Baron Oil Plc

Annual Report and
Financial Statements

for the year ended 31 December 2017

Contents

1 Corporate Information

Directors	**Malcolm Butler** Chairman and Chief Executive Officer **Geoffrey Barnes** Finance Director **Andrew Yeo** 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	**SP Angel Corporate Finance LLP** Prince Frederick House 35-39 Maddox Street London W1S 2PP
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 ("Baron" or "The Company") is an independent oil and gas exploration company headquartered in London. The Company currently owns exploration acreage in the UK and Peru. Shares in the company are listed in the UK on the AIM market of the London Stock Exchange – (BOIL.L).

The Company's objective is to deliver shareholder value through generating substantial increases in net asset value by discovering commercial quantities of hydrocarbons while mitigating both risks and costs whenever possible by taking minority interests in ventures in established hydrocarbon-bearing areas. The Company is committed to safeguarding the environment and minimising risk to our employees, contractors and the communities in which we work. Through developing sustainable long-term relationships with its partners and the community, Baron aims to conduct business and enhance value in a responsible manner.

3 Chairman's Statement and Operations Report

Finance and financial results

The net result for the year was a loss before taxation of £2,058,000, which compares to a loss of £175,000 for the preceding financial year, and the loss after taxation attributable to Baron Oil shareholders was £1,539,000, compared to a loss of £32,000 in the preceding year.

Turnover for the year was £nil (2016: £nil), there being no sales activity since the cessation of production in July 2015 from the Nancy-Burdine-Maxine fields ("NBM") in Colombia and the expiry of the licence in October 2015.

During 2017, the local staff of Inversiones Petroleras de Colombia SAS ("Invepetrol") finalised all the steps necessary to administer the relinquishment of the licence, the clearance of equipment from the well site and to obtain all necessary environmental approvals. The remaining staff left the company before the end of the year. The Group has held a 50% interest in Invepetrol since 2014 but consolidated the results as it held effective management control. However, during 2017 our 50% partner, CI International Fuels, took control of the Board and, as a result, Invepetrol has been deconsolidated. Furthermore, steps have been taken to place Invepetrol into liquidation. The effect of deconsolidation is to release net liabilities previously included in the Statement of Financial Position and to give rise to a credit to the Income Statement of £831,000. While the directors believe that the Company will not have any further liabilities from Colombia, we retain sufficient provision in the Statement of Financial Position against any unforeseen eventualities.

Exploration and evaluation expenditure written off included in the Income Statement amounts to £109,000. This arises from £90,000 in costs regarding the South East Asia Joint Study Agreement with SundaGas, mainly relating to the period up to 31 March 2017, and residual costs of £19,000 on block Z-34 in Peru (see below).

In Peru, the decision to relinquish block Z34 leads to a write off in the Income Statement of £1,837,000.This reflects primarily the write off of the US$2 million receivable from Union Oil & Gas Group following their failure to meet their obligation under the farm-out agreement, plus some additional expenditure incurred locally in Peru. This should be considered in the context of US$3.6 million being released from cash cover to support the Z-34 guarantee to Perupetro, this amount being added to the free cash resources of the Group as shown in the cash flow statement.

A further effect of the write off of the Union Oil and Gas Group receivable is a write back of the related provision for Peruvian tax amounting to £519,000, this amount being credited to the Income Statement.

Also in Peru, the Group incurred expenditure totaling £84,000 on our 100%-owned onshore block XXI, arising from both direct costs and local staff and support costs. In accordance with our accounting policy, the Group has been charging unsuccessful exploration costs direct to the Income Statement; however, the results of the 2015/16 2D seismic on block XXI were encouraging and may lead to the drilling of an exploration well during 2018. Accordingly, the Board are of the view that this phase of exploration is ongoing and that the expenditure should remain on the Balance Sheet as capitalised exploration and evaluation expenditure until the results of any such well are known, the carrying amount being £1,260,000.

Administration expenditure for the year was £510,000, down from £700,000 in the preceding year, excluding the effects of exchange rate movements. This cost saving arises from the cessation in activities in Colombia at £122,000, reduced cost in Peru of £49,000, with the remainder due to cost reductions in the UK.

During the year, we saw a relative weakening in the US Dollar and, with the majority of the group's assets being denominated in that currency, this has given rise to a loss of £508,000. This compares with a gain of £1,131,000 in the preceding year, when there was a major impact on the Pound Sterling following the Brexit referendum result.

At the end of the financial year, free cash reserves of the Group had increased to £3,873,000 from a level at the preceding year end of £2,158,000. This increase in cash reserves arises from the release of cash cover funds held against the guarantee in respect of Peru block Z-34 at £2,674,000 (US$3,600,000), offset by an operational cash outflow of £959,000.

The Group continues to pursue a conservative view of its asset impairment policy, giving it a Balance Sheet that consists largely of net current assets and a realistic value for its remaining exploration assets. Given the limited cash resources, the Board will take a prudent approach in entering into new capital expenditures beyond those already committed to existing ventures.

3 Chairman's Statement and Operations Report

New exploration activity

Following the recovery of $3.6 million from the relinquishment of Peru block Z-34, of which details are given below, Baron has followed a new strategy concentrating on near-term drilling opportunities in the United Kingdom, as follows:

United Kingdom Offshore Licence P2235 ("Wick" Prospect) (Baron 15%)

Baron announced on 19 February 2018 that it had signed an option to farm in to UK Offshore Licence P2235 (Block 11/24b) containing the Wick Prospect. This option was exercised on 13 March 2018, when Baron signed a definitive Farmout Agreement with Corallian Energy Limited, ("Corallian") under which the Company will pay 20% of the costs of the Wick well, up to a maximum gross cost of £4.2 million, and 15% of other costs on the licence to earn a 15% working interest in P2235. The Wick Prospect lies close to the shore of NE Scotland, 5 kilometres north and updip from the Lybster Field, which has been developed from onshore facilities. The prospect has been defined by 3D seismic mapping by Baron and others and a recent announcement by Upland Resources Limited stated it has estimated in-place P50 Prospective Resources of around 250 million barrels of oil (unrisked) in sands of Jurassic and Triassic age in the licence area, a large part of which will be tested by the Wick well. The Wick well will be drilled to a total depth of 1,250 metres subsea in a water depth of 38 metres. Baron announced on 15 May 2018 that Corallian had entered into a letter of intent with Ensco UK Limited to provide a jack-up drilling rig to drill this prospect in the third or fourth quarter of 2018, subject to necessary approvals and consents. The total well cost has increased, due largely to more rigorous site survey requirements and substantially higher fuel costs, and is currently estimated at £5.2 million. Including a 15% share of back costs unrelated to the well, the total payable by the Company is currently estimated at some £1,020,000 to earn a 15% interest in the licence.[1]

United Kingdom Offshore Licence P1918 ("Colter" Prospect) **and Onshore PEDLs 330 & 345** (Baron 5%)

Baron entered into a Farmout Agreement with Corallian on 5 March 2018 under which it will earn a 5% working interest in UK Offshore Licence P1918, which contains the Colter Prospect, on which a well is planned to be drilled this year. By participating in this well, Baron will also earn a 5% interest in nearby onshore licences PEDL 330 and PEDL 345.

