



Baron Oil Plc

Annual Report and
Financial Statements

for the year ended 31 December 2013

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1 Corporate Information

Directors	Rudolph Berends Chairman William Colvin Non-Executive Director Camilo Merendoni Non-Executive Director
Registered Office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Company Secretary	Geoffrey Barnes
Auditors	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Nominated Adviser and Brokers	Cantor Fitzgerald Europe One Churchill Place Canary Wharf London E14 5RD
Registrars	Computershare Investor Services (Ireland) Limited Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland
Communications	Website www.baronoilplc.com
Company number	5098776 (England and Wales)

2 Corporate Statement

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

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

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

3 Chairman's Statement and Operations Report

Finance and financial results

In the year ended 31 December 2013, the net result for the year was a loss before taxation of £2,998,000, which compares to a loss of £9,353,000 for the preceding financial year. The improvement arises primarily from the greatly reduced impairment provisions in 2013.

Turnover for the year was £2,211,000, down from £2,832,000 in the preceding year, reflecting the significant drop in revenue from the Colombian producing wells, as detailed below. This has led to a loss at the gross profit line of £186,000 as certain direct costs are fixed and do not vary directly with production.

In this year, the Group sold its entire interest in its subsidiary company Plectrum Petroleum Limited to Union Oil & Gas Group. Plectrum Petroleum Limited is a 50% licence holder in the Peru Z34 offshore exploration licence and its sale forms part of the larger farmout of an 80% interest in that licence. The sale led to a book loss of £88,000 after taking into account the reversal of prior year impairment provisions. We also continue with our policy of writing down the value of our investment in the Nancy-Burdine-Maxine asset until the contract termination date in 2015, this gives rise to a further impairment charge of £526,000.

The Income Statement also shows a charge to tax of £567,000. This is largely made up of tax arising on the capital receipt from the farmout of Block XXI Peru in 2012, which was higher than originally anticipated.

At the end of the financial year, free cash reserves of the Group had improved to £2,078,000 from a level at the preceding year end of £950,000 (excluding funds held in escrow in respect of performance guarantees). The placing of shares in January 2013 raised a gross £2 million, plus an additional \$3.5 million was received from the first phase of the Z34 farm-out. A further \$2.5 million was due at the end of the year in respect of the Z34 farm-out, of which \$500,000 has been received, and we anticipate the remainder will be received within the next twelve months, along with \$2 million on the sale of a 50% interest in the Nancy-Burdine-Maxine producing fields in Colombia.

It is our belief that, in taking hