



Baron Oil Plc

Annual Report and
Financial Statements

for the year ended 31 December 2016

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1 Corporate Information

Directors	William Colvin Non-Executive Chairman Malcolm Butler Chief Executive Officer Geoffrey Barnes Finance Director
Registered Office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Company Secretary	Geoffrey Barnes
Auditors	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Nominated Advisor and Joint Broker	Cantor Fitzgerald Europe One Churchill Place Canary Wharf London E14 5RD
Joint Broker	SP Angel Corporate Finance LLP 35 Maddox Street London W1S 2PP
Registrars	Computershare Investor Services (Ireland) Limited Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland
Communications	Website www.baronoilplc.com
Company number	05098776 (England and Wales)

2 Corporate Statement

Baron Oil Plc (“Baron” or “The Company”) is an independent oil and gas exploration company headquartered in London. The Company currently owns exploration acreage in the UK and Peru. Shares in the company are listed in the UK on the AIM market of the London Stock Exchange – (BOIL.L).

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

3 Chairman's Statement and Operations Report

Finance and financial results

The net result for the year was a loss before taxation of £175,000, which compares to a loss of £1,775,000 for the preceding financial year. After taking into account the minority interest in Colombia, the loss after taxation attributable to Baron Oil shareholders is £32,000.

Turnover for the year was zero compared to £1,048,000 in the preceding year. This arises from the cessation of production in July 2015 from the Nancy-Burdine-Maxine fields ("NBM") and the expiry of the licence in October 2015. During 2016, it was necessary for the local staff of Inversiones Petroleras de Colombia SAS ("Invepetrol") to administer the relinquishment of the licence, the clearance of equipment from the well site and to obtain all necessary environmental approvals. The total cost of this continued administration was £56,000 and, with all the tasks associated with the licence cessation complete, the final closure of Invepetrol is now under way. The Income Statement includes reversals in prior impairment charges of £365,000 in respect of property, plant and equipment and receivables, arising from local asset recoveries. While the directors believe that the Company will not have any further liabilities from Colombia, we retain sufficient provision in the Statement of Financial Position ("Balance Sheet") against any unforeseen eventualities.

In June 2016, the Group disposed of its operations in the Gold Oil Colombia branch which primarily encompassed the Group's interest in the Rosablanca and Azar licenses. This was done by way of a sale of the assets to our partner in Rosablanca, Projects and Investments Group, for US\$100,000 and resulted in a gain on disposal of £31,000.

This year, the Income Statement includes a figure of £739,000 in respect of exploration and evaluation expenditure written off. This includes £630,000 in respect of the unsuccessful Woodburn Forest well in Northern Ireland on licence PL1/10, expenditure of £28,000 on offshore Block P2123 in Northern Ireland that we have now relinquished, and £81,000 in costs regarding the South East Asia Joint Study Agreement with SundaGas.

In Peru, the Group incurred expenditure totaling £258,000 on our 100%-owned onshore Block XXI. This expenditure arises from both direct costs and local staff and support costs, and includes £49,000 of non-recurring expenditure in respect of the closure of the Lima office (the total cost was £98,000 which is split equally between Blocks XXI and Z-34). 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 2D seismic on Block XXI were encouraging and may lead to the drilling of an exploration well. Accordingly, the Board are of the view that this phase of exploration is ongoing and that the expenditure should remain on the Balance Sheet as capitalised exploration and evaluation expenditure until the results of any such well are known, the carrying amount being £1,325,000.

Also in Peru, there was expenditure totaling £234,000 in respect of offshore Block Z-34 of which £163,000 has been recharged to our partner, Union Oil & Gas Group ("UOGG"), under the farm-in arrangement. As the assignment of the 30% interest to UOGG has now been completed (see below), the Group has recognised a receivable of US\$2,000,000 together with a related payable of US\$640,000 for Peruvian tax that is expected to arise. Other than this, we are not carrying any value in the Balance Sheet for Z-34.

Administration expenditure for the year was £700,000, down from £1,137,000 in the preceding year, excluding the effects of exchange rate movements. This cost saving arises from the reduction in activities in Colombia at £389,000, with the remainder due to cost reductions at the UK Head Office.

The major changes in the exchange rate between the Pound Sterling and the US Dollar following the Brexit referendum have had a significant impact on the Income Statement. As most of the Group's liquid assets are in US Dollars, this has given rise to a gain on exchange of £1,131,000, the previous year gain being £271,000.

3 Chairman's Statement and Operations Report

At the end of the financial year, free cash reserves of the Group had reduced to £2,158,000 from a level at the preceding year end of £3,010,000 (excluding funds of £3,073,000 held in escrow in respect of performance guarantees). This reduction in cash reserves arises from (a) the settlement of liabilities in respect of Colombia NBM; (b) exploration and evaluation activities in Northern Ireland, Peru and South East Asia; and (c) administrative and listing expenditure; compensated by the positive impact of exchange rates on our US Dollar bank balances.

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

Exploration operations in Peru

Block Z-34 offshore (Baron Oil 20% carried interest)

Through its Peruvian subsidiary Gold Oil Peru SAC ("GOP"), the Company currently owns a 20% carried interest in the contract for block Z-34, which is located in deep water adjacent to the prolific Talara Basin offshore North West Peru and covers an area totalling 2,968 square kilometres. The block is located close to existing producing fields in a basin that has already produced 1.7 billion barrels of oil. Most of the remaining potential in this area is believed to be located offshore.

In 2014 all the remaining exploration phases were consolidated into a one well drilling obligation. However due to the lack of drilling vessels capable of drilling in 1,800 metres of water and continuing negotiations on the regulatory framework for deep water drilling offshore Peru, both this block and the adjoining Z-38 block, operated by Karoon Gas, were placed into a Force Majeure ("FM") contractual position by Perupetro in 2014, where Z-34 still remains. In effect this means that all the contractual time limits for drilling are suspended until the FM is lifted by Perupetro. GOP continues to be in a constant and constructive dialogue with Perupetro on this issue.

Following re-mapping of the 3D seismic by in-house and consulting geologists of UOGG, three substantial prospects have been identified in the northern half of block Z-34. The latest estimates of Unrisked Prospective Resources are as follows: Cuy – 413 million barrels of oil recoverable; Cuy Sur – 200 million barrels of oil recoverable; and Daphne – 272 million barrels of oil recoverable. The Cuy prospect, in 1,757 metres of water, has been proposed as the first to be drilled and, following presentation of a detailed well prognosis, this location has been approved by Perupetro. The location lies around 10 miles offshore and is interpreted on the 3D seismic as having multiple stacked reservoir sections, each with amplitude anomalies, lying 2,700 to 4,175 metres below sea level.