The Colter Prospect lies in Poole Bay, immediately southeast of the Wytch Farm oilfield which has been developed from onshore facilities. Recent re-mapping of pre-stack depth migrated 3D seismic data by Corallian indicates that the 98/11-3 well, which encountered oil in the Triassic Sherwood sandstone reservoir, lies on the flank of a structure that has the potential to hold unrisked Mean Prospective Resources of 23 million barrels of recoverable oil equivalent. The Colter Prospect will be appraised by a well drilled to a total depth of 1,850 metres subsea in a water depth of 16 metres. Baron announced on 15 May 2018 that Corallian had entered into a letter of intent with Ensco UK Limited to provide a jack-up drilling rig to drill this prospect in the third or fourth quarter of 2018, subject to necessary approvals and consents. The total well cost has increased, due largely to more rigorous site survey requirements and substantially higher fuel costs, and is currently estimated at £7.2 million. Under the terms of the agreement with Corallian, subject to governmental consents, the Company would pay 6.67% of the costs related to this well, capped at a gross cost of £8.0 million: costs above this cap would be funded at 5%. Including a 5% share of back costs unrelated to the well, the total payable by the Company is currently estimated at some £490,000 to earn a 5% interest in the licence.[1]

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[1] Under pre-existing agreements between Corallian and InfraStrata plc, Baron is obligated to pay to InfraStrata plc on a monthly basis an amount equivalent to 1% of the pre-tax net profits generated to Baron from the sales of oil and gas from licences P1918 and P2235, taking into account, in each case, cumulative costs and expenses of exploration, appraisal, development and production.

3 Chairman's Statement and Operations Report

Legacy exploration activity

Peru Offshore Block Z-34 (Baron Oil 50% interest relinquished in December 2017)

In November 2017, the Company elected to relinquish the contract for block Z-34, in which it held a 50% interest through its Peruvian subsidiary, Gold Oil Peru SAC ("GOP"). Earlier in the year, Union Oil & Gas Group (UOGG) defaulted on its obligation to pay GOP US$2 million when a 30% interest in Z-34 was formally assigned to it by the Peruvian Government under a Public Deed. Following protracted discussions, it was agreed to terminate and unwind the 2013 Farmout Agreement with UOGG and the 30% interest under the Joint Operating Agreement ("JOA") was returned to GOP on 10 September 2017. UOGG retained ownership of Plectrum Petroleum Limited, which continued to hold a 50% interest in Z-34. However, neither UOGG nor Plectrum paid cash calls due to GOP as operator under the terms of the JOA. On 1 September 2017 both UOGG and Plectrum were formally placed into default for non-payment of the August cash call and, following termination of the Farmout Agreement, Plectrum compounded its default position by not paying cash calls for September and November.

Taking into account the partner default, the failure of an extended effort by UOGG to farm out its interests in Z-34 and the fact that the contract had been in Force Majeure since 2014 because of the lack of legislation and regulations necessary to allow drilling operations in this deep-water environment, GOP proposed that the block be relinquished. An Operating Committee Meeting was held in accordance with the JOA at the beginning of November 2017, at which Plectrum could not exercise its vote because of its default, and the unanimous decision was made to relinquish block Z-34.

Notice of relinquishment was given to Perupetro on 9 November 2017 and the relinquishment became effective on 9 December. At this point, GOP notified Perupetro that the terms of the Z-34 contract allowed it to claim the release of the $3.6 million bond held as guarantee for the work programme if the contract had been in Force Majeure for a period exceeding one year. This was accepted by Perupetro on 14 December 2017 and the funds were released on 19 December. Following delays over the Christmas period, the funds were finally cleared in the Company's UK bank account on 5 January 2018.

Peru Onshore Block XXI (Baron Oil 100%)

The Company owns a 100% interest in the contract for block XXI through GOP. The block lies onshore in the Sechura Desert, close to the town of Piura, and covers a current area of 2,425 square kilometres.

The El Barco prospect has been identified in the area to the northeast of the 1954 Minchales-1X well and a drilling prognosis has been prepared for a well to 1,850 metres. Mapping of the El Barco prospect by GOP indicates that unrisked Prospective Resources are in the range of 6.4 billion cubic feet of recoverable gas in a low-risk shallow sand and 7.1 million barrels of recoverable oil in a much higher risk fractured basement play. Initial estimates are that the actual drilling of this well will cost some US$1.4 million but additional costs of some US$500,000 are expected to be incurred for the necessary civil engineering and environmental work involved in building a suitable track from the Pan-American Highway across the desert and scrub to the proposed wellsite, a distance of some 15 kms.

Farmout negotiations with interested parties continue since, as previously stated, the directors wish to find a partner to pay at least 50% of the costs of the El Barco well. Discussions are also underway with qualified drilling contractors. The block XXI contract is currently in Force Majeure, because of local opposition to the drilling at El Barco, which adds a further potential expense to the drilling operation. If the well is not drilled within 6 months of expiry of the current Force Majeure situation, the contract will terminate and the Company will forfeit its guarantee bond of US$160,000.

Northern Ireland Onshore Licence PL 1/10 Licence (Baron Oil 12.5%)

No significant activity took place on this licence in 2017 and in February 2018 Baron gave notice that it would withdraw from the licence. This became effective in April 2018 and the Company has no further obligations.

3 Chairman's Statement and Operations Report

Operations in Colombia

During the year, the remaining staff in Colombia completed the administration of the cessation of the NBM licence, which took effect in October 2015. By the end of the year, all staff had left the local operation. NBM was operated by Invepetrol in which we are 50% shareholders and in which control effectively passed to our partner, CI International Fuels, in 2017. Proceedings to liquidate this company are expected to commence shortly.

Sea Asia Study Group

Baron entered into a joint study agreement in September 2016 with SundaGas Pte Ltd, based in Singapore. The purpose was to give the Company accelerated access to a range of exploration and production activities in prospective areas of South East Asia without the need to increase its own staff and overhead. The agreement ran for a six-month period to 31 March 2017, during which time the group considered a broad range of possibilities and entered into preliminary negotiations on several potential projects, one of which is still active. The directors had hoped that this project would come to fruition during 2017 but a decision by the host government continues to be delayed and it seems unlikely that an award, if any, will be made before the fourth quarter of 2018.

Conclusions

Although the directors were forced to spend a great deal of time during the year in difficult negotiations with our recalcitrant partners in Peru block Z-34, the final outcome at year-end was a satisfactory one. It had become clear that it would be impossible to drill the block in the timeframe of the contract for administrative, technical and financial reasons and the block was relinquished in a way that enabled the Company to recover the entire guarantee bond. The additional US$3.6 million of free cash has enabled the Company to be re-positioned and, after due consideration, the board has decided that near-term drilling activities in areas where discoveries can easily and profitably be developed represent the best way forward. Each of the Wick and Colter prospects offers an excellent opportunity to drill a relatively low-risk well this year with significant potential and provides the possibility of early, low cost development. Success in either of these wells would provide shareholders with a meaningful uplift in the asset value of the Company.

