market may not grow as rapidly as anticipated. The Group may lose customers to its competitors. The Group's major competitors may have significantly greater financial resources than those available to the group. There is no certainty that the group will be able to achieve its projected levels of sales or profitability.

15 Notes to the Financial Statements

for the year ended 31 December 2014

24 Capital commitments

As of 31 December 2014, there were no capital commitments.

25 Contingent liabilities

The Group and the Company have given guarantees of US$3,760,000 (31 December 2013: US$3,760,000) to Perupetro SA to fulfil licence commitments for Block XXI and Z34. The Company has made provision in respect of decommissioning costs of producing fields and there is the possibility of decommissioning costs in respect of abandoned field which have yet to be quantified (if any) by the operator. Other than that, the Company does not consider that there are any further contingent liabilities in this regard.

26 Event after the reporting period

On 1 May 2015, the company signed a Convertible Loan Agreement with InfraStrata plc, under which it provides €1.8 million with respect to the Islandmagee gas storage project in Northern Ireland.

27 Ultimate controlling party

Baron Oil Plc is listed on the Alternative Investment Market (AIM) operated by the London Stock Exchange. At the date of the Annual Report in the Directors' opinion there is no controlling party.

28 Related party transactions

Company

During the year, the Company advanced loans to its subsidiaries. The details of the transactions and the amount owed by the subsidiaries at the year end were:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Balance £'000	Loan advance £'000	Balance £'000	Loan advance £'000
Gold Oil Peru S.A.C*	–	509	–	379

*The company has provided for an impairment of £3,786,000 (2013: £3,277,000) on the outstanding loans.

Group and Company

During the year ended 31 December 2012 the Company was provided with services by Terra Firma Technology Pty Ltd (TFT). Such transactions were carried out on an arm's length basis. The company is owned and controlled by Ian Reid who was also a Director of the Baron Oil Plc at that time. There were no transactions in 2013 or 2014 but, at 1 January 2014, there remained a balance due to TFT of £58,970 which was in dispute. During 2014, the dispute was settled and no amounts remain due at 31 December 2014.

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