BARON OIL Plc

Annual Report and Financial Statements

for the year ended 31 December 2018

Contents

1. Corporate Information

Advisers & General Information

Directors	**Malcolm Butler**, Executive Chairman **Andrew Yeo**, Managing Director **Jonathan Ford**, 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 1 DJ
Nominated advisor and broker	**SP Angel Corporate Finance LLP** Prince Frederick House 35 Maddox Street London W1S 2PP
Registrars	**Computershare Investor Services (Ireland) Limited** 3100 Lake Drive Citywest Business Campus Dublin 24 D24 AK82 Ireland
Communications	Web Site 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 interests in ventures in established hydrocarbon-bearing areas as part of an experienced group of partners. The Company is committed to safeguarding the environment and minimising risk to its employees, contractors and the communities in which it works. 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 & Operations Report

Finance and financial results

The net result for the year was a loss before taxation of £3,280,000, which compares to a loss of £2,058,000 for the preceding financial year, and the loss after taxation attributable to Baron Oil shareholders was £2,495,000, compared to a loss of £1,539,000 in the preceding year.

Turnover for the year was £nil (2017: £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.

Exploration and evaluation expenditure written off included in the Income Statement amounts to £1,526,000. This arises from expenditure amounting to £1,312,000 on unsuccessful exploration in Licence P2235 (Wick), £164,000 expenditure in Peru on Block XXI (see below), £39,000 in costs regarding the South East Asia Joint Study Agreement with SundaGas, and minor expenditures relating to the UK Offshore 31st Licensing Round. Most of the Wick costs relate to the exploration well (11/24b-4), which was drilled during December 2018 and January 2019 and has been written off direct to the Income Statement as there will be no further activity on this licence. Because the well began drilling during 2018, the directors have taken the view that the entire cost should be written off in these Financial Statements. Of this expenditure, £1,095,000 was invoiced in 2018, with the remainder invoiced and paid in 2019.

On the Colter exploration well (98/11a-6), although £376,000 was invoiced during 2018 in respect of preparations for the drilling of the well, these costs have been treated as prepayments in the accounts because the well did not begin drilling until February 2019.

There was an intangible asset impairment charge in the year of £1,360,000 arising on Peru Block XXI. The Group incurred expenditure totaling £164,000 on its 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 it was considered likely that they would lead to the drilling of an exploration well during 2019. Because of this, the Board believed that these costs should remain on the Balance Sheet as capitalised exploration and evaluation expenditure. However, the block now has less than 6 months remaining in which to drill a well once Force Majeure is lifted and no firm proposal has yet been received from a third party to drill the well. IFRS6 (the relevant accounting standard) states that an asset should be impaired if there is a prospect of a licence coming to an end in the near future, which for the purposes of this Annual Report would be the next 12 months. On this basis, the decision has now been taken to impair the entire carrying amount.

In Colombia, Inversiones Petroleras de Colombia SAS ("Invepetrol"), in which the Company held a 50% interest, was put into liquidation on 3 April 2018. The Company believes that there will be no residual liabilities to the Company and as a result an earlier provision of £83,000 has now been released to the Income Statement.

Administration expenditure for the year was £549,000, compared to £510,000 in the preceding year, excluding the effects of exchange rate movements. Directors and employee costs amount to £332,000, listing compliance and other professional fees a further £135,000, and £82,000 in respect of other overheads.

During the year, we saw a modest weakening in the Pound Sterling against the US Dollar and, with the majority of the group's assets being denominated in US dollars, this has given rise to a gain of £130,000. This compares with a loss of £508,000 in the preceding year, when the Pound Sterling showed some strengthening against the US Dollar.

The Company has re-examined its tax position in Peru and as a result, believes that provisions in previous years were excessive with a resulting credit to Income Statement of £785,000.

At the end of the financial year, free cash reserves of the Group had decreased to £1,709,000 from a level at the preceding year end of £3,873,000.

3. Chairman's Statement & Operations Report (continued)

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 what it considers to be 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.

Exploration activity

Following the recovery of US$3.6 million from the relinquishment of Peru Block Z-34 at the end of 2017, during 2018 Baron has followed a new strategy concentrating on near-term drilling opportunities in the United Kingdom, which led to participation in the drilling of two offshore exploration wells.

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 paid 20% of the costs of the Wick well (11/24b-4), up to a maximum gross cost of £4.2 million, and 15% of other costs on the the well and licence in order to earn a 15% working interest in P2235. The Wick well was designed to test the Wick Prospect, forming part of the larger Wick structural complex, and the prospect was deemed by the Operator (Corallian) to be capable of containing unrisked recoverable Pmean Prospective Resources of 26 million barrels of oil equivalent. Drilling commenced on 24 December 2018, using the Ensco-72 Jack-up rig, and reached a Total Depth of 1,000m MD. Drilling operations were completed on 16 January 2019 and the well was plugged and abandoned without encountering hydrocarbons. The primary target of the well, the Beatrice Sandstone, was encountered at a depth of 933.5m but was interpreted to be water bearing. Petrophysical analyses indicated that the Beatrice Sandstone had a gross thickness of 22.8m with 19.8m of net sandstone of 17.2% average porosity. Unfortunately, the presence of a thick, poorly-cemented sand body above the target reservoir created problems in running and cementing casing, leading to cost overruns. The pre-drill final AFE cost of the well was estimated at £5.7 million including back costs (£1.1 million net to Baron) but the actual final cost against items included in the AFE is estimated to have been £6.97 million (£1.258 million net to Baron). Additional costs of £54,000 were incurred for items, such as insurance and operator overhead, outside the scope of the AFE.

No further activity is currently planned on Licence P2235.

United Kingdom Offshore Licence P1918 ("Colter" Prospect) (Baron 8%)

Baron announced on 13 March 2018 that it had entered into a Farmout Agreement with Corallian under which it would earn a 5% working interest in UK Offshore Licence P1918, which contains the Colter Prospect, and on 25 July 2018 the Company announced that it had agreed to increase its working interest to 8% in this project. Under the terms of the revised agreement with Corallian, which operates the licence, the Company would pay 10.67% of the costs related to this well, capped at a gross cost of £8.0 million. Costs above this cap were to be funded at 8%.[1] The final pre-drill AFE cost of the well was estimated at £7.5 million including back costs (£810,000 net to Baron).