The Company remains debt-free and is fully funded for its currently planned activities in 2018.

I would like to pay a personal tribute to Bill Colvin, who resigned as Chairman in February 2018. Bill took over the reins under very difficult circumstances in January 2015 and guided the Company through the difficult period when our partners in block Z-34 prevented us from moving forward with activities on the block, refused to honour their obligations under the Farmout Agreement and defaulted on their payment obligations under the JOA. It was good that he was able to savour the success of regaining the guarantee bond and participate in the re-positioning of the Company. We wish him every success in his other ventures.

I would also like to welcome Andrew Yeo as an independent non-executive director. His experience in the City and in the oil industry will be of great value to the board and he has been appointed to chair the audit and remuneration committees.

Malcolm Butler
Chairman and Chief Executive

24 May 2018

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 2017.

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 2017 000	**Year ended 31 December 2016 000**	**Change**
Liquid cash reserves – GBP	749	1,267	–40.9%
Liquid cash reserves – USD	3,124	891	+250.6%
Administrative expenses	510	700	–27.1%

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'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.

Performance guarantees

The Group has given performance guarantees in respect of licenses in Peru. In the event that work commitments under the licences are not met, then these guarantees are likely to be called in.

Impact

In the event that the Group is required to make payments under any of the guarantees, this will lead to a permanent reduction in the cash balance. Note that these guarantee sums are shown as cash not available on the Consolidated and Company Statement of Cash Flows on page 30.

Action

The Group actively manages its work programmes under the licences to the extent that it is able to, paying close attention to milestones and expiry dates, in order to minimise the risk that licence commitments are not met.

Liquidity

The Group is exposed to liquidity risks, including 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 levels of cash balances.

Taxation

As the tax legislation in South America 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 takes appropriate professional tax advice and works closely with the tax authorities to ensure compliance.

By order of the Board

Malcolm Butler
Chairman and Chief Executive

24 May 2018

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 2017.

Directors

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

Dr Malcolm Butler Chairman and Chief Executive Officer

Malcolm Butler, aged 69, has extensive operational and financial experience, having worked for over 40 years as an explorationist and senior executive in the international oil and gas industry and having taken on a secondary role as an investment banker. He was responsible, as CEO, for the IPOs of Industrial Scotland Energy PLC and Brabant Resources PLC 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.

Geoffrey Barnes Finance Director

Geoffrey Barnes, aged 65, is a Director of Langley Associates Limited, an accountancy practice he founded in 1994. Geoff qualified as a Chartered Accountant in 1976 having trained with one of the major international accounting practices before moving into industry where he held several senior finance positions including Director of Finance at PJB Publications Limited, the publisher of business information for the global pharmaceutical, medical device and agrochemical industries.

Andrew Yeo Non-executive Director (appointed 28 April 2018)

Andrew Yeo, aged 55, has significant expertise in the oil and gas sector, having had a variety of roles including private equity and operational and financial experience in exploration and production activities as CFO of Wessex Exploration PLC. In addition, he brings 20 years' experience in multi-discipline corporate advisory services, having worked for UBS and ABN AMRO Hoare Govett before becoming a founder member of Evolution Securities, where he was a board member and executive director. Andrew is currently an executive director of Path Investments plc (TIDM: PATH), an oil and gas company focused on the acquisition of production, or near production, oil and gas assets.

William Colvin resigned from the Board on 28 February 2018.

Proposed dividend

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2017.

Political and charitable contributions

In the year ended 31 December 2017 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 2017 were 20 days (2016: 52 days).

5 Report of the Directors

Activities and results

A loss of £1,539,000 (2016: £288,000), of which £1,539,000 (2016: £32,000) was attributable to equity shareholders, was recorded for the year. Net assets of the Group at 31 December 2017 amounted to £4,263,000 (2016: £6,073,000), of which £4,263,000 (2016: £5,726,000) 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

No shares were issued during the year.

The environment

The Company is firmly committed to protecting the environment wherever it does business. We will do our upmost to minimise the impact of the business on the environment. Both the Company and its employees will try to 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 2017		31 December 2016	
	Number of Ordinary shares	**% Holding**	**Number of Ordinary shares**	**% Holding**
W Colvin	1,000,000	0.1%	1,000,000	0.1%
M Butler	1,000,000	0.1%	1,000,000	0.1%
G Barnes	1,379,310	0.1%	1,379,310	0.1%
	3,379,310	0.3%	3,379,310	0.3%

5 Report of the Directors

Options held by the directors are as follows:

	31 December 2017 Number of options £0.0145*	31 December 2016 Number of options £0.0145*
W Colvin	35,172,414	35,172,414

	Number of options £0.0035**	Number of options £0.0035**
W Colvin	10,500,000	–
M Butler	20,000,000	–
G Barnes	10,500,000	–
	41,000,000	–
	76,172,414	35,172,414

*Each £0.0145 option grants the holder the right to subscribe for one Ordinary Share at £0.0145 per share, and are granted under one option contract exercisable at any time prior to 23 March 2018.

**Each £0.0035 option grants the holder the right to subscribe for one Ordinary Share at £0.0035 per share, and are granted under one option contract exercisable at any time prior to 7 July 2020.

Except as shown in note 27 to the Financial Statements (Related Party Transactions), 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 establishes 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 salaries paid during the year are shown below.

	2017 £	2016 £
Chairman		
W Colvin	50,000	115,000
Executive Directors		
M Butler	122,500	115,000
G Barnes	70,500	67,000
	243,000	297,000

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

5 Report of 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.

Events after the reporting period

On 5 March 2018, the Company executed a Farmout Agreement in respect of UK Offshore Licence P2235 ("the Wick Prospect"), and will pay 20% of the costs to earn a 15% interest in the licence. There is a current commitment to pay £1,020,000.

Also on 5 March 2018, the Company executed a Farmout Agreement in respect of UK Offshore Licence P1918 ("the Colter Prospect"), and will pay 6.67% of the costs of the Colter Well to earn a 5% interest in P1918 and UK Onshore licences PEDL330 and PEDL345. There is a current commitment to pay £490,000.

Financial review

Liquidity & Share Trading

The Board believes that high liquidity is important in attracting both small and institutional investors to Baron. During the last financial period Baron 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 16 May 2018 was 1,376,409,576 Ordinary Shares, each share having equal voting rights. Baron Oil Plc has 1,152 shareholders.

The shareholding distribution at 16 May 2018 is as follows:

Range	Number of shares	Number of shareholders
>10%	206,333,117	1
5-10%	404,594,792	5
1-5%	447,501,651	17
0.5-1%	104,739,694	11
<0.5%	213,240,322	1,118
	1,376,409,576	1,152

Significant shareholdings

The Company has been informed that, as of 9 May 2018, the following shareholders own 3% or more of the issued share capital of the Company:

Name	Shares	% of company
Pershing Nominees Limited	206,333,117	14.99%
Rock Nominees Limited	96,491,543	7.01%
Barclays Direct Investing Nominees	80,500,423	5.85%
Interactive Investor Services	78,152,194	5.68%
Lynchwood Nominees Limited	75,743,522	5.50%
W B Nominees Limited	73,707,110	5.36%
HSBC Global Custody Nominee	66,063,218	4.80%
Interactive Investor Services	56,235,003	4.09%
Total	733,226,130	53.27%

5 Report of the Directors

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 were the Company's Nominated Adviser and Joint Broker until 28 April 2018. SP Angel was appointed as Joint Broker in February 2017 and was appointed as Nominated Advisor and Broker on 28 April 2018. The closing mid-market price on 16 May 2018 was 0.52p.