Our partner in the block is UOGG, a subsidiary of the Uruguayan private equity firm Union Group, who own the remaining 80% interest but pay all the costs related to exploration and administration of the block. This carry arrangement lasts through all remaining exploration phases of block Z-34. The original transaction with UOGG was signed in April 2013, when they acquired the 50% interest previously held by Plectrum, and the Public Deed to complete the transfer of the remaining 30% working interest in the block to UOGG was officially approved by the Peruvian President on 9 February 2017.

However, as previously announced, UOGG have not paid the US\$2 million they were due to pay to GOP on completion of the approval process. The Board is unaware as to the exact reason why UOGG have refused to pay this liability, however they do not dispute the validity of our contractual claim. Indeed they continue to work hard to find a farm-in partner with the human and capital resources to take over their obligation and drill an exploration well on the CUY prospect. Baron's overriding aim is to work with UOGG to get this well drilled. Therefore, we have agreed to allow UOGG until 30 June 2017 to pay the \$2 million we are owed and to find a suitable partner to commit to take this highly prospective, deep water block forward. If the money is not paid by 30 June 2017 we will reconsider our position and may be forced to take legal action to recover the funds due to the Company.

3 Chairman's Statement and Operations Report

As a result of the default on the Farm-In Agreement of 2013, the agreement signed with UOGG in June 2016, under which they assumed day to day operatorship of all the technical work on the block on a contract basis has been terminated. GOP has now re-assumed full control of the operations.

As noted above, notwithstanding their obligation to carry the Company, UOGG have made it clear they will only drill a well if a large, better funded and experienced oil company farms in to the block. The Board is in regular dialogue with Perupetro and UOGG to try and unlock value from this acreage. It is hoped that the current situation of low drilling day rates and relatively stable oil prices will be more conducive to finding a potential farm-in partner.

We continue to be frustrated by the unwillingness of UOGG to spend any money on third party studies of block Z-34, preferring to rely on the work and opinions of potential farmees. In spite of this, Baron has decided to go ahead with a detailed study of the potential reservoirs of the Cuy, Cuy South and Daphne prospects to get an independent specialist view of the nature, possible fluid/gas contents and size of these. It is hoped this will be completed by the end of July 2017.

In any case, the Board does not envisage a well being drilled on this block until at least mid-2018 because of the long lead time necessary to gear up for drilling in these water depths.

Block XXI onshore (Baron Oil 100%)

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

Mapping of the 2D seismic data obtained in 2015/16 has enabled the definition of the El Barco prospect, lying to the northeast of the 1954 Minchales-1X well. Amplitude anomalies indicating probable gas sands have been identified in the shallow section and several gas chimneys are clearly visible on the new seismic data. These chimneys are caused by small quantities of gas escaping from deeper reservoirs, probably in the fractured basement, causing velocity disruptions within overlying beds, which create vertically-oriented "fuzzy" zones on the seismic lines. Mapping of the El Barco prospect by GOP indicates that Unrisked Prospective Resources are in the range of 6.4 billion cubic feet of recoverable gas and 7.1 million barrels of recoverable oil. The potential gas lies in the shallow reservoirs and discussions have already been held with a nearby operation that may purchase any gas found.

The proposed El Barco-3X exploration well would be drilled down to 1,800 metres to test a basement high most likely consisting of fractured Palaeozoic rocks, which form the reservoir of the San Pedro oil field (250 million barrels in place) and several other oil and gas fields to the west of Block XXI. A formal well prognosis document is being submitted to Perupetro for approval in June 2017 and GOP is in the process of obtaining bids for a land rig and all the support services necessary to drill this well. However recent severe flooding in northern Peru has pushed back our plans to drill by several months. Perupetro have granted us a Force Majeure extension to the licence due to the extreme weather conditions. Discussions continue with a potential farm-in candidate and it is still the intention to bring in a partner to share the costs of drilling this well. This is particularly important if there is a continuing delay to the payment from UOGG in relation to block Z-34, since the Group will not have funds available to drill.

Peru operations – general

During the year, the Group closed its offices in Lima, Peru, and made all staff, including the local country manager, redundant. The operations have now been outsourced to PAS Peru SAC, a local management services company with considerable experience in the oil and gas sector. This is expected to result in annual cost savings of around £80,000 going forward.

3 Chairman's Statement and Operations Report

Operations in Northern Ireland

PL 1/10 licence onshore (Baron Oil 12.5%)

Baron currently holds a 12.5% working interest in Licence PL1/10, onshore in the Antrim area of Northern Ireland. The block covers an area of 332 square kilometres over the Larne Basin. The Company paid 13.33% of the costs of the Woodburn Forest-1 well, which was plugged and abandoned at a depth of 2,000 metres in June 2016 and failed to encounter commercial hydrocarbons. The joint venture partners are currently carrying out a review of the source rock potential of the area and re-mapping a prospect close to the coast. However, reprocessing of the offshore data in adjacent Licence P2123 failed to identify any drillable prospects and notice to relinquish this licence was given to the Oil & Gas Authority in November 2016.

Islandmagee Gas Storage Project Limited ("ISML")

Baron has assisted Infrastrata plc to advance their strategically important gas storage project in Northern Ireland over the past 18 months by providing interim funding. Such funding has now ceased and all our capital and interest totaling £138,000 has been paid in full. However, the Company remains entitled to receive up to £200,000 in the event of a sale or disposal of the Islandmagee project company by Infrastrata before 6 January 2019.

SE Asia Study Group

Baron entered into a joint study agreement in September 2016 with SundaGas Pte Ltd, based in Singapore. The purpose was to give the Company accelerated access to a range of exploration and production activities in prospective areas of South East Asia without the need to increase its own staff and overhead. The agreement ran for a six month period, to March 31, 2017, during which time the group considered a broad range of possibilities and entered into preliminary negotiations on several assets. If any of these negotiations are successful, Baron has the right to take an interest in the assets. Although progress has been delayed by unforeseen circumstances we hope that agreement can be reached within the next three months on a new continental shelf project which contains significant gas potential.

Operations in Colombia

Since the cessation of the NBM licence in October 2015, all our staff in Colombia, except one, have been made redundant and we retain a minimal administrative presence in Bogota. As noted above, we disposed of our interests in Gold Oil Colombia branch in June 2016 with proceeds of US\$100,000, which were received after the year end. The handover of the Nancy Burdine Maxine ("NBM") oil field back to Government control took place during 2016. NBM was operated by Invepetrol in which we are 50% shareholders and in which control effectively passed to our partner, CI International Fuels, in 2017. Proceedings to wind up this company are expected to commence shortly.