The Colter Prospect area lies in Bournemouth Bay, immediately southeast of the Wytch Farm oilfield which has been developed from onshore facilities. Mapping of 3D seismic data by Corallian indicated that the 98/11-3 well, which encountered oil in the Triassic Sherwood sandstone reservoir in 1986, lay on the flank of a structure that had the potential to hold unrisked P50 Prospective Resources of 26.8 million barrels of oil recoverable from this reservoir. Drilling of the Colter well (98/11a-6) commenced on 6 February 2019, using the Ensco-72 jack-up rig, and reached a Total Depth of 1,870m MD in the Sherwood Sandstone on 24 February 2019.

(1) Under pre-existing agreements between Corallian and a third party, Baron is obligated to pay to such third party 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 & Operations Report (continued)

The 98/11a-6 well unexpectedly remained on the southern side of the Colter Prospect bounding fault but encountered oil and gas shows over a 9.4m interval at the top of the Sherwood Sandstone reservoir. A petrophysical evaluation of the logging while drilling data has calculated a net pay of 3m. Similar indications of oil and gas were encountered in the 98/11-1 well, drilled in 1983 by British Gas, within the Colter South fault terrace. Provisional analysis of the new data indicates that the two wells may a share a common oil-water-contact, having both intersected the down-dip margin of the Colter South Prospect.

A decision was made by the Joint Venture to drill a side-track (98/11a-6z) to the north to evaluate the original Colter Prospect, at an estimated AFE cost of £2.30 million. The well was drilled to a Total Depth of 1,910m MD and encountered the Sherwood Sandstone below the oil-water-contact of the 98/11-3 well. Initial evaluation of the data from both wells indicates that the Colter Prospect is smaller than pre-drill estimates. It has now been determined that the majority of the Prospective Resource resides within the Colter South portion of the play. Pre-drill, Corallian (Operator of the licence) had an estimated Pmean recoverable Prospective Resource volume of 15 mmbbls for the Colter South Prospect. Work continues on the re-mapping and evaluation of the area, which will be used to determine the forward plan to maximise the potential value associated with the Colter and Colter South Prospects.

The estimated final combined cost for items included within the AFEs for 98/11a-6 and the 98/11a-6z sidetrack was some £10.87 million (£1.09 million net to Baron). Additional costs of £56,000 were incurred for items, such as insurance and operator overhead, outside the scope of the AFE.

United Kingdom Onshore Licences PEDL330 & PEDL345 (Baron 8%)

By participating in the drilling of the Colter well, the Company also earned an 8% interest in adjacent onshore Licences PEDL330 and PEDL345. PEDL345 includes a major part of the Purbeck Prospect, in which the presence of oil and gas was demonstrated by the Southard Quarry-1 well, drilled by BP in 1990.

The Colter side-track also encountered live oil and gas shows in the Jurassic Cornbrash-Lower Oxfordian interval, the producing reservoir zone in the onshore Kimmeridge oilfield. This upgrades the Purbeck Prospect, in which the Cornbrash is one of the targets, and other potential leads on trend to the west of the Colter area within these onshore licences, which are held by the same Joint Venture group as offshore Licence P1918.

United Kingdom Offshore 31st Licensing Round

Applications for licences in the 31st Offshore Licensing Round closed on 7 November 2018. As disclosed by the UK's Oil & Gas Authority (OGA), the Round attracted 36 applications covering 164 blocks in frontier areas of the UK Continental Shelf (UKCS).

Baron has applied as a non-operator with two groups. The directors understand that the OGA intends to offer awards to successful applicants as early as possible during the first half of 2019.

Peru Onshore Block XXI (Baron Oil 100%)

Baron continues its farm-in discussions on Block XXI with several parties, although no firm offer has yet been received. The Block is in the 5th and last exploration phase with about 6 months left in which to drill when Force Majeure is lifted. The well location and Environmental Impact Assessment have been approved. In order to maximise the chances of finding a partner, Baron has negotiated a 3-year extension, to be approved once the well has been drilled. The current period of Force Majeure has been agreed by Perupetro to run from 1 January 2019 but the final documentation is still to be received by the Company.

3. Chairman's Statement & Operations Report (continued)

South East Asian Study Group

The separate SE Asia block application made by SundaGas in 2016 remains live and we hope that the previous delays on a decision to award the block may now be coming to an end. If the block is awarded to SundaGas, Baron will have the right to hold a 25% interest. In the meantime, Baron continues to discuss with SundaGas the possibility of participation in other exploration opportunities in SE Asia.

Conclusions

This has been an eventful time for the Company, with participation in two wells after a long period with little activity. It is unfortunate that drilling the Wick Prospect was unsuccessful and that difficulties were encountered that caused a cost overrun. However, the Colter well and its sidetrack provided encouragement that there is an oil accumulation present in Licence P1918 that has commercial potential. The partners in P1918 are now looking again at both 2D and 3D seismic data to help understand the morphology of this accumulation and determine how and when it could be commercialised.

We continue to look to SE Asia as an area for growth and I hope we will be able to bring to fruition the existing application with SundaGas, which has the potential to add significant shareholder value.

I am pleased that Andy Yeo has agreed to become an executive of the Company, as Managing Director, and I believe he will help increase our profile in the City as we go forward. The appointment of Jon Ford, a highly experienced exploration manager, as non-executive director gives us the benefit of an independent view of proposals for new ventures as well as broader access to opportunities. Although Geoff Barnes stepped down from the Board at the end of March 2018, we are pleased that he has agreed to remain as Financial Controller and Company Secretary.

Malcolm Butler
Executive Chairman

30 May 2019

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 2018.

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 2018 £'000	Year ended 31 December 2017 £'000	Change
Liquid cash reserves	£1,709	£3,873	-55.9%
Administrative expenses	£549	£510	+7.6%

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.