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 22 to the financial statements.

Going concern

Taking into account the cash reserves, the Group's medium term investment plans in Peru and the UK 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 financial statements 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
Director and Secretary

24 May 2018

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 taken into account 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 two executive directors and one non-executive director, 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 two directors with Andrew Yeo as Chairman and Dr Malcolm Butler as the other member. 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 Financial Statements, 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 Andrew Yeo as Chairman; Dr Malcolm Butler and Geoff Barnes 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 Financial Statements and also the website (www.baronoilplc.com). The Company's website is updated regularly and contains all operational reports, press releases and Interim and Annual Financial Statements.

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 or 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 AIM 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

Malcolm Butler
Chairman and Chief Executive Officer

24 May 2018

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Opinion

We have audited the financial statements of Baron Oil PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs 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 as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Our audit approach

Overview

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

- Carrying value of investments and intangible assets.
- Accounting for share capital, options, convertibles and warrants.

These are explained in more detail below.

Audit scope

- We conducted audits of the Group and Parent Company financial information of Baron Oil Plc.
- We performed specified procedures over certain account balances and transaction classes at other Group companies.
- Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
Carrying value of investments and intangible assets The Company had intangibles of £566,351 at the year ended 31 December 2017 (31 December 2016: £566,351). The Directors have confirmed all intangibles, were correctly recognised.	The analysis work undertaken by the directors shows that the Group has the cash resources to undertake the work programmes to which it is committed. We have understood and assessed the methodology used by the directors in this analysis and determined it to be reasonable. The release of the bond relating to Block Z-34 has generated cash inflow for future projects. The Group has applied the successful efforts method of accounting for Exploration and Evaluation costs. Under the successful efforts accounting, exploration expenditure which is general in nature is charged directly to the income statement. The Directors have applied the successive efforts method appropriately.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Key audit matter	How our audit addressed the key audit matter
Accounting for share capital, options, convertibles and warrants The charge for the year is made up as follows: Options granted £41,332 All share options that vest in the period have been reviewed for the purpose of calculating an appropriate share-based payment charge. The Black-Scholes model has been used to value the options at the grant date. Options have estimated vesting periods based on management's assumptions and the share-based payment is spread evenly over this period from the date of grant. Options vested on the grant date and the share based payment was fully charged to the profit and loss during the year. There is therefore judgement in the valuation of share-based payments, owing to the estimation uncertainty that exists around future vesting periods.	We have understood and assessed the methodology utilised to estimate the Company's share-based payment charge calculations and checked that the calculation of the provision was mathematically accurate. We have audited the share-based payment by reviewing the key inputs used in the model for reasonableness.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£114,000 (31 December 2016: £145,000).	£98,500 (31 December 2016: £95,000).
How we determined it	Based on the average of 10% of loss before tax and 1.5% of gross assets.	Based on the average of 10% of loss before tax and 1.5% of gross assets.
Rationale for benchmark applied	We believe that loss before tax is a primary measure used by shareholders in assessing the performance of the Group whilst gross asset values and revenue are a representation of the size of the Group; both are generally accepted auditing benchmarks.	We believe that loss before tax is a primary measure used by shareholders in assessing the performance of the Company whilst gross asset values are a representation of the size of the Company; both are generally accepted auditing benchmarks.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components is ranged from £23,000 and £98,500.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £114,000 (Group audit) (31 December 2016: £145,000) and £98,500 (Company audit) (31 December 2016: £95,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 2 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of the Group and Parent Company of Baron Oil Plc reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over goodwill and other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 2 reporting units.

The Group engagement team performed all audit procedures, with the exception of the audit of Gold Oil Peru S.A.C which were performed by a component auditor in Peru.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

8 Report of the Independent Auditors

to the Members of Baron Oil Plc

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matters which we are required to address

We were appointed as auditors by the Company at the Annual General Meeting on 30 June 2017. Our total uninterrupted period of engagement is 12 years, covering the periods ending to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Sanjay Parmar
Senior Statutory Auditor
For and on behalf of Jeffreys Henry LLP (Statutory Auditors)
Finsgate
5-7 Cranwood Street
London EC1V 9EE

24 May 2018

9 Consolidated Income Statement

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue		–	–
Cost of sales		–	–
Gross profit		–	–
Exploration and evaluation expenditure		(109)	(739)
Intangible assets written off		(1,837)	–
Intangible asset impairment	11	–	(370)
Property, plant and equipment impairment and depreciation	10	–	95
Goodwill impairment	12	–	(81)
Receivables and inventory impairment	3	43	73
Disposal of Colombian subsidiary		831	–
Disposal of Colombia branch operations		–	31
Administration expenses		(510)	(700)
(Loss)/profit on exchange		(508)	1,131
Other operating Income	4	21	319
Operating loss	3	(2,069)	(241)
Finance cost	6	(8)	(35)
Finance income	6	19	101
Loss on ordinary activities before taxation		(2,058)	(175)
Income tax credit/(expense)	7	519	(113)
Loss on ordinary activities after taxation		(1,539)	(288)
Dividends		–	–
Loss for the year		(1,539)	(288)
Loss on ordinary activities after taxation is attributable to:			
Equity shareholders		(1,539)	(32)
Non-controlling interests		–	(256)
		(1,539)	(288)
Earnings per ordinary share – continuing	9		
Basic		(0.112p)	(0.002p)
Diluted		(0.112p)	(0.002p)

10 Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Loss on ordinary activities after taxation attributable to the parent	(1,539)	(32)
Other comprehensive income:		
Exchange difference on translating foreign operations	35	(290)
Total comprehensive income for the year	(1,504)	(322)
Total comprehensive income attributable to Owners of the parent	(1,504)	(322)

11 Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
Non current assets			
Property, plant and equipment			
– oil and gas assets	10	–	3
– others	10	–	–
Intangibles	11	1,260	1,325
Goodwill	12	–	–
		1,260	1,328
Current assets			
Trade and other receivables	14	18	2,070
Cash and cash equivalents	15	3,992	5,231
		4,010	7,301
Total assets		5,270	8,629
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	17	344	344
Share premium account	18	30,237	30,237
Share option reserve	18	122	81
Foreign exchange translation reserve	18	1,723	1,688
Retained earnings	18	(28,163)	(26,624)
Capital and reserves attributable to non-controlling interests	19	–	347
Total equity		4,263	6,073
Current liabilities			
Trade and other payables	16	195	1,054
Taxes payable	16	812	1,502
		1,007	2,556
Total equity and liabilities		5,270	8,629

The financial statements were approved and authorised for issue by the Board of Directors on 24 May 2018 and were signed on its behalf by:

Malcolm Butler
Director

Geoffrey Barnes
Director

Company number: 05098776

12 Company Statement of Financial Position

as at 31 December 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
Non current assets			
Property, plant and equipment			
– oil and gas assets	10	–	–
Intangibles	11	565	566
Investments	13	25	25
		590	591
Current assets			
Trade and other receivables	14	14	162
Cash and cash equivalents	15	3,863	5,023
		3,877	5,185
Total assets		4,467	5,776
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	17	344	344
Share premium account	18	30,237	30,237
Share option reserve	18	122	81
Foreign exchange translation reserve	18	(163)	(163)
Retained earnings	18	(27,892)	(26,550)
Total equity		2,648	3,949
Current liabilities			
Trade and other payables	16	1,812	1,816
Taxes payable	16	7	11
		1,819	1,827
Total equity and liabilities		4,467	5,776

The financial statements were approved and authorised for issue by the Board of Directors on 24 May 2018 and were signed on its behalf by:

Malcolm Butler
Director

Geoffrey Barnes
Director

Company number: 05098776

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2017

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 2016	344	30,237	(26,797)	286	1,978	603	6,651
Shares issued	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
(Loss) for the year attributable to equity shareholders	–	–	(32)	–	–	(256)	(288)
Disposal of interest	–	–	–	–	–	–	–
Share based payments	–	–	205	(205)	–	–	–
Foreign exchange translation adjustments	–	–	–	–	(290)	–	(290)
Total comprehensive income for the year	–	–	173	(205)	(290)	(256)	(578)
As at 1 January 2017	344	30,237	(26,624)	81	1,688	347	6,073
Shares issued	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
(Loss) for the year attributable to equity shareholders	–	–	(1,539)	41	–	–	(1,498)
Disposal of interest	–	–	–	–	–	(347)	(347)
Foreign exchange translation adjustments	–	–	–	–	35	–	35
Total comprehensive income for the year	–	–	(1,539)	41	35	(347)	(1,810)
As at 31 December 2017	344	30,237	(28,163)	122	1,723	–	4,263

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2017

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 2016	344	30,237	(26,802)	286	(234)	3,831
Shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–
Profit for the year	–	–	47	–	–	47
Share based payments	–	–	205	(205)	–	–
Foreign exchange translation adjustments	–	–	–	–	71	71
Total comprehensive income for the year	–	–	252	(205)	71	118
As at 1 January 2017	344	30,237	(26,550)	81	(163)	3,949
Shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–
(Loss) for the year	–	–	(1,342)	41	–	(1,301)
Foreign exchange translation adjustments	–	–	–	–	–	–
Total comprehensive income for the year	–	–	(1,342)	41	–	(1,301)
As at 31 December 2017	344	30,237	(27,892)	122	(163)	2,648

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2017

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Operating activities	(680)	(508)	(2,326)	284
Investing activities				
Return from investment and servicing of finance	19	19	101	90
Sale of Intangible assets	–	–	1,784	–
Cash previously not available now released	2,674	2,674	–	–
Disposal of tangible assets	–	–	82	82
Loan to subsidiary (advanced)/repaid	–	(283)	–	(246)
Acquisition of intangible assets	(298)	(119)	(492)	(74)
Acquisition of tangible fixed assets	–	–	(1)	–
	2,395	2,291	1,474	(148)
Financing activities				
Proceeds from issue of share capital	–	–	–	–
Net cash inflow	1,715	1,783	(852)	136
Cash and cash equivalents at the beginning of the year	2,158	2,080	3,010	1,944
Cash and cash equivalents at the end of the year	3,873	3,863	2,158	2,080
Reconciliation to Consolidated Statement of Financial Position				
Cash not available for use	119	–	3,073	2,943
Cash and cash equivalents as shown in the Consolidated Statement of Financial Position	3,992	3,863	5,231	5,023

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2017

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Operating activities				
Loss for the year attributable to controlling interests	(1,539)	(1,342)	(32)	47
Depreciation, amortisation and impairment charges	2	–	331	61
Loss on disposal of assets	–	120	–	–
Share based payments	41	41	–	–
Non-cash movement arising on consolidation of non-controlling interests	(347)	–	(257)	–
Impairment of investment	–	74	–	246
Finance income shown as an investing activity	(19)	(19)	(101)	(90)
Tax (benefit)/expense	(519)	–	113	–
Foreign exchange translation	512	478	(1,319)	(430)
Operating cash outflows before movements in working capital	(1,869)	(648)	(1,265)	(166)
(Increase)/decrease in receivables	2,052	148	(440)	1,178
Tax paid	(4)	(4)	71	(2)
Increase/(decrease) in payables	(859)	(4)	(692)	(726)
Net cash (outflows)/inflows from operating activities	(680)	(508)	(2,326)	284

15 Notes to the Financial Statements

for the year ended 31 December 2017

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 for this period are covered by existing cash resources.

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 Group 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 Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The 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 2017 that would be expected to have a material impact on the Company.

15 Notes to the Financial Statements

for the year ended 31 December 2017

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 period beginning 1 January 2017 and have not been early adopted. The Director anticipates that the adoption of these standard and the interpretations in future period will have no material impact on the financial statements of the Company.

Reference	Title	Summary	Application date of standard	Application date of Company
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	Amendments resulting from Annual Improvements 2014-2016 Cycle (removing short-term exemptions)	Annual periods beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 2	Share-based payments	Amendments to clarify the classification and measurement of share based payment transactions	Annual period beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 4	Insurance Contracts	Amendments regarding the interaction of IFRS 4 and IFRS 9	Annual period beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 9	Financial Instruments	Amendments regarding the interaction of IFRS 4 and IFRS 9	Annual period beginning on or after 1 January 2018	1 January 2018
IFRS 15	Revenue from Contracts with Customers	Original issue	Annual periods beginning on or after 1 January 2018	1 January 2018
IFRS 16	Leases	Original issue	Annual periods beginning on or after 1 January 2019	1 January 2019
Amendments to IAS 28	Investments in Associates and Joint Ventures	Amendments resulting from Annual improvements 2014-2016 cycle (Clarifying certain fair value measurements)	Annual periods beginning on or after January 2018	1 January 2018
Amendments to IAS 39	Financial Instruments: Recognition and measurement	Amendments to permit entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS9 is applied and to extend the fair value option to certain contracts that meet the ‘own use’ scope exception	Applies when IFRS9 applied	1 January 2018
Amendments to IAS 40	Investment Property	Amendments to clarify transfers or property to, or from investment property	Annual period beginning on or after January 2018	1 January 2018

The directors anticipate that the adoption of these standards and the interpretations in future periods will have no material impact on the financial statements of the Company.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

Property, plant and equipment continued

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.

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.

1 Significant accounting policies continued

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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 20)

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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.

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 cannot be issued until 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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

1 Significant accounting policies continued

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.

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.

Accounting estimates

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.

15 Notes to the Financial Statements

for the year ended 31 December 2017

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 three geographic reporting segments: South America, which has been involved in production, development and exploration activity, South East Asia where production, development and exploration activity is being assessed, and the United Kingdom being the head office and where exploration activity is taking place.

Exploration and production
year ended 31 December 2017

	United Kingdom £'000	South America £'000	South East Asia £'000	Total £'000
Revenue – oil	–	–	–	–
Cost of sales	–	–	–	–
Gross profit	–	–	–	–
Exploration and evaluation expenditure	–	(19)	(90)	(109)
Intangible asset written off	–	(1,837)	–	(1,837)
Intangible asset impairment	–	–	–	–
Goodwill impairment	–	–	–	–
Receivables and inventory impairment	–	43	–	43
Disposal of Colombian subsidiary	–	831	–	831
Administration expenses	(510)	–	–	(510)
(Loss)/profit on exchange	(508)	–	–	(508)
Other operating income	9	12	–	21
Operating (loss)/profit	(1,009)	(970)	(90)	(2,069)
Finance costs	–	(8)	–	(8)
Finance income	19	–	–	19
(Loss)/Profit before taxation	(990)	(978)	(90)	(2,058)
Income tax expense	–	519	–	519
Loss/(Profit) after taxation	(990)	(459)	(90)	(1,539)
Assets and liabilities				
Segment assets	14	1,264	–	1,278
Cash and cash equivalents	3,863	129	–	3,992
Total assets	3,877	1,393	–	5,270
Segment liabilities	108	87	–	195
Current tax liabilities	7	805	–	812
Total liabilities	115	892	–	1,007
Other segment items				
Capital expenditure	–	298	–	298
Depreciation, amortisation and impairment charges	–	(43)	–	(43)

15 # Notes to the Financial Statements

for the year ended 31 December 2017

2 Segmental Information continued

Exploration and production

year ended 31 December 2016

	United Kingdom £'000	South America £'000	South East Asia £'000	Total £'000
Revenue – oil	–	–	–	–
Cost of sales	–	–	–	–
Gross profit	–	–	–	–
Exploration and evaluation expenditure	(658)	–	(81)	(739)
Intangible asset impairment	–	(370)	–	(370)
Property, plant and equipment impairment	–	95	–	95
Goodwill impairment	–	(81)	–	(81)
Receivables impairment	–	73	–	73
Disposal of Colombia branch operations	–	31	–	31
Administration expenses	(529)	(171)	–	(700)
(Loss)/profit on exchange	1,091	40	–	1,131
Other operating income	308	11	–	319
Operating (loss)/profit	212	(372)	(81)	(241)
Finance costs	–	(35)	–	(35)
Finance income	90	11	–	101
(Loss)/Profit before taxation	302	(396)	(81)	(175)
Income tax expense	–	(113)	–	(113)
(Loss)/profit before taxation	302	(509)	(81)	(288)
Assets and liabilities				
Segment assets	163	3,235	–	3,398
Cash and cash equivalents	5,023	208	–	5,231
Total assets	5,186	3,443	–	8,629
Segment liabilities	155	899	–	1,054
Current tax liabilities	11	1,491	–	1,502
Total liabilities	166	2,390	–	2,556
Other segment items				
Capital expenditure	–	521	–	521
Depreciation, amortisation and impairment charges	–	283	–	283

15 # Notes to the Financial Statements

for the year ended 31 December 2017

3 (Loss) from operations

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

	2017 £'000	2016 £'000
Auditors' remuneration		
Group – audit	21	29
Company – audit	21	15
Group – other non-audit services	5	5
Company – other non-audit services	5	5
Exploration and evaluation expenditure	109	739
Depreciation of non oil and gas assets	–	–
Depreciation of oil and gas assets	–	–
Intangible asset written off	1,837	–
Impairment of intangible assets	–	451
Impairment of property, plant and equipment	–	95
Impairment of foreign tax receivables	(43)	(73)
Loss/(gain) on exchange	508	(1,131)

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

	2017 £'000	2016 £'000
Employee benefit expense	311	423
Exploration and evaluation expenditure	109	739
Depreciation, amortisation and impairment charges	(43)	283
Legal and professional fees	140	180
Loss/(gain) on exchange	508	(1,131)
Other expenses	59	97
	1,084	591

4 Other operating income

	2017 £'000	2016 £'000
Release of historic liabilities	–	304
Other	21	15
	21	319

15 Notes to the Financial Statements

for the year ended 31 December 2017

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:

	2017 Number	2016 Number
Directors	3	3
Technical and production	–	2
Administration	–	3
Total	3	8

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	–	92
Directors' salaries	243	297
Share based payments	41	–
Social security costs	27	34
	311	423

6 Finance income

	2017 £'000	2016 £'000
Bank and other interest received	19	101
Finance cost	(8)	(35)
Total	11	66

7 Income tax expense

The tax charge on the loss on ordinary activities was:

	2017 £'000	2016 £'000
UK Corporation Tax – current	–	–
Foreign taxation	(519)	113
	(519)	113

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

	2017 £'000	2016 £'000
(Loss) before tax		
Continuing operations	(2,058)	(175)
Tax at composite group rate of 21.1% (2016: 21.9%)	(434)	(38)
Effects of:		
Losses/(profits) not subject to tax	9	(61)
Change of tax rate on brought forward tax loss	(168)	13
Increase in tax losses	593	86
Foreign taxation	(519)	113
Tax expense	(519)	113

At 31 December 2017, the Group has trading tax losses of £22,249,000 (31 December 2016: £22,052,000) to carry forward against future profits, plus capital losses of £5,707,000 (2016: £2,589,000) to offset against future capital gains. The deferred tax asset on these tax losses at 21.1% of £5,899,000 (31 December 2016: at 21.8%, £5,371,000) has not been recognised due to the uncertainty of the recovery.

15 Notes to the Financial Statements

for the year ended 31 December 2017

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:

	2017 £'000	2016 £'000
Parent company's (loss)/profit	(1,342)	47

9 Earnings per share

	2017	2016
Loss per ordinary share		
– Basic	(0.112p)	(0.002p)
– Diluted	(0.112p)	(0.002p)

Earnings per ordinary share is based on the Group's loss attributable to controlling interests for the year of £1,539,000 (2016: £32,000).

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

	2017 Number	2016 Number
Weighted average ordinary shares in issue during the year	1,376,409,576	1,376,409,576
Potentially dilutive warrants issued	28,859,896	35,172,414
Weighted average ordinary shares for diluted earnings per share	1,405,269,472	1,411,581,990

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

15 Notes to the Financial Statements

for the year ended 31 December 2017

10 Property, plant and equipment

GROUP	Development and production costs £'000	Equipment and machinery £'000	Vehicles £'000	Total £'000
Cost				
At 1 January 2016	–	879	23	902
Foreign exchange translation adjustment	–	(111)	–	(111)
Expenditure	–	1	–	1
Disposals	–	(731)	–	(731)
At 1 January 2017	–	38	23	61
Foreign exchange translation adjustment	–	(5)	–	(5)
Expenditure	–	–	–	–
Disposals	–	(1)	(23)	(24)
At 31 December 2017	–	32	–	32
Depreciation				
At 1 January 2016	–	875	23	898
Foreign exchange translation adjustment	–	(112)	–	(112)
Charge for the period	–	2	–	2
Disposals	–	(633)	–	(633)
Impairment charge	–	(97)	–	(97)
At 1 January 2017	–	35	23	58
Foreign exchange translation adjustment	–	(5)	–	(5)
Charge for the period	–	2	–	2
Disposals	–	–	(23)	(23)
At 31 December 2017	–	32	–	32
Net book value				
At 31 December 2017	–	–	–	–
At 31 December 2016	–	3	–	3

10 Property, plant and equipment continued

COMPANY	Development and production costs £'000	Equipment and machinery £'000	Total £'000
Cost			
At 1 January 2016	–	7	7
Expenditure	–	–	–
Disposals	–	(7)	(7)
At 1 January 2017	–	–	–
Expenditure	–	–	–
Disposals	–	–	–
At 31 December 2017	–	–	–
Depreciation			
At 1 January 2016	–	7	7
Charge for the year	–	–	–
Disposals	–	(7)	(7)
At 1 January 2017	–	–	–
Charge for the period	–	–	–
Disposals	–	–	–
At 31 December 2017	–	–	–
Net book value			
At 31 December 2017	–	–	–
At 31 December 2016	–	–	–

15 Notes to the Financial Statements

for the year ended 31 December 2017

11 Intangible fixed assets

GROUP	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2016	1,896	6,280	8,176
Foreign exchange translation adjustment	–	598	598
Expenditure	–	492	492
Disposals	(1,896)	(3,061)	(4,957)
At 1 January 2017	–	4,309	4,309
Foreign exchange translation adjustment	–	(334)	(334)
Expenditure	–	298	298
Disposals	–	(1,953)	(1,953)
At 31 December 2017	–	2,320	2,320
Impairment			
At 1 January 2016	1,896	3,732	5,628
Foreign exchange translation adjustment	–	200	200
Charge for the period	–	370	370
Disposals	(1,896)	(1,318)	(3,214)
At 1 January 2017	–	2,984	2,984
Foreign exchange translation adjustment	–	–	–
Charge for the period	–	–	–
Disposals	–	(1,924)	(1,924)
At 31 December 2017	–	1,060	1,060
Net book value			
At 31 December 2017	–	1,260	1,260
At 31 December 2016	–	1,325	1,325

15 Notes to the Financial Statements

for the year ended 31 December 2017

11 Intangible fixed assets continued

COMPANY	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2016	–	3,272	3,272
Expenditure	–	74	74
Disposals	–	(1,651)	(1,651)
At 1 January 2017	–	1,695	1,695
Expenditure	–	119	119
Disposals	–	(1,180)	(1,180)
At 31 December 2017	–	634	634
Impairment			
At 1 January 2016	–	2,719	2,719
Charge for the year	–	(559)	(559)
Disposals	–	(1,031)	(1,031)
At 1 January 2017	–	1,129	1,129
Expenditure	–	–	–
Disposals	–	(1,060)	(1,060)
At 31 December 2017	–	69	69
Net book value			
At 31 December 2017	–	565	565
At 31 December 2016	–	566	566

The exploration and evaluation costs above represent the cost in acquiring, exploring and evaluating the company's and group's assets.

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: following the relinquishment of the contract in December 2017, the whole of the net carrying value of the intangible asset relating to this block has now been written off.

Block XXI Peru: this contract is fully impaired except for the cost of seismic acquisition and analysis incurred in 2015 and 2016 where encouraging results are expected to lead to the drilling of an exploration well.

15 # Notes to the Financial Statements
for the year ended 31 December 2017

12 Goodwill

GROUP	Goodwill on consolidation of subsidiaries £'000
Cost	
At 1 January 2016	2,326
Additions	81
At 1 January 2017	2,407
Disposals	(2,326)
At 31 December 2017	81
Impairment	
At 1 January 2016	2,326
Charge for the period	81
At 1 January 2017	2,407
Disposals	(2,326)
At 31 December 2017	81
Net book value	
At 31 December 2017	–
At 31 December 2016	–

The carrying value of goodwill represents the purchase of shares in Gold Oil Peru SAC.

15 Notes to the Financial Statements

for the year ended 31 December 2017

13 Investments

COMPANY	Loans to group undertaking £'000	Shares in group undertaking £'000	Total £'000
Cost			
At 1 January 2016	2,831	8,612	11,443
Exchange rate adjustment	569	–	569
Additions	–	81	81
Disposals	–	(1,903)	(1,903)
Net loan movements	(404)	–	(404)
At 1 January 2017	2,996	6,790	9,786
Exchange rate adjustment	(208)	–	(208)
Disposals	(723)	(3,118)	(3,841)
Net loan movements	283	–	283
At 31 December 2017	2,348	3,672	6,020
Impairment			
At 1 January 2016	2,831	8,587	11,418
Charge/(release) for the year	165	81	246
Disposals	–	(1,903)	(1,903)
At 1 January 2017	2,996	6,765	9,761
Charge/(release) for the year	75	–	75
Disposals	(723)	(3,118)	(3,841)
At 31 December 2017	2,348	3,647	5,995
Carrying value			
At 31 December 2017	–	25	25
At 31 December 2016	–	25	25

In April 2014, the Group disposed of a 50% interest in Inversiones Petroleras de Colombia SA ("Invepetrol"), incorporated in Colombia. In previous years, the company had effective control of the operations and the results of the company's operations were consolidated with the 50% no longer held by the Group being shown as a non-controlling interest. In March 2017, the 50% partner, CI International Fuels of Colombia, took control of the board of Invepetrol and, as a result, the company no longer has operational control and the results and financial position of that company have been deconsolidated. It is expected that Invepetrol will be liquidated during the course of 2018 and the company's interest in that company has now been fully written off.

The company has made provision on the the investment in Gold Oil Peru S.A.C. of £5,884,000 (2016: £5,771,000).

15 Notes to the Financial Statements

for the year ended 31 December 2017

13 Investments continued

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 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 (i)	England	100	100	equity method	Exploration and production of oil and gas

All shareholdings are in ordinary, voting shares.

The results of subsidiaries is as follows:

	2017 £'000	2016 £'000
Gold Oil Plc Sucursal Colombia		
Aggregate capital and reserves	–	–
Profit/(Loss) for the year	–	(11)
Gold Oil Peru S.A.C		
Aggregate capital and reserves	(672)	1,533
Profit/(Loss) for the year	(2,162)	(174)
Gold Oil Caribbean Limited		
Aggregate capital and reserves	1,421	1,705
Profit for the year	–	284
Ayoopco Ltd		
Aggregate capital and reserves	–	–
(Loss) for the year	–	–
Nexxus Energy Corporation		
Aggregate capital and reserves	–	–
Profit/(Loss) for the year	–	–
Inversiones Petroleras de Colombia SA		
Aggregate capital and reserves	–	(1,472)
Profit/(Loss) for the year	–	(512)

(i) In the course of dissolution.