3 Chairman's Statement and Operations Report

Conclusions

2016 has been a difficult year for the Company. The continuing delays in Peru and in South East Asia have contributed to progress being much slower than we had planned. The unexpected action by UOGG following the approval of the block Z-34 farm-in has been both disappointing and frustrating. However, the Board has been active during the period in reviewing new opportunities and investigating possibilities for corporate activities. We will continue in our attempts to bring a transaction to fruition.

The Board recognises that the ongoing delays in development activity are of concern to shareholders and, in recognition of the impact of these delays, have agreed to accept temporary salary reductions averaging 30% which will result in an annualised cost saving of £100,000.

I would like to personally thank our two executive directors, Malcolm Butler and Geoff Barnes, who are doing a huge amount of varied work in this small company. I would also like to thank our shareholders for their continued patience and support.

Bill Colvin

Chairman

8 June 2017

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 2016.

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 2016 £’000	Year ended 31 December 2015 £’000
Liquid cash reserves	2,158	3,010
Administrative expenses	700	1,137

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

Performance guarantees

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

Impact

In the event that the Group is required to make payments under any of the guarantees, this will lead to a permanent reduction in the cash balance. Note that these guarantee sums are shown as cash not available on the Consolidated and Company Statement of Cash Flows on page 26.

Action

The Group actively manages its work programmes under the licenses 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 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 is also of the opinion that all its contracts in Peru and Colombia are tax compliant. The Group takes appropriate professional tax advice and works closely with the tax authorities to ensure compliance.

By order of the Board

Bill Colvin

Chairman

8 June 2017

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 2016.

Directors

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

William (“Bill”) Colvin Chairman and CEO

Bill Colvin, aged 59, has over 30 years’ experience in the international oil and gas and healthcare sectors both in senior management and board positions of large corporations. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. From 1990 to 1992, Bill was Finance Manager at Oryx UK Energy. From 1984 to 1989, he worked in a variety of financial roles for Atlantic Richfield (ARCO) Inc. He qualified as a Scottish Chartered Accountant in 1982 and holds a Bachelor of Commerce degree from the University of Edinburgh.

Dr Malcolm Butler Chief Executive Officer

Malcolm Butler, aged 68, 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 and Brabant Resources and later became CEO of Houston-based Energy Development Corporation until its circa \$800 million sale to Noble Energy. In 1998, Malcolm joined HSBC Investment Bank as Advisory Director responsible for oil & gas mandates in the UK, Libya, Russia, Indonesia and China, and following that acted as senior adviser on energy-related matters to Seymour Pierce Limited from 2003 to 2013. Malcolm holds a BSc in Geology from Aberystwyth and a PhD in Geology from Bristol. He has been awarded the Aberconway Medal of The Geological Society of London, in recognition of his contributions to the oil and gas industry and in 1995 he was appointed an Honorary Professor at the University of Aberystwyth.

Geoff Barnes Finance Director

Geoff Barnes, aged 64, is a Director of Langley Associates Limited, an accountancy practice he founded in 1994. Geoff qualified as a Chartered Accountant in 1976 having trained with one of the major international accounting practices before moving into industry where he held several senior finance positions including Director of Finance at PJB Publications Limited, the publisher of business information for the global pharmaceutical, medical device and agrochemical industries.

Proposed dividend

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2016.

Political and charitable contributions

In the year ended 31 December 2016 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 2016 were 52 days (2015: 89 days).

5 Report of the Directors

Activities and results

A loss of £288,000 (2015: £2,210,000), of which £32,000 (2015: £2,044,000) was attributable to equity shareholders, was recorded for the year. Net assets of the Group at 31 December 2016 amounted to £6,073,000 (2015: £6,651,000), of which £5,726,000 (2015: £6,048,000) 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 we do business. We will do our utmost 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 2016		31 December 2015	
	Number of Ordinary shares	% Holding	Number of Ordinary shares	% Holding
W Colvin	1,000,000	0.1%	1,000,000	0.1%
M Butler	1,000,000	0.1%	–	–
G Barnes	1,379,310	0.1%	–	–
	3,379,310	0.3%	1,000,000	0.1%

5 Report of the Directors

Options held by the directors are as follows:

	31 December 2016 Number of options £0.0075*	31 December 2015 Number of options £0.0075*
The Estate of R Berends	–	22,000,000
	Number of options £0.016**	Number of options £0.016**
W Colvin	–	11,250,000
	Number of options £0.0167***	Number of options £0.0167***
W Colvin	–	2,990,431
	Number of options £0.0145****	Number of options £0.0145****
W Colvin	35,172,414	35,172,414
	35,172,414	71,412,845

*Each £0.0075 option grants the holder the right to subscribe for one Ordinary Share at £0.0075 per share, and was exercisable at any time prior to 2 January 2016, this being one year after the date of death of Mr Berends. These options have now expired.

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

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

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

Except as shown in note 27 to the Financial Statements (Related Party Transactions), there have been no contracts or arrangements of significance during the period in which the directors of the Company were interested.

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

Remuneration policy

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

5 Report of the Directors

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.

	2016 £	2015 £
Chairman		
W Colvin	115,000	170,000
Non Executive Directors		
C Merendoni	–	39,268
Executive Directors		
M Butler	115,000	23,927
G Barnes	67,000	–
	297,000	233,195

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

Employees

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

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

Event after the reporting period

On 24 February 2017, the Public Deed which is the final document effecting the assignment of a 30% interest to Union Oil & Gas Group ("UOGG") in Block Z34 in Peru, was signed by the Central Bank of Peru. As a result, the sum of US\$2 million payable by UOGG to the Gold Oil Peru SAC crystallises at that date.

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 23 May 2017 was 1,376,409,576 Ordinary Shares, each share having equal voting rights. Baron Oil Plc has 1,166 shareholders.

The shareholding distribution at 23 May 2017 is as follows:

Range	Number of shares	Number of shareholders
>10%	217,833,117	1
5-10%	317,395,353	3
1-5%	543,214,664	17
0.5-1%	78,201,011	8
<0.5%	219,765,431	1,137
	1,376,409,576	1,166

5 Report of the Directors

Significant shareholdings

The Company has been informed that, as 23 May 2017, the following shareholders own 3% or more of the issued share capital of the Company:

Name	Shares	% of company
Pershing Nominees Limited	217,833,117	15.83%
HSBC Global Custody Nominee	125,746,628	9.14%
Rock Nominees Limited	123,606,374	8.98%
Lynchwood Nominees Limited	105,081,869	7.63%
W B Nominees Limited	88,707,110	6.44%
TD Direct Investing Nominees	55,161,157	4.01%
Barclayshare Nominees Limited	53,825,890	3.91%
James Capel (Nominees) Limited	46,638,908	3.39%
Total	816,601,053	59.33%

Listing

The Company's ordinary shares have been traded on the AIM market of the London Stock Exchange since 14 July 2004. Cantor Fitzgerald Europe is the Company's Nominated Adviser and Joint Broker. SP Angel were appointed as Joint Broker in February 2017. The closing mid-market price on 23 May 2017 was 0.53p.