4. Strategic Report (continued)

Performance guarantees

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

Impact

In the event that the Group forfeits a deposit under any guarantee, 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 29.

Action

The Group actively manages its work programmes under the licence 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
Executive Chairman

30 May 2019

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 2018.

Directors

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

Dr Malcolm Butler, Executive Chairman

Malcolm Butler, aged 70, 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.

Andrew Yeo, Managing Director (appointed 28 April 2018)

Andrew Yeo, aged 56, 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.

Jonathan Ford, Non-Executive Director (appointed 31 March 2019)

Jon Ford, aged 59, has more than 37 years' experience in the upstream oil and gas industry in a variety of roles in petroleum geoscience and senior management. Following an initial 10 years with BP in the UK, the Netherlands, Italy and Indonesia, Jon has worked worldwide in the junior sector as a senior technical manager for listed oil companies including Clyde Petroleum, Paladin Resources and Stratic Energy, and advised multiple clients as a consultant. Jon has a BSc in Geology & Geophysics from Durham University and is a Fellow of the Geological Society.

Geoffrey Barnes resigned from the Board on 31 March 2019.

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 2018.

Political and charitable contributions

In the year ended 31 December 2018 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 2018 were 6 days (2017: 20 days).

5. Report of the Directors (continued)

Activities and results

A loss of £2,495,000 (2017: £1,539,000), of which £2,495,000 (2017: £1,539,000) was attributable to equity shareholders, was recorded for the year. Net assets of the Group at 31 December 2018 amounted to £1,790,000 (2017: £4,263,000), of which £1,790,000 (2017: £4,263,000) 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 2018		31 December 2017	
	No. of Ordinary shares	% Holding	No. of Ordinary shares	% Holding
W Colvin (resigned 28 February 2018)	–	–	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%
A Yeo	–	–	–	–
	2,379,310	0.2%	3,379,310	0.3%

5. Report of the Directors (continued)

Options held by the directors are as follows:

	31 December 2018 Number of options £0.0145*	31 December 2017 Number of Options £0.0145*
W Colvin (resigned 28 February 2018)	–	35,172,414
	Number of options £0.0035**	**Number of Options £0.0035****
W Colvin (resigned 28 February 2018)	–	10,500,000
M Butler	20,000,000	20,000,000
G Barnes	10,500,000	10,500,000
	Number of options £0.00435***	**Number of Options £0.00435*****
M Butler	10,000,000	–
G Barnes	10,000,000	–
	Number of options £0.0044****	**Number of Options £0.0044******
A Yeo	10,000,000	–
	60,500,000	76,172,414

* Expired 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.

*** Each £0.00435 option grants the holder the right to subscribe for one Ordinary Share at £0.00435 per share, and are granted under one option contract exercisable at any time prior to 27 November 2021.

**** Each £0.0044 option grants the holder the right to subscribe for one Ordinary Share at £0.0044 per share, and are granted under one option contract exercisable at any time prior to 3 December 2021.

Except as shown in note 27 to the Financial Statements (Related Party Transactions) on page 57, 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 modest 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.

5. Report of the Directors (continued)

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.

	2018 (£)	2017 (£)
Chairman		
W Colvin (resigned 28 February 2018)	10,000	50,000
M Butler	125,000	–
Executive Directors		
M Butler	25,000	122,500
G Barnes	76,000	70,500
A Yeo	27,667	–
	263,667	243,000

Refer to note 27 on page 57 for details of related party transactions with companies controlled by directors.

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

Employees

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

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

Events after the Reporting Period

On 6 February 2019, drilling of the exploration well 98/11a-6 in UK Offshore Licence P1918 ("Colter") commenced and back-to-back drilling of the sidetrack 98/11a-6z was completed on 8 March 2019. The Company holds an 8% working interest in this licence and the cost to the Company of this phase of exploration was £1,145,000. 98/11a-6 encountered oil and gas in the Sherwood Sandstone of the Colter South Prospect and, in common with its other joint venture partners, the Company is remapping the Colter Area structures in the licence to determine their extent and update the estimates of the Prospective Resources.

5. Report of the Directors (continued)

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 22 May 2019 was 1,376,409,576 Ordinary Shares, each share having equal voting rights. Baron Oil Plc has 1,119 shareholders.

The shareholding distribution at 22 May 2019 is as follows:

Range	No of shares	No of shareholders
>10%	168,333,117	1
5-10%	362,864,064	4
1-5%	476,059,894	14
0.5-1%	175,646,912	18
<0.5%	193,505,589	1,082
	1,376,409,576	1,119

Significant shareholdings

The Company has been informed that, as of 22 May 2019, the following shareholders own 3% or more of the issued share capital of the Company:

Name	Shares	% of company
The Bank of New York (Nominees)	168,333,117	12.23%
Rock (Nominees) Limited	115,435,413	8.39%
Interactive Investor Services	92,736,406	6.74%
Barclays Direct Investing Nominees	79,298,723	5.76%
Lynchwood Nominees Limited	75,393,522	5.48%
HSDL Nominees Limited	67,019,634	4.87%
W B Nominees Limited	63,707,110	4.63%
HSBC Global Custody Nominee	56,063,218	4.07%
Total	717,987,143	52.17%

Listing

The Company's ordinary shares have been traded on the AIM market of the London Stock Exchange since 14 July 2004. SP Angel is the Company's Nominated Adviser and Broker. The closing mid-market price on 22 May 2018 was 0.13p.

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 on page 53.

5. Report of the Directors (continued)

Going concern

The directors have prepared a cash flow forecast covering a period extending beyond 12 months from the date of these financial statements which contains certain assumptions about the development and strategy of the business. The directors are aware of the risks and uncertainties facing the business but the assumptions used are the directors' best estimate of its future development.

The Group forecasts include additional funding requirements upon which the Group is dependent. The directors are satisfied that these funding requirements will be met. Additionally, in the event that the Group fails to meet its financing predictions, the directors have outlined cost saving measures which will include the non-drawing of salaries to ensure there are enough funds to operate for at least the next twelve months. The directors are satisfied that this can be achieved.