15 Notes to the Financial Statements

for the year ended 31 December 2017

14 Trade and other receivables

	2017 Group £'000	2017 Company £'000	2016 Group £'000	2016 Company £'000
Trade receivables	–	–	–	–
Other receivables	10	6	314	153
Short term loan	–	–	1,621	–
Amounts owed by subsidiary and associate undertakings	–	–	–	–
Prepayments and accrued income	8	8	135	9
	18	14	2,070	162

15 Cash and cash equivalents

	2017 Group £'000	2017 Company £'000	2016 Group £'000	2016 Company £'000
Bank current accounts	1,183	1,183	2,074	2,074
Bank deposit accounts	2,809	2,680	3,157	2,949
	3,992	3,863	5,231	5,023

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 2017, bank deposits included £119,000 (2016: £3,073,000) that is being held as a guarantee until the Group fulfills certain licence commitments in Peru and is not available for use. This is not considered to be liquid cash and has therefore been excluded from the cash flow statement.

16 Trade and other payables

	2017 Group £'000	2017 Company £'000	2016 Group £'000	2016 Company £'000
Bank loans and overdrafts	–	–	–	–
Trade payables	9	3	99	8
Other payables	–	–	604	–
Amounts owed to subsidiary and associate undertakings	–	1,705	–	1,705
Accruals and deferred income	186	104	351	103
Provisions	–	–	–	–
Taxation	812	7	1,502	11
	1,007	1,819	2,556	1,827

17 Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Equity: 1,376,409,576 (2016: 1,376,409,576) ordinary shares of £0.00025 each	344	344

No shares were issued during the year.

15 Notes to the Financial Statements

for the year ended 31 December 2017

18 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	30,237	81	1,688	(26,624)
Loss for the year attributable to controlling interests	–	–	–	(1,539)
Share based payments current year	–	41	–	–
Foreign exchange translation adjustments	–	–	35	–
	30,237	122	1,723	(28,163)

COMPANY	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	30,237	81	(163)	(26,550)
Loss for the year	–	–	–	(1,342)
Share based payments current year	–	41	–	–
Foreign exchange translation adjustments	–	–	–	–
	30,237	122	(163)	(27,892)

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2017 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2017 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2017 Number
23 March 2015	23 March 2018	£0.0145	35,172,414	–	–	–	35,172,414
7 July 2017	7 July 2010	£0.0035	–	41,000,000	–	–	41,000,000
			35,172,414	41,000,000	–	–	76,172,414

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2016 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2016 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2016 Number
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	–
23 March 2015	23 March 2018	£0.0145	35,172,414	–	–	–	35,172,414
			71,412,845	–	–	36,240,431	35,172,414

15 Notes to the Financial Statements

for the year ended 31 December 2017

19 Non-controlling interests

	2017 £'000	2016 £'000
At beginning of the year	347	603
Deconsolidation of Inversiones Petroleras de Colombia SA (note 13)	(347)	–
Share of loss for the year	–	(256)
	–	347

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 ("CII"). In March 2017, CII took operational control over the underlying assets and, as a result, the operations of this company have been deconsolidated.

20 Share based payments

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

Grant date	**7 July 2017**
Number of warrants granted	41,000,000
Share price at grant date	0.35p
Exercise price at grant date	0.35p
Option life	3 years
Risk free rate	1.40%
Expected volatility	75%
Expected dividend yield	0%
Fair value of option	0.10p

The options will not normally be exercisable during a closed period, and furthermore can only be exercisable if the performance conditions are satisfied. Subsisting options will lapse no later than 3 years after the date of grant. 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.

21 Directors' emoluments

	2017 £'000	2016 £'000
Directors' remuneration	243	297
Directors' fees	–	–
Share based payments	41	–
	284	297

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

	2017 £'000	2016 £'000
Remuneration	123	115
Share based payments	20	–
	143	115

15 Notes to the Financial Statements

for the year ended 31 December 2017

22 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 receives 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:

22 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 counterparties 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 2017 the ageing analysis of trade receivables is as follows:

	Total £'000	Neither past due nor impaired £'000
31 December 2017	–	–
31 December 2016	198	–

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 2017	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	–	763	763
US dollar (USD)	2,798	445	3,243
Colombian pesos (COP)	–	–	–
Peruvian Nuevo Sol (PEN)	–	4	4
	2,798	1,212	4,010

15 Notes to the Financial Statements

for the year ended 31 December 2017

22 Financial instruments continued

Interest rates on financial assets and liabilities continued

31 December 2016

	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	6	1,286	1,292
US dollar (USD)	3,073	2,572	5,645
Colombian pesos (COP)	48	283	331
Peruvian Nuevo Sol (PEN)	–	33	33
	3,127	4,174	7,301

The Group earned interest on its interest bearing financial assets at rates between 0.1% and 3% (2016: 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 2016 was prepared under the same assumptions.

	Change of 1.0% in the interest rate as of 31 December 2017		31 December 2016	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Instruments bearing variable interest (£'000)	31	(31)	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 its 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	COP	PEN
Average for year ended 31 December 2017	1.29	–	4.14
At 31 December 2017	1.35	–	4.17
Average for year ended 31 December 2016	1.37	4,117	4.49
At 31 December 2016	1.23	3,669	4.06

15 Notes to the Financial Statements

for the year ended 31 December 2017

22 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.

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.

It is considered that price risk of the Group at the reporting date has not increased compared to the previous period end.

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 WTI crude oil prices is shown below:

	31 December 2017	Average price 2017	31 December 2016
Per barrel – US$	60	48	37
Per barrel – £	44	35	25

Oil prices 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. However, these prices had no effect on on the Group's results for 2017, since it had no production.

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 period ended 31 December 2017

23 Capital commitments

As of 31 December 2017, there were no capital commitments.

24 Contingent liabilities

The Group and the Company have given guarantees of US$160,000 (31 December 2016: 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.

25 Events after the reporting period

On 5 March 2018, the Company executed a Farmout Agreement in respect of UK Offshore Licence P2235 ("the Wick Prospect"), and will pay 20% of the costs to earn a 15% interest in the licence. There is a current commitment to pay £1,020,000.

Also on 5 March 2018, the Company executed a Farmout Agreement in respect of UK Offshore Licence P1918 ("the Colter Prospect"), and will pay 6.67% of the costs of the Colter Well to earn a 5% interest in P1918 and UK Onshore licences PEDL330 and PEDL345. There is a current commitment to pay £490,000.

26 Ultimate controlling party

Baron Oil Plc is listed on the AIM market operated by the London Stock Exchange. At the date of the Annual Report in the directors' opinion there is no controlling party.

27 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 2017		**Year ended 31 December 2016**	
	Balance £'000	**Loan advance £'000**	**Balance £'000**	**Loan advance (repayment) £'000**
Gold Oil Peru S.A.C*	2,348	283	2,276	(404)
Inversiones Petroleras de Colombia SA**	723	2	721	–

*The Company has provided for an impairment of £2,348,000 (2016: £2,275,000) on the outstanding loans.

**During the year, the Company has written off its investment. In 2016, the Company provided for an impairment of £721,000 on the outstanding loans.

Group and company

There were related party transactions in the year as follows:

The company paid £nil (2016: £8,000) for services rendered by GeoSolutions Limited, a company controlled by Dr M Butler, a director.

The company paid £8,250 (2016: £18,000) for services rendered by Langley Associates Limited, a company controlled by Mr G Barnes, a director.

Shareholder Notes

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Baron Oil Plc

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