Financial instruments

Details of the financial risk management objectives and policies, and details on the use of financial instruments by the Company and its subsidiary undertakings, are provided in note 22 to the financial statements.

Going concern

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

Publication on Company's website

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

Indemnity of officers

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

By order of the Board

Geoff Barnes

Director and Secretary

8 June 2017

6 Corporate Governance Statement

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

The Board

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

The Board meets at least four times a year.

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

The Audit Committee

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

The Remuneration Committee

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

The Nominations Committee

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

Communications

The Company provides information on Group activities by way of press releases, Interim and Annual Accounts 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 Accounts.

Internal control

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

7 Statement of Directors' Responsibilities

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

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit and loss of the Group for that year. The directors are also required to prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM market.

In preparing those financial statements, the directors are required:

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

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

Statement of disclosure to auditor

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

Auditors

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

By order of the Board

Bill Colvin
Chairman

8 June 2017

8 Report of the Independent Auditors to the Members of Baron Oil Plc

We have audited the Group and Parent Company financial statements of Baron Oil Plc for the year ended 31 December 2016, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all financial and non-financial information in the Corporate Statement, Chairman's Statement and Strategic Report, Report of the Directors and Corporate Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, of the state of the Group's and Parent Company's affairs as at 31 December 2016 and of the Group's loss and Group's and Parent Company's cash flow for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

8 Report of the Independent Auditors to the Members of Baron Oil Plc

Opinion on other matter prescribed by the Companies Act 2006

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

Sanjay Parmar

Senior Statutory Auditor

For and on behalf of Jeffreys Henry LLP, Statutory Auditor

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

8 June 2017

9 Consolidated Income Statement

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue		–	1,048
Cost of sales		–	(611)
Gross profit		–	437
Exploration and evaluation expenditure		(739)	–
Intangible asset impairment	11	(370)	(1,312)
Property, plant and equipment impairment and depreciation	10	95	(9)
Goodwill impairment	12	(81)	–
Receivables and inventory impairment	3	73	(163)
Disposal of Colombia branch operations		31	–
Administration expenses		(700)	(1,137)
Profit on exchange		1,131	271
Other operating Income	4	319	65
Operating loss	3	(241)	(1,848)
Finance cost	6	(35)	(19)
Finance income	6	101	92
Loss on ordinary activities before taxation		(175)	(1,775)
Income tax expense	7	(113)	(435)
Loss on ordinary activities after taxation		(288)	(2,210)
Dividends		–	–
Loss for the year		(288)	(2,210)
Loss on ordinary activities after taxation is attributable to:			
Equity shareholders		(32)	(2,044)
Non-controlling interests		(256)	(166)
		(288)	(2,210)
Earnings per ordinary share – continuing	9		
Basic		(0.002p)	(0.150p)
Diluted		(0.002p)	(0.150p)

10 Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Loss on ordinary activities after taxation attributable to the parent	(32)	(2,044)
Other comprehensive income:		
Share based payments	–	81
Exchange difference on translating foreign operations	(290)	88
Total comprehensive income for the year	(322)	(1,875)
Total comprehensive income attributable to Owners of the parent	(322)	(1,875)

11 Consolidated Statement of Financial Position

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	10	3	4
– others	10	–	–
Intangibles	11	1,325	2,548
Goodwill	12	–	–
		1,328	2,552
Current assets			
Trade and other receivables	14	2,070	1,712
Cash and cash equivalents	15	5,231	5,452
		7,301	7,164
Total assets		8,629	9,716
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	81	286
Foreign exchange translation reserve	18	1,688	1,978
Retained earnings	18	(26,624)	(26,797)
Capital and reserves attributable to non-controlling interests	19	347	603
Total equity		6,073	6,651
Current liabilities			
Trade and other payables	16	1,054	1,747
Taxes payable	16	1,502	1,318
		2,556	3,065
Total equity and liabilities		8,629	9,716

The financial statements were approved and authorised for issue by the Board of Directors on 8 June 2017 and were signed on its behalf by:

Bill Colvin
Chairman

Geoff Barnes
Director

Company number: 05098776

12 Company Statement of Financial Position

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	10	–	–
Intangibles	11	566	553
Investments	13	25	25
		591	578
Current assets			
Trade and other receivables	14	162	1,422
Cash and cash equivalents	15	5,023	4,386
		5,185	5,808
Total assets		5,776	6,386
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	81	286
Foreign exchange translation reserve	18	(163)	(234)
Retained earnings	18	(26,550)	(26,802)
Total equity		3,949	3,831
Current liabilities			
Trade and other payables	16	1,816	2,542
Taxes payable	16	11	13
		1,827	2,555
Total equity and liabilities		5,776	6,386

The financial statements were approved and authorised for issue by the Board of Directors on 8 June 2017 and were signed on its behalf by:

Bill Colvin
Chairman

Geoff Barnes
Director

Company number: 05098776

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2016

GROUP	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Share Option Reserve £'000	Foreign Exchange Translation £'000	Non- controlling Interests £'000	Total Equity £'000
As at 1 January 2015	344	30,237	(24,753)	205	1,890	769	8,692
Shares issued	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
(Loss) for the year attributable to equity shareholders	–	–	(2,044)	–	–	(166)	(2,210)
Share based payments	–	–	–	81	–	–	81
Foreign exchange translation adjustments	–	–	–	–	88	–	88
Total comprehensive income for the period	–	–	(2,044)	81	88	(166)	(2,041)
As at 1 January 2016	344	30,237	(26,797)	286	1,978	603	6,651
Shares issued	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
(Loss) for the year attributable to equity shareholders	–	–	(32)	–	–	(256)	(288)
Share based payments	–	–	205	(205)	–	–	–
Foreign exchange translation adjustments	–	–	–	–	(290)	–	(290)
Total comprehensive income for the period	–	–	173	(205)	(290)	(256)	(578)
As at 31 December 2016	344	30,237	(26,624)	81	1,688	347	6,073

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2016

COMPANY	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Share Option Reserve £'000	Foreign Exchange Translation £'000	Total Equity £'000
As at 1 January 2015	344	30,237	(26,169)	205	(108)	4,509
Shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–
(Loss) for the year	–	–	(633)	–	–	(633)
Share based payments	–	–	–	81	–	81
Foreign exchange translation adjustments	–	–	–	–	(126)	(126)
Total comprehensive income for the period	–	–	(633)	81	(126)	(678)
As at 1 January 2016	344	30,237	(26,802)	286	(234)	3,831
Shares issued	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–
Profit for the year	–	–	47	–	–	47
Share based payments	–	–	205	(205)	–	–
Foreign exchange translation adjustments	–	–	–	–	71	71
Total comprehensive income for the period	–	–	252	(205)	71	118
As at 31 December 2016	344	30,237	(26,550)	81	(163)	3,949