After considering the forecasts and the risks, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Publication on company's website

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

Indemnity of officers

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

By order of the Board

Geoffrey Barnes
Secretary

30 May 2019

6. Corporate Governance Statement

The directors recognise the importance of sound corporate governance. The Company has adopted the QCA Code, which the directors consider appropriate for a company of its size and nature. The QCA takes key elements of good governance and allows companies to apply them in a manner which is appropriate for the differing needs of small companies. The "Comply or Explain" maxim allows companies to inform shareholders where policies differ from the norm and why. The details of the Company's policies in this respect are set out in it its AIM Notice 50 Statement, which can be downloaded from the Company's website https://www.baronoilplc.com/wp-content/uploads/2018/11/QCACGC260918.pdf

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 three directors with Malcolm Butler as Chairman and Jon Ford 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 two directors with Jon Ford as Chairman and Malcolm Butler and Andrew Yeo as 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 Directors' Report 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;
- 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
Executive Chairman

30 May 2019

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 2018 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, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 2018 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; 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 (continued)

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.

- Impairment of intangible exploration and evaluations assets.
- Accounting for share capital, options, convertibles and warrants.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangible assets The Group had intangibles of £65,813 at the year ended 31 December 2018 (31 December 2017: £1,259,315) and an impairment of £1,360,000 was made at the year end. IFRS6 Exploration for and Evaluation of Mineral Resources sets out the requirement under which an E&E asset is assessed for impairment. The Group continues farm-in discussions to finance drilling within six months of the end of Force Majeure on the licence.	Intangibles are only assessed for impairment when indicators of impairment exist. We participated in meeting with the Board of Directors to understand the current status and future intentions for the assets. We identified a licence close to expiry and challenged management intentions.
Accounting for share capital, options, convertibles and warrants The charge for the year is made up as follows: Options granted £32,919 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.

8. Report of the Independent Auditors (continued)

to the Members of Baron Oil Plc

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	£57,000 (31 December 2017: £114,000).	£57,000 (31 December 2017: £98,500).
How we determined it	Based on 1.5% of gross assets.	Based 2% 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.

For each component in the scope of our Group audit, we allocated a materiality that is the same as our overall Group materiality of £57,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £57,000 (Group audit) (31 December 2017: £114,000) and £57,000 (Company audit) (31 December 2017: £98,500) 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.

8. Report of the Independent Auditors (continued)

to the Members of Baron Oil Plc

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.

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 17, 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 (continued)

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. A further description of our responsibilities for the audit of the Financial Statements are located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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.

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

30 May 2019

9. Consolidated Income Statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue		–	–
Cost of sales		–	–
Gross profit		–	–
Exploration and evaluation expenditure		(1,526)	(109)
Intangible assets written off		–	(1,837)
Intangible asset impairment	11	(1,360)	–
Receivables and inventory impairment	3	(54)	43
Deconsolidation of Colombian entity		–	831
Administration expenses		(549)	(510)
Profit/(loss) on exchange	3	130	(508)
Other operating Income	4	83	21
Operating loss	3	(3,276)	(2,069)
Finance cost	6	(10)	(8)
Finance income	6	6	19
Loss on ordinary activities before taxation		(3,280)	(2,058)
Income tax credit/(expense)	7	785	519
Loss on ordinary activities after taxation		(2,495)	(1,539)
Dividends		–	–
Loss for the year		(2,495)	(1,539)
Loss on ordinary activities after taxation is attributable to:			
Equity shareholders		(2,495)	(1,539)
Non-controlling interests		–	–
		(2,495)	(1,539)
Earnings per ordinary share – continuing	9		
Basic		(0.181p)	(0.112p)
Diluted		(0.181p)	(0.112p)

10. Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Loss on ordinary activities after taxation attributable to the parent		(2,495)	(1,539)
Other comprehensive income:			
Exchange difference on translating foreign operations		(11)	35
Total comprehensive income for the year		(2,506)	(1,504)
Total comprehensive income attributable to owners of the parent		(2,506)	(1,504)

11. Consolidated Statement of Financial Position

at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non current assets			
Property plant and equipment			
– oil and gas assets	10	–	–
– others	10	–	–
Intangibles	11	66	1,260
Goodwill	12	–	–
		66	1,260
Current assets			
Trade and other receivables	14	503	18
Cash and cash equivalents	15	1,838	3,992
		2,341	4,010
Total assets		2,407	5,270
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	74	122
Foreign exchange translation reserve	18	1,712	1,723
Retained earnings	18	(30,577)	(28,163)
Total equity		1,790	4,263
Current liabilities			
Trade and other payables	16	594	195
Taxes payable	16	23	812
		617	1,007
Total equity and liabilities		2,407	5,270

The financial statements were approved and authorised for issue by the Board of Directors on 30 May 2019 and were signed on its behalf by:

Malcolm Butler
Director

Andrew Yeo
Director

Company number: 05098776

12. Company Statement of Financial Position

at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non current assets			
Property plant and equipment			
– oil and gas assets		–	–
Intangibles	11	66	565
Investments	13	25	25
		91	590
Current assets			
Trade and other receivables	14	502	14
Cash and cash equivalents	15	1,692	3,863
		2,194	3,877
Total assets		2,285	4,467
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	74	122
Foreign exchange translation reserve	18	(163)	(163)
Retained earnings	18	(30,510)	(27,892)
Total equity		(18)	2,648
Current liabilities			
Trade and other payables	16	2,295	1,812
Taxes payable	16	8	7
		2,303	1,819
Total equity and liabilities		2,285	4,467

The financial statements were approved and authorised for issue by the Board of Directors on 30 May 2019 and were signed on its behalf by:

Malcolm Butler
Director

Andrew Yeo
Director

Company number: 05098776

13. Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained Earnings £'000	Share option reserve £'000	Foreign exchange translation £'000	Non-controlling interests £'000	Total equity £'000
GROUP							
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)	–	–	–	(1,539)
Disposal of interest	–	–	–	–	–	(347)	(347)
Share based payments	–	–	–	41	–	–	41
Foreign exchange translation adjustments	–	–	–	–	35	–	35
Total comprehensive income for the period	–	–	(1,539)	41	35	(347)	(1,810)
As at 1 January 2018	344	30,237	(28,163)	122	1,723	–	4,263
Shares issued	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
(Loss) for the year attributable to equity shareholders	–	–	(2,495)	–	–	–	(2,495)
Share based payments	–	–	–	33	–	–	33
Release of option reserve	–	–	81	(81)	–	–	–
Foreign exchange translation adjustments	–	–	–	–	(11)	–	(11)
Total comprehensive income for the period	–	–	(2,414)	(48)	(11)	–	(2,473)
As at 31 December 2018	344	30,237	(30,577)	74	1,712	–	1,790

13. Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share option reserve £'000	Foreign exchange translation £'000	Total equity £'000
COMPANY						
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)		–	(1,342)
Share based payments	–	–	–	41	–	41
Foreign exchange translation adjustments	–	–	–	–	–	–
Total comprehensive income for the period	–	–	(1,342)	41	–	(1,301)
As at 1 January 2018	344	30,237	(27,892)	122	(163)	2,648
Shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–
(Loss) for the year	–	–	(2,699)	–	–	(2,699)
Share based payments	–	–	–	33	–	33
Release of option reserve	–	–	81	(81)	–	–
Foreign exchange translation adjustments	–	–	–	–	–	–
Total comprehensive income for the period	–	–	(2,618)	(48)	–	(2,666)
As at 31 December 2018	344	30,237	(30,510)	74	(163)	(18)

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

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

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

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

14. Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2018

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Operating activities	(2,104)	(1,875)	(680)	(508)
Investing activities				
Return from investment and servicing of finance	6	6	19	19
Cash previously not available now released	–	–	2,674	2,674
Loan to subsidiary (advanced)/repaid	–	(236)	–	(283)
Acquisition of intangible assets	(66)	(66)	(298)	(119)
	(60)	(296)	2,395	2,291
Financing activities				
Proceeds from issue of share capital	–	–	–	–
Net cash inflow	(2,164)	(2,171)	1,715	1,783
Cash and cash equivalents at the beginning of the year	3,873	3,863	2,158	2,080
Cash and cash equivalents at the end of the year	1,709	1,692	3,873	3,863
Reconciliation to Consolidated Statement of Financial Position				
Cash not available for use	129	–	119	–
Cash and cash equivalents as shown in the Consolidated and Company Statement of Financial Position	1,838	1,692	3,992	3,863

14. Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2018

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Operating activities				
Loss for the year attributable to controlling interests	(2,495)	(2,699)	(1,539)	(1,342)
Depreciation, amortisation and impairment charges	1,360	923	2	–
Loss on disposal of assets	–	–	–	120
Share based payments	33	33	41	41
Non-cash movement arising on consolidation of non-controlling interests	–	–	(347)	–
Impairment of investment	–	–	–	74
Finance income shown as an investing activity	(6)	(6)	(19)	(19)
Tax (benefit)/expense	(785)	–	(519)	–
Foreign exchange translation	(73)	(122)	512	478
Operating cash outflows before movements in working capital	(1,966)	(1,871)	(1,869)	(648)
(Increase)/decrease in receivables	(485)	(488)	2,052	148
Tax paid	(53)	–	(4)	(4)
Increase/(decrease) in payables	400	484	(859)	(4)
Net cash outflows from operating activities	(2,104)	(1,875)	(680)	(508)

15. Notes to the Financial Statements

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 on page 8.

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

The directors have prepared a cash flow forecast covering a period extending beyond 12 months from the date of these financial statements which contains certain assumptions about the development and strategy of the business. The directors are aware of the risks and uncertainties facing the business but the assumptions used are the directors' best estimate of its future development.

The Group forecasts include additional funding requirements upon which the Group is dependent. The directors are satisfied that these funding requirements will be met. Additionally, in the event that the Group fails to meet its financing predictions, the directors have outlined cost saving measures which will include the non-drawing of salaries to ensure there are enough funds to operate for at least the next twelve months. The directors are satisfied that this can be achieved.

After considering the forecasts and the risks, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

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.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied any applicable new standards, amendments to standards and interpretations that are mandatory for the financial year beginning on or after 1 January 2018 including IFRS 9.

(b) New, amended standards, interpretations not adopted by the Group

A number of new standards, amendments to standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2018, or later periods, where the Group intends to adopt these standards, if applicable, when they become effective. The Group has disclosed below those standards that are likely to be applicable to the Group and is currently assessing the impact of these standards.

- IFRIC 23 "Uncertainty over Income Tax Treatments", effective date 1 January 2019 clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Management has not yet fully assessed the impact of these standards but does not believe they will have a material impact on the financial statements.

New and revised IFRSs in issue but not yet effective

Baron Oil Plc and its subsidiaries has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Reference	Title	Summary	Application date of standard (Periods commencing on or after)
IFRS 2	Leases	Original issue	01 January 2019
IFRS 9	Prepayment features with Negative Compensation		01 January 2019
IFRS 11	Joint Arrangements	Annual Improvements 2015-2017 Cycle	01 January 2019
IAS 12	Income Taxes	Annual Improvements 2015-2017 Cycle	01 January 2019
IAS 19	Plan Amendment, Curtailment or settlement		01 January 2019
IAS 23	Borrowing Costs	Annual Improvements 2015-2017 Cycle	01 January 2019
IAS 28	Long term interests in associates and joint ventures		01 January 2019

Basis of consolidation

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

Subsidiaries

Subsidiaries are all entities over which Baron Oil Plc has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights, or where Baron Oil Plc exercises effective operational control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

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

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

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Joint ventures

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

Business combinations

The Group has chosen to adopt IFRS3 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 IFRS3 using the purchase method.

Goodwill

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

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

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment.

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

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

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

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

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

Intangible Assets

Oil and gas assets: exploration and evaluation

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

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

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

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

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

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

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Property, plant and equipment

Oil and gas assets: development and production

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

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

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

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.

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Investments

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

Trade and other receivables

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

Cash and cash equivalents

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

Inventories

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

Revenue

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

Taxation

Income tax

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

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

Deferred tax

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

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

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 and other payables

Trade payables are not interest bearing and are stated at their nominal value. Trade and other payables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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.

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.

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

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.

Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through the statement of profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Loans and receivables

The Group classifies all its financial assets as trade and other receivables. The classification depends on the purpose for which the financial assets were acquired.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss.

The Group's loans and receivables financial assets comprise other receivables (excluding prepayments) and cash and cash equivalents included in the Statement of Financial Position.

Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contracts which give rise to them and are classified as financial liabilities at fair value through the profit and loss or loans and payables as appropriate. The Group's loans and payable comprise trade and other.

When financial liabilities are recognised initially, they are measured at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through income statement.

Fair value through the income statement category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. There were no financial liabilities classified under this category.

The Group determines the classification of its financial liabilities at initial recognition and re-evaluate the designation at each financial year end.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Provisions

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

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Financial instruments

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

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

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

Foreign currencies

(i) ***Functional and presentation currency***

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which are mainly in Pounds Sterling (£), US Dollars (USD), 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.

15. Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Management of capital

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

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

Dividends 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.

Carrying value of intangible exploration and evaluation assets

Valuation of oil and gas properties: judgements regarding timing of regulatory approval, the general economic environment, and the ability to finance future activities has an impact on the impairment analysis of intangible exploration and evaluation assets. All these factors may impact the viability of future commercial production from unproved properties, and therefore may be a need to recognise an impairment. The timing of an impairment review and the judgement of when there could be a significant change affecting the carrying value of the intangible exploration and and evaluation asset is a critical accounting judgement in itself.

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.

15. Notes to the Financial Statements (continued)

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 2018

	United Kingdom £'000	South America £'000	South East Asia £'000	Total £'000
Revenue – oil	–	–	–	–
Cost of sales	–	–	–	–
Gross profit	–	–	–	–
Exploration and evaluation expenditure	(1,323)	(164)	(39)	(1,526)
Intangible asset impairment	–	(1,360)	–	(1,360)
Receivables and inventory impairment	–	(54)	–	(54)
Administration expenses	(534)	(15)	–	(549)
Profit on exchange	130	–	–	130
Other operating income	–	83	–	83
Operating loss	(1,727)	(1,510)	(39)	(3,276)
Finance costs	–	(10)	–	(10)
Finance income	6	–	–	6
Loss before taxation	(1,721)	(1,520)	(39)	(3,280)
Income tax expense	–	785	–	785
Loss after taxation	(1,721)	(735)	(39)	(2,495)
Assets and liabilities				
Segment assets	502	67	–	569
Cash and cash equivalents	1,692	146	–	1,838
Total assets	2,194	213	–	2,407
Segment liabilities	591	3	–	594
Current tax liabilities	–	23	–	23
Total liabilities	591	26	–	617
Other segment items				
Capital expenditure	66	–	–	66
Depreciation, amortisation and impairment charges	–	1,414	–	1,414

15. Notes to the Financial Statements (continued)

2. Segmental information (continued)

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)
Receivables impairment	–	43	–	43
Deconsolidation of Colombian entity	–	831	–	831
Administration expenses	(510)	–	–	(510)
Loss 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 before taxation	(990)	(978)	(90)	(2,058)
Income tax expense	–	519	–	519
Loss 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 (continued)

3. Operating loss

	2018 £'000	2017 £'000
The loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
Group – audit	22	21
Company – audit	22	21
Group – other non-audit services	5	5
Company – other non-audit services	5	5
Exploration and evaluation expenditure	1,526	109
Intangible asset written off	–	1,837
Impairment of intangible assets	1,360	–
Impairment of foreign tax receivables	54	(43)
(Gain)/loss on exchange	(130)	508

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

	2018 £'000	2017 £'000
Employee benefit expense	323	311
Exploration and evaluation expenditure	1,526	109
Depreciation, amortisation and impairment charges	1,414	(43)
Legal and professional fees	159	140
Loss/(gain) on exchange	(130)	508
Other expenses	67	59
	3,359	1,084

4. Other operating income

	2018 £'000	2017 £'000
Release of historic liabilities	83	–
Other	–	21
	83	21

5. Staff numbers and cost

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

	2018 Number	2017 Number
Directors	3	3
Technical and production	–	–
Administration	–	–
Total	3	3

15. Notes to the Financial Statements (continued)

5. Staff numbers and cost (continued)

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	–	–
Directors' salaries	264	243
Share based payments	33	41
Social security costs	27	27
	324	311

The Company is compliant with pensions auto-enrolment legislation.

6. Finance income

	2018 £'000	2017 £'000
Bank and other interest received	6	19
Finance cost	(10)	(8)
Total	(4)	11

7. Income tax expense

	2018 £'000	2017 £'000
The tax charge on the loss on ordinary activities was:-		
UK Corporation Tax – current	–	–
Foreign taxation	(785)	(519)
	(785)	(519)

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

	2018 £'000	2017 £'000
(Loss) before tax		
Continuing operations	(3,280)	(2,058)
Tax at composite group rate of 19% (2017: 21.1%)	(623)	(434)
Effects of:		
(Profits)/losses not subject to tax	(269)	9
Change of tax rate on brought forward tax loss	(148)	(168)
Increase in tax losses	1,040	593
Foreign taxation	(785)	(519)
Tax expense	(785)	(519)

At 31 December 2018, the Group has losses to carry forward against future profits. The losses from UK operations include exploration losses of £29,460 (2017 – £29,458), management expenses of £5,881,321 (2017 – £5,510,747), capital losses of £5,706,782 (2017 – £5,706,782) and non-trade relationship deficits of £467,317 (2017 – £467,317). Additionally, there are foreign exploration losses of £13,809,207 (2017 – £13,308,839) to carry forward against future profits. The deferred tax asset on UK tax losses at 17% of £11,969,652 (2017: at 19%, £ 11,599,076) has not been recognised due to the uncertainty of the recovery.

15. Notes to the Financial Statements (continued)

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:

	2018 £'000	2017 £'000
Parent company's profit/(loss)	(2,699)	(1,342)

9. Earnings per share

	2018	2017
Loss per ordinary share		
– Basic	(0.181p)	(0.112p)
– Diluted	(0.181p)	(0.112p)

Earnings per ordinary share is based on the Group's loss attributable to controlling interests for the year of £2,495,000 (2017: £1,539,000).

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

	2018 Number	2017 Number
Weighted average ordinary shares in issue during the year	1,376,409,576	1,376,409,576
Potentially dilutive options issued	46,671,139	28,859,896
Weighted average ordinary shares for diluted earnings per share	1,423,080,715	1,405,269,472

Due to the Group's results, 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 (continued)

10. Property, plant and equipment

	Development and production costs £'000	Equipment and machinery £'000	Vehicles £'000	Total £'000
Group				
Cost				
At 1 January 2017	–	38	23	61
Foreign exchange translation adjustment	–	(5)	–	(5)
Expenditure	–	–	–	–
Disposals	–	(1)	(23)	(24)
At 1 January 2018	–	32	–	32
Foreign exchange translation adjustment	–	2	–	2
At 31 December 2018	–	34	–	34
Depreciation				
At 1 January 2017	–	35	23	58
Foreign exchange translation adjustment	–	(5)	–	(5)
Charge for the period	–	2	–	2
Disposals	–	–	(23)	(23)
At 1 January 2018	–	32	–	32
Foreign exchange translation adjustment	–	2	–	2
At 31 December 2018	–	34	–	34
Net book value				
At 31 December 2018	–	–	–	–
At 31 December 2017	–	–	–	–

15. Notes to the Financial Statements (continued)

11. Intangible fixed assets

	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Group			
Cost			
At 1 January 2017	–	4,309	4,309
Foreign exchange translation adjustment	–	(334)	(334)
Expenditure	–	298	298
Disposals	–	(1,953)	(1,953)
At 1 January 2018	–	2,320	2,320
Foreign exchange translation adjustment	–	100	100
Expenditure	–	66	66
At 31 December 2018	–	2,486	2,486
Impairment			
At 1 January 2017	–	2,984	2,984
Disposals	–	(1,924)	(1,924)
At 1 January 2018	–	1,060	1,060
Charge for the period	–	1,360	1,360
At 31 December 2018	–	2,420	2,420
Net book value			
At 31 December 2018	–	66	66
At 31 December 2017	–	1,260	1,260

	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Company			
Cost			
At 1 January 2017	–	1,695	1,695
Expenditure	–	119	119
Disposals	–	(1,180)	(1,180)
At 1 January 2018	–	634	634
Expenditure	–	67	67
At 31 December 2018	–	701	701
Impairment			
At 1 January 2017	–	1,129	1,129
Disposals	–	(1,060)	(1,060)
At 1 January 2018	–	69	69
Charge for the year	–	566	566
At 31 December 2018	–	635	635
Net book value			
At 31 December 2018	–	66	66
At 31 December 2017	–	565	565

15. Notes to the Financial Statements (continued)

11. Intangible fixed assets (continued)

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 XXI Peru: this licence has been fully impaired during the year.

12. Goodwill

	Goodwill on consolidation of subsidiaries £'000
Group	
Cost	
At 1 January 2017	2,407
Disposals	(2,326)
At 1 January and 31 December 2018	81
Impairment	
At 1 January 2017	2,407
Disposals	(2,326)
At 1 January and 31 December 2018	81
Net book value	
At 31 December 2018	–
At 31 December 2017	–

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

15. Notes to the Financial Statements (continued)

13. Investments

	Loans to group undertaking £'000	Shares in group undertaking £'000	Total £'000
Company			
Cost			
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 1 January 2018	2,348	3,672	6,020
Exchange rate adjustment	41	–	41
Additions	–	1,947	1,947
Disposals	–	(150)	(150)
Net loan movements	(1,834)	–	(1,834)
At 31 December 2018	555	5,469	6,024
Impairment			
At 1 January 2017	2,996	6,765	9,761
Charge for the year	75	–	75
Disposals	(723)	(3,118)	(3,841)
At 1 January 2018	2,348	3,647	5,995
Charge/(release) for the year	(1,793)	1,947	154
Disposals	–	(150)	(150)
At 31 December 2018	555	5,444	5,999
Carrying value			
At 31 December 2018	–	25	25
At 31 December 2017	–	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 had operational control and the results and financial position of that company were deconsolidated in 2017. Invepetrol was put in liquidation during the course of 2018 and the Company's interest in that company has now been fully written off.

During the year, the Group capitalised £1,949,000 of an intercompany loan to Gold Oil Per S.A.C. as equity.

The Company has made provision on the investment in Gold Oil Peru S.A.C. of £5,999,000 (2017: £5,884,000).

Ayoopco Limited, a UK subsidiary, was dissolved on 21 August 2018.

15. Notes to the Financial Statements (continued)

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	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

All shareholdings are in ordinary, voting shares.

The results of subsidiaries is as follows:

	2018 £'000	2017 £'000
Gold Oil Peru S.A.C		
Aggregate capital and reserves	1,460	(672)
Profit/(Loss) for the year	194	(2,162)
Gold Oil Caribbean Limited		
Aggregate capital and reserves	1,421	1,421
Profit for the year	–	–

14. Trade and other receivables

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	–	–	–	–
Other receivables	111	111	10	6
Prepayments and accrued income	392	391	8	8
	503	502	18	14

15. Cash and cash equivalents

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank current accounts	898	898	1,183	1,183
Bank deposit accounts	940	794	2,809	2,680
	1,838	1,692	3,992	3,863

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 2018, bank deposits included £129,000 (2017: £119,000) that are being held as a guarantee until the Group fulfills certain licence commitments in Peru and are not available for use . This is not considered to be liquid cash and has therefore been excluded from the cash flow statement.

15. Notes to the Financial Statements (continued)

16. Trade and other payables

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	–	–	–	–
Trade payables	362	358	9	3
Other payables	–	–	–	–
Amounts owed to subsidiary and associate undertakings	–	1,705	–	1,705
Accruals and deferred income	232	232	186	104
Taxation	23	8	812	7
	617	2,303	1,007	1,819

17. Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
Equity: 1,376,409,576 (2017: 1,376,409,576) ordinary shares of £0.00025 each	344	344
	344	344

No shares were issued during the year.

18. Share premium and reserves

	Share premium account £'000	Share Option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
Group				
At beginning of the year	30,237	122	1,723	(28,163)
Loss for the year attributable to controlling interests	–	–	–	(2,495)
Share based payments	–	33	–	–
Option reserve released	–	(81)	–	81
Foreign exchange translation adjustments	–	–	(11)	–
	30,237	74	1,712	(30,577)
Company				
At beginning of the year	30,237	122	(163)	(27,892)
Loss for the year	–	–	–	(2,699)
Share based payments	–	33	–	–
Option reserve released	–	(81)	–	81
Foreign exchange translation adjustments	–	–	–	–
	30,237	74	(163)	(30,510)

15. Notes to the Financial Statements (continued)

18. Share premium and reserves (continued)

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2018 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2018 Number	New Issue Number	Exercised Number	Lapsed Number	31 December 2018 Number
23 March 2015	23 March 2018	£0.0145	35,172,414	–	–	35,172,414	–
7 July 2017	7 July 2020	£0.0035	41,000,000	–	–	–	41,000,000
27 November 2018	27 November 2021	£0.00435	–	20,000,000	–	–	20,000,000
3 December 2018	3 December 2021	£0.00440	–	10,000,000	–	–	10,000,000
			76,172,414	30,000,000	–	35,172,414	71,000,000

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 2020	£0.0035	–	41,000,000	–	–	41,000,000
			35,172,414	41,000,000	–	–	76,172,414

19. Non-controlling interests

	2018 £'000	2017 £'000
At beginning of the year	–	347
Deconsolidation of Inversiones Petroleras de Colombia SA (note 13)	–	(347)
	–	–

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	3 December 2018	27 November 2018	7 July 2017
Number of warrants granted	10,000,000	20,000,000	41,000,000
Share price at grant date	0.44p	0.435p	0.35p
Exercise price at grant date	0.44p	0.435p	0.35p
Option life	3 years	3 years	3 years
Risk free rate	0.85%	0.85%	1.40%
Expected volatility	75%	75%	75%
Expected dividend yield	0%	0%	0%
Fair value of option	0.11p	0.11p	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.

15. Notes to the Financial Statements (continued)

21. Directors' emoluments

	2018 £'000	2017 £'000
Directors' remuneration	264	243
Share based payments	33	41
	297	284

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

	2018 £'000	2017 £'000
Remuneration	150	123
Share based payments	11	20
	161	143

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

15. Notes to the Financial Statements (continued)

22. Financial instruments (continued)

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:

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 2018 and 2017 there were no trade receivables.

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

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 2018

	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	–	1,213	1,213
US dollar (USD)	923	202	1,125
Peruvian Nuevo Sol (PEN)	–	3	3
	923	1,418	2,341

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
Peruvian Nuevo Sol (PEN)	–	4	4
	2,798	1,212	4,010

15. Notes to the Financial Statements (continued)

22. Financial instruments (continued)

The Group earned interest on its interest bearing financial assets at rates between 0.1% and 3% (2017 0.1% and 3%) 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 2017 was prepared under the same assumptions.

	Change of 1.0% in the interest rate as of			
	31 December 2018		31 December 2017	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Instruments bearing variable interest (£'000)	9	(9)	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:

	USD	PEN
Average for year ended 31 December 2018	1.33	4.37
At 31 December 2018	1.27	4.28
Average for year ended 31 December 2017	1.29	4.14
At 31 December 2017	1.35	4.17

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.

15. Notes to the Financial Statements (continued)

22. Financial instruments (continued)

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 crude oil prices is shown below:

	31 December 2018	Average price	31 December 2017
Per barrel – US$	45	64	60
Per barrel – £	36	48	44

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 2018, 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.

23. Capital commitments

As of 31 December 2018, there were capital commitments in respect of exploration activity amounting to £703,000 (2017 – nil).

24. Contingent Liabilities

The Group and the Company have given guarantees of US$160,000 (31 December 2016: – US$160,000) to Perupetro SA to fulfil licence commitments for Block XXI. The Company considers that there are no potential decommissioning costs in respect of abandoned fields.

15. Notes to the Financial Statements (continued)

25. Events after the reporting period

On 6 February 2019, drilling of the exploration well 98/11a-6 in UK Offshore Licence P1918 ("Colter") commenced and back-to-back drilling of the sidetrack 98/11a-6z was completed on 8 March 2019. The Company holds an 8% working interest in this licence and the cost to the Company of this phase of exploration was £1,145,000. 98/11a-6 encountered oil and gas in the Sherwood Sandstone of the Colter South Prospect and, in common with its other joint venture partners, the Company is remapping the Colter Area structures in the licence to determine their extent and update the estimates of the Prospective Resources.

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 2018		Year ended 31 December 2017	
	Balance £'000	Loan advance/ (repayment) £'000	Balance £'000	Loan advance £'000
Gold Oil Peru S.A.C *	555	(1,793)	2,348	283

* The company has provided for an impairment of £555,000 (2017: £2,348,000) on the outstanding loans.

Group and company

The company paid £9,000 (2017:£8,250) for services rendered by Langley Associates Limited, a company controlled by Mr G Barnes, a director.

The company paid £9,000 (2017: nil) for services rendered by Praetorian Advisors 2 Limited, a company controlled by Mr A Yeo, a director.

For your Notes

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