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 2016

	Group 2016 £'000	Company 2016 £'000	Group 2015 £'000	Company 2015 £'000
Operating activities	(2,326)	284	(2,746)	(1,311)
Investing activities				
Return from investment and servicing of finance	101	90	92	72
Sale of Intangible assets	1,784	–	–	–
Disposal of tangible assets	82	82	227	304
Loan to subsidiary (advanced)/repaid	–	(246)	–	381
Acquisition of intangible assets	(492)	(74)	(1,732)	(553)
Acquisition of tangible fixed assets	(1)	–	(12)	–
	1,474	(148)	(1,425)	204
Financing activities				
Proceeds from issue of share capital	–	–	–	–
Net cash inflow	(852)	136	(4,171)	(1,107)
Cash and cash equivalents at the beginning of the year	3,010	1,944	7,181	3,051
Cash and cash equivalents at the end of the year	2,158	2,080	3,010	1,944
Reconciliation to Consolidated Statement of Financial Position				
Cash not available for use	3,073	2,943	2,442	2,442
Cash and cash equivalents as shown in the Consolidated Statement of Financial Position	5,231	5,023	5,452	4,386

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2016

	Group 2016 £'000	Company 2016 £'000	Group 2015 £'000	Company 2015 £'000
Operating activities				
Profit/(loss) for the year attributable to controlling interests	(32)	47	(2,044)	(633)
Depreciation, amortisation and impairment charges	331	61	1,325	(414)
Profit on disposal of assets	–	–	–	–
Share based payments	–	–	81	81
Non-cash movement arising on consolidation of non-controlling interests	(257)	–	(166)	–
Impairment of investment	–	246	–	(278)
Finance income shown as an investing activity	(101)	(90)	(92)	(72)
Tax (benefit)/expense	113	–	435	–
Foreign exchange translation	(1,319)	(430)	(195)	(234)
Operating cash outflows before movements in working capital	(1,265)	(166)	(656)	(1,550)
(Increase)/decrease in inventories	–	–	204	–
(Increase)/decrease in receivables	(440)	1,178	(513)	(804)
Tax paid	71	(2)	(25)	11
Increase/(Decrease) in payables	(692)	(726)	(1,756)	1,032
Net cash (outflows)/inflows from operating activities	(2,326)	284	(2,746)	(1,311)

15 Notes to the Financial Statements

for the year ended 31 December 2016

General information

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

1 Significant accounting policies

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

Going concern basis

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

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

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

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

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

Basis of preparation

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

New and amended standards adopted by the company

There are no IFRSs or IFRIC interpretations that are effective for the first time for this financial year that would be expected to have a material impact on the company.

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

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2016 and have not been early adopted:

Reference	Title	Summary	Application date of standard	Application date of Company
IFRS 2	Share-based payments	Amendments to clarify the classification and measurement of share based payment transactions	Periods commencing on or after 1 January 2018	1 January 2018
IFRS 4	Insurance Contracts	Amendments regarding the interaction of IFRS 4 and IFRS 9	Periods commencing on or after 1 January 2018	1 January 2018

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

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

Reference	Title	Summary	Application date of standard	Application date of Company
IFRS 9	Financial Instruments	Requirements on the classification and measurement of financial assets and liabilities and includes an expected credit losses model. Also includes the hedging amendment that was issued in 2013	Periods commencing on or after 1 January 2018	1 January 2018
IFRS 12	Disclosure of interests in other entities	Amendments resulting from Annual Improvements 2014-2016 (Clarifying Scope)	Periods commencing on or after 1 January 2017	1 January 2017
IFRS 15	Revenue from contracts with customers	Specifies how and when to recognise revenue from contracts as well as requiring more informative and relevant disclosures	Periods commencing on or after 1 January 2017	1 January 2017
IFRS 16	Leases	Original issue	Periods commencing on or after 1 January 2019	1 January 2019
IAS 7	Statement of Cash Flows	Amendments as a result of the disclosure initiative	Periods commencing on or after 1 January 2017	1 January 2017
IAS 12	Income Taxes	Amendments regarding the recognition of deferred tax assets for unreleased losses	Periods commencing on or after 1 January 2017	1 January 2017
IAS 28	Investments in Associates and Joint Ventures	Amendments resulting from Annual Improvements 2014-2016 cycle (Clarifying certain fair value measurements)	Periods commencing on or after 1 January 2018	1 January 2018
IAS 39	Financial Instruments: Recognition and measurement	Amendments to permit entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied and to extend the fair value option to certain contracts that meet the 'own use' scope exception	Periods commencing on or after 1 January 2018	1 January 2018
IAS 40	Investment Property	Amendments to clarify transfers or property to or from investment property	Periods commencing on or after 1 January 2018	1 January 2018

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Basis of consolidation

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

Subsidiaries

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

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

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

Joint ventures

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

Business combinations

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Goodwill

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

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

Impairment of non-financial assets

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

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

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

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 revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Intangible assets

Oil and gas assets: exploration and evaluation

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

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

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

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

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

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

Investments

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Trade receivables

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

Cash and cash equivalents

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

Inventories

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

Revenue

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

Taxation

Income tax

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

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

Deferred tax

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

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

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Trade payables

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

Fair values

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

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

Share-based compensation

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

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

Share based payments (Note 20)

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

Equity instruments

Ordinary shares are classified as equity.

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

Provisions

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Financial instruments

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

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

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

Foreign currencies

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

(iii) **Group companies**

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

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

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.

Plant and equipment, intangible assets & impairment of goodwill

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

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

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

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

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

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

1 Significant accounting policies continued

Commercial reserves estimates

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

Decommissioning costs

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

Share based payments (Note 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.

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

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 2016

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

2 Segmental Information *continued*

Exploration and production

year ended 31 December 2015

	United Kingdom £'000	South America £'000	South East Asia £'000	Total £'000
Revenue – oil	–	1,048	–	1,048
Cost of sales	–	(611)	–	(611)
Gross profit	–	437	–	437
Intangible asset impairment	–	(1,312)	–	(1,312)
Property plant & equipment impairment	–	(9)	–	(9)
Receivables impairment	–	(163)	–	(163)
Administration expenses	(541)	(596)	–	(1,137)
Profit on exchange	115	156	–	271
Other operating income	–	65	–	65
Operating loss	(426)	(1,422)	–	(1,848)
Finance costs	–	(19)	–	(19)
Finance income	72	20	–	92
Loss before taxation	(354)	(1,421)	–	(1,775)
Income tax expense	–	(435)	–	(435)
Loss after taxation	(354)	(1,856)	–	(2,210)
Assets and liabilities				
Segment assets	1,367	2,897	–	4,264
Cash and cash equivalents	4,317	1,135	–	5,452
Total assets	5,684	4,032	–	9,716
Segment liabilities	408	1,339	–	1,747
Current tax liabilities	6	1,312	–	1,318
Total liabilities	414	2,651	–	3,065
Other segment items				
Capital expenditure	–	1,744	–	1,744
Depreciation, amortisation and impairment charges	–	1,488	–	1,488

15 Notes to the Financial Statements

for the year ended 31 December 2016

3 (Loss) from operations

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

	2016	2015
	£'000	£'000
Auditors' remuneration		
Group – audit	29	43
Company – audit	15	30
Group – other non-audit services	5	12
Company – other non-audit services	5	–
Exploration and evaluation expenditure	739	–
Depreciation of oil and gas assets	–	4
Impairment of intangible assets	451	1,312
Impairment of property, plant and equipment	(95)	9
Impairment of foreign tax receivables	(73)	163
(Profit) loss on exchange	(1,131)	(271)

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

	2016	2015
	£'000	£'000
Employee benefit expense	423	601
Exploration and evaluation expenditure	739	–
Depreciation, amortisation and impairment charges	283	1,488
Legal and professional fees	180	167
(Gain)/loss on exchange	(1,131)	(271)
Other expenses	97	546
	591	2,531

4 Other operating income

	2016	2015
	£'000	£'000
Release of historic liabilities	304	–
Other	15	65
	319	65

15 Notes to the Financial Statements

for the year ended 31 December 2016

5 Staff numbers and cost

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

	2016 Number	2015 Number
Directors	3	3
Technical and production	2	12
Administration	3	7
Total	8	22

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	92	261
Directors' salaries	297	236
Share based payments	–	81
Social security costs	34	23
	423	601

6 Finance income and cost

	2016 £'000	2015 £'000
Bank and other interest received	101	92
Finance cost	(35)	(19)
Total	66	73

7 Income tax expense

The tax charge on the loss on ordinary activities was:

	2016 £'000	2015 £'000
UK Corporation Tax – current	–	–
Foreign taxation	113	435
	113	435

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

	2016 £'000	2015 £'000
(Loss) before tax		
Continuing operations	(175)	(1,775)
Tax at composite group rate of 21.9% (2015: 21.8%)	(38)	(387)
Effects of:		
Losses/(profits) not subject to tax	(61)	(322)
Change of tax rate on brought forward tax loss	13	(238)
Increase in tax losses	86	947
Foreign taxation	113	435
Tax expense	113	435

At 31 December 2016, the Group has tax losses of £22,052,000 (31 December 2015: £19,478,000) to carry forward against future profits. The deferred tax asset on these tax losses at 21.9% of £4,829,000 (31 December 2015: at 21.8%, £4,246,000) has not been recognised due to the uncertainty of the recovery.

15 Notes to the Financial Statements

for the year ended 31 December 2016

8 Profit/(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:

	2016	2015
	£'000	£'000
Parent company's profit/(loss)	47	(633)

9 Earnings per share

	2016	2015
Loss per ordinary share		
– Basic	(0.002p)	(0.15p)
– Diluted	(0.002p)	(0.15p)

Earnings per ordinary share is based on the Group's loss attributable to controlling interests for the year of £32,000 (2015: £2,044,000).

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

	2016	2015
	Number	Number
Weighted average ordinary shares in issue during the year	1,376,409,576	1,376,409,576
Potentially dilutive warrants issued	35,172,414	63,532,687
Weighted average ordinary shares for diluted earnings per share	1,411,581,990	1,439,942,263

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

10 Property, plant and equipment

GROUP	Development and production costs £'000	Equipment and machinery £'000	Vehicles £'000	Total £'000
Cost				
At 1 January 2015	49	5,218	23	5,290
Foreign exchange translation adjustment	–	4	–	4
Expenditure	–	12	–	12
Disposals	(49)	(4,355)	–	(4,404)
At 1 January 2016	–	879	23	902
Foreign exchange translation adjustment	–	(111)	–	(111)
Expenditure	–	1	–	1
Disposals	–	(731)	–	(731)
At 31 December 2016	–	38	23	61
Depreciation				
At 1 January 2015	49	5,213	23	5,285
Foreign exchange translation adjustment	–	4	–	4
Charge for the period	4	920	–	924
Disposals	(49)	(4,354)	–	(4,403)
Impairment charge	(4)	(908)	–	(912)
At 1 January 2016	–	875	23	898
Foreign exchange translation adjustment	–	(112)	–	(112)
Charge for the period	–	2	–	2
Disposals	–	(633)	–	(633)
Impairment charge	–	(97)	–	(97)
At 31 December 2016	–	35	23	58
Net book value				
At 31 December 2016	–	3	–	3
At 31 December 2015	–	4	–	4

15 Notes to the Financial Statements

for the year ended 31 December 2016

10 Property, plant and equipment *continued*

COMPANY	Development and production costs £'000	Equipment and machinery £'000	Total £'000
Cost			
At 1 January 2015	–	311	311
Expenditure	–	–	0
Disposals	–	(304)	(304)
At 1 January 2016	–	7	7
Expenditure	–	–	–
Disposals	–	(7)	(7)
At 31 December 2016	–	–	–
Depreciation			
At 1 January 2015	–	311	311
Charge for the year	–	–	–
Disposals	–	(304)	(304)
At 1 January 2016	–	7	7
Charge for the period	–	–	–
Disposals	–	(7)	(7)
At 31 December 2016	–	–	–
Net book value			
At 31 December 2016	–	–	–
At 31 December 2015	–	–	–

15 Notes to the Financial Statements

for the year ended 31 December 2016

11 Intangible fixed assets

GROUP	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2015	1,896	4,608	6,504
Foreign exchange translation adjustment	–	167	167
Expenditure	–	1,732	1,732
Disposals	–	(227)	(227)
At 1 January 2016	1,896	6,280	8,176
Foreign exchange translation adjustment	–	598	598
Expenditure	–	492	492
Disposals	(1,896)	(3,061)	(4,957)
At 31 December 2016	–	4,309	4,309
Impairment			
At 1 January 2015	1,896	2,420	4,316
Charge for the period	–	1,312	1,312
Disposals	–	–	–
At 1 January 2016	1,896	3,732	5,628
Foreign exchange translation adjustment	–	200	200
Charge for the period	–	370	370
Disposals	(1,896)	(1,318)	(3,214)
At 31 December 2016	–	2,984	2,984
Net book value			
At 31 December 2016	–	1,325	1,325
At 31 December 2015	–	2,548	2,548

15 Notes to the Financial Statements

for the year ended 31 December 2016

11 Intangible fixed assets continued

COMPANY	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2015	–	2,719	2,719
Expenditure	–	553	553
Disposals	–	–	–
At 1 January 2016	–	3,272	3,272
Expenditure	–	74	74
Disposals	–	(1,651)	(1,651)
At 31 December 2016	–	1,695	1,695
Impairment			
At 1 January 2015 and 2016	–	2,719	2,719
Charge for the year	–	(559)	(559)
Disposals	–	(1,031)	(1,031)
At 31 December 2016	–	1,129	1,129
Net book value			
At 31 December 2016	–	566	566
At 31 December 2015	–	553	553

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 Z-34 offshore Peru: following the granting of Public Decree in Peru which crystallises the amount due from Union Oil & Gas Group in respect of the 2013 farm-in, the recoverable amount of US\$2,000,000 is shown as a receivable. After accounting for this, the remaining intangible asset in Z-34 is fully impaired.

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

12 Goodwill

GROUP	Goodwill on consolidation of subsidiaries £'000
Cost	
At 1 January 2015 and 2016	2,326
Additions	81
At 31 December 2016	2,407
Impairment	
At 1 January 2015 and 2016	2,326
Charge for the period	81
At 31 December 2016	2,407
Net book value	
At 31 December 2016	–
At 31 December 2015	–

13 Investments

COMPANY	Loans to group undertaking £'000	Shares in group undertaking £'000	Total £'000
Cost			
At 1 January 2015	3,896	7,936	11,832
Capitalisation of loan	(676)	676	–
Exchange rate adjustment	(8)	–	(8)
Net loan movements	(381)	–	(381)
At 1 January 2016	2,831	8,612	11,443
Exchange rate adjustment	569	–	569
Additions	–	81	81
Disposals	–	(1,903)	(1,903)
Net loan movements	(404)	–	(404)
At 31 December 2016	2,996	6,790	9,786
Impairment			
At 1 January 2015	3,896	7,911	11,807
Impairment applied to loan write off	(110)	–	(110)
Capitalisation of loan	(676)	676	–
Charge/(release) for the year	(279)	–	(279)
At 1 January 2016	2,831	8,587	11,418
Charge/(release) for the year	165	81	246
Disposals	–	(1,903)	(1,903)
At 31 December 2016	2,996	6,765	9,761
Carrying value			
At 31 December 2016	–	25	25
At 31 December 2015	–	25	25

15 Notes to the Financial Statements

for the year ended 31 December 2016

13 Investments continued

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

The Company has made provision on the the investment in Gold Oil Peru S.A.C. of £5,771,000 (2015: £5,620,000), and on the investment in Inversiones Petroleras de Colombia SAS of £3,839,000 (2015: £3,740,000), to reflect the underlying impairment of exploration and evaluation assets in the subsidiary.

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

Subsidiary/ controlled entity	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment	Nature of business
Gold Oil 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
Ayoopeco Ltd*	England	100	100	equity method	Exploration and production of oil and gas
Union Temporal II & B (i)	Colombia	100	100	equity method	Exploration and production of oil and gas
Nexus Energy Corporation	Panama	100	100	equity method	Holding company
Inversiones Petroleras de Colombia SAS (ii)	Colombia	50	50	equity method	Exploration and production of oil and gas

All shareholdings are in ordinary, voting shares.

*Ayoopeco Limited is entitled to exemption from audit of its individual Financial Statements under Section 479A of the Companies Act 2006, and the Company has agreed that Ayoopeco Limited should exercise its right to exemption. The Company has irrevocably guaranteed all debts and liabilities of Ayoopeco Limited entered into in the year ended 31 December 2016 in accordance with Section 479C of the Companies Act 2006.

15 Notes to the Financial Statements

for the year ended 31 December 2016

13 Investments continued

The results of subsidiaries is as follows:

	2016 £'000	2015 £'000
Gold Oil Plc Sucursal Colombia		
Aggregate capital and reserves	–	1,376
Profit for the year	(11)	(15)
Gold Oil Peru S.A.C		
Aggregate capital and reserves	1,533	1,438
Profit/(Loss) for the year	(174)	(128)
Gold Oil Caribbean Limited		
Aggregate capital and reserves	1,705	1,431
Profit for the year	284	95
Ayoopco Ltd		
Aggregate capital and reserves	–	–
(Loss) for the year	–	(12)
Nexus Energy Corporation		
Aggregate capital and reserves	–	–
Profit/(loss) for the year	–	–
Inversiones Petroleras de Colombia SA (ii)		
Aggregate capital and reserves	(1,472)	(531)
Profit/(loss) for the year	(512)	(333)
Invepetrol Limited (iii)		
Aggregate capital and reserves	–	–
Profit for the year	–	–

(i) The Union Temporal II & B ("UT") is a joint venture operating in the Nancy-Burdine-Maxine fields in southern Colombia. It is effectively 100% controlled by Inversiones Petroleras de Colombia SA. Operations of the UT have come to an end follow the cessation of the licence in October 2015.

(ii) Held by Nexus Energy Corporation. Includes the aggregate capital and reserves and Profit or loss for the year of the UT.

(iii) Disposed of on 6 June 2016.

14 Trade and other receivables

	2016		2015	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	–	–	6	–
Other receivables	314	153	397	116
Short term loan	1,621	–	1,300	1,300
Amounts owed by subsidiary and associate undertakings	–	–	–	–
Prepayments and accrued income	135	9	9	6
	2,070	162	1,712	1,422

15 Notes to the Financial Statements

for the year ended 31 December 2016

15 Cash and cash equivalents

	2016		2015	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank current accounts	2,074	2,074	1,744	1,759
Bank deposit accounts	3,157	2,949	3,708	2,627
	5,231	5,023	5,452	4,386

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 2016, bank deposits included £3,073,000 (2015: £2,442,000) that is being held as performance guarantees and is not available for use until the Group fulfills certain licence commitments in Peru. This is not considered to be liquid cash and has therefore been excluded from the cash flow statement.

16 Trade and other payables

	2016		2015	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	–	–	–	–
Trade payables	99	8	340	51
Other payables	604	0	1,280	346
Amounts owed to subsidiary and associate undertakings	–	1,705	–	2,018
Accruals and deferred income	351	103	127	127
Provisions	–	–	–	–
Taxation	1,502	11	1,318	13
	2,556	1,827	3,065	2,555

17 Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
Equity: 1,376,409,576 (2015: 1,376,409,576) ordinary shares of £0.00025 each	344	344

No shares were issued during the year.

15 Notes to the Financial Statements

for the year ended 31 December 2016

18 Share premium and reserves

GROUP	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	30,237	286	1,978	(26,797)
Loss for the year attributable to controlling interests	–	–	–	(32)
Share based payments	–	(205)	–	205
Foreign exchange translation adjustments	–	–	(290)	–
	30,237	81	1,688	(26,624)

COMPANY	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	30,237	286	(234)	(26,802)
Loss for the year	–	–	–	47
Share based payments	–	(205)	–	205
Foreign exchange translation adjustments	–	–	71	–
	30,237	81	(163)	(26,550)

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

Issue date	Final exercise date	Exercise price	1 January 2016 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2016 Number
27 January 2013	27 January 2016	£0.0075	22,000,000	–	–	22,000,000	–
27 June 2013	27 June 2016	£0.0160	11,250,000	–	–	11,250,000	–
27 June 2013	27 June 2016	£0.0167	2,990,431	–	–	2,990,431	–
23 March 2015	23 March 2018	£0.0145	35,172,414	–	–	–	35,172,414
			71,412,845	–	–	36,240,431	35,172,414

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2015 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2015 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2015 Number
27 January 2013	27 January 2016	£0.0000	22,000,000	–	–	–	22,000,000
27 June 2013	27 June 2016	£0.0000	11,250,000	–	–	–	11,250,000
27 June 2013	27 June 2016	£0.0000	2,990,431	–	–	–	2,990,431
23 March 2015	23 March 2018	£0.0145	–	35,172,414	–	–	35,172,414
			36,240,431	35,172,414	–	–	71,412,845

15 Notes to the Financial Statements

for the year ended 31 December 2016

19 Non-controlling interests

	2016 £'000	2015 £'000
At beginning of the year	603	769
Non-controlling interest arising on the part-disposal of Inversiones Petroleras de Colombia SA (note 13)	–	–
Share of loss for the year	(256)	(166)
	347	603

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

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	23 March 2015
Number of options granted	35,172,414
Share price at grant date	0.775p
Exercise price at grant date	1.45p
Option life	3 years
Risk free rate	1.50%
Expected volatility	80%
Expected dividend yield	0%
Fair value of option	0.23p

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

21 Directors' emoluments

	2016 £'000	2015 £'000
Directors' remuneration	297	170
Directors' fees	–	63
Share based payments	–	81
	297	314

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

	2016 £'000	2015 £'000
Remuneration	115	170
Share based payments	–	81
	115	251

15 Notes to the Financial Statements

for the year ended 31 December 2016

22 Financial instruments

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

Financial instruments – Risk Management

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

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

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

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

Principal financial instruments

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

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

General objectives, policies and processes

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

15 Notes to the Financial Statements

for the year ended 31 December 2016

22 Financial instruments continued

Credit risk

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

As at 31 December 2016 the ageing analysis of trade receivables is as follows:

	Total £'000	Neither past due nor impaired £'000
31 December 2016	198	–
31 December 2015	157	6

Cash flow interest rate risk

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

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

Interest rates on financial assets and liabilities

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

31 December 2016	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	6	1,286	1,292
US dollar (USD)	3,073	2,57	5,645
Colombian pesos (COP)	48	283	331
Peruvian Nuevo Sol (PEN)	–	33	33
	3,127	4,174	7,301

15 Notes to the Financial Statements

for the year ended 31 December 2016

22 Financial instruments continued

Interest rates on financial assets and liabilities continued

31 December 2015

	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	1,426	474	1,900
US dollar (USD)	2,447	1,336	3,783
Colombian pesos (COP)	642	322	964
Peruvian Nuevo Sol (PEN)	108	409	517
	4,623	2,541	7,164

The Group earned interest on its interest bearing financial assets at rates between 0.1% and 5% (2015: 0.1% and 5%) during the period.

A change in interest rates on the statement of financial position date would increase/(decrease) the equity and the anticipated annual income or loss by the theoretical amounts presented below. The analysis is made on the assumption that the rest of the variables remain constant. The analysis with respect to 31 December 2015 was prepared under the same assumptions.

	Change of 1.0% in the interest rate as of 31 December 2016		Change of 1.0% in the interest rate as of 31 December 2015	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Instruments bearing variable interest (£'000)	31	(31)	46	(46)

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

Foreign exchange risk

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

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

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

Foreign currency units to £1 UK Sterling (rounded)	USD	EUR	COP	PEN
Average for year ended 31 December 2016	1.37	1.23	4,117	4.49
At 31 December 2016	1.23	1.17	3,669	4.06
Average for year ended 31 December 2015	1.53	1.38	4,162	4.84
At 31 December 2015	1.48	1.36	4,643	4.96

15 Notes to the Financial Statements

for the period ended 31 December 2016

22 Financial instruments continued

Liquidity risk

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

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

Price risk

Oil and gas sales revenue is subject to energy market price risk.

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

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

Volatility of crude oil prices

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

	31 December 2016	Average price 2016	31 December 2015
Per barrel – US\$	37	45	55
Per barrel – £	25	33	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 the Group's results for 2016, since it had no production.

Capital risk

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

Market risk

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

15 Notes to the Financial Statements

for the period ended 31 December 2016

23 Capital commitments

As of 31 December 2016, there were no capital commitments.

24 Contingent liabilities

The Group and the Company have given guarantees of US\$3,760,000 (31 December 2015: US\$3,760,000) to Perupetro SA to fulfil licence commitments for Block XXI and Z-34. The Company has made provision in respect of decommissioning costs of producing fields and there is the possibility of decommissioning costs in respect of abandoned field which have yet to be quantified (if any) by the operator. Other than that, the Company does not consider that there are any further contingent liabilities in this regard.

25 Event after the reporting period

On 24 February 2017, the Public Deed which is the final document effecting the assignment to Union Oil & Gas Group ("UOGG") of a 30% interest in Block Z-34 in Peru, was signed by the Central Bank of Peru. As a result, the sum of US\$2 million payable by UOGG to Gold Oil Peru SAC crystallises at that date.

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 2016		Year ended 31 December 2015	
	Balance £'000	Loan (repayment) £'000	Balance £'000	Loan advance £'000
Gold Oil Peru S.A.C*	2,276	(158)	2,205	(905)
Inversiones Petroleras de Colombia SA**	721	–	627	627

*The company has provided for an impairment of £2,275,000 (2015: £2,205,000) on the outstanding loans. During the previous year, part of the loan to a value of £676,000 was capitalised as new equity of Gold Oil Peru S.A.C.

**The company has provided for an impairment of £721,000 (2015: £627,000) on the outstanding loans.

Group and company

There were related party transactions in the year (2015: nil) as follows.

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

The company paid £18,000 for services rendered by Langley Associates Limited, a company controlled by Mr G Barnes, a director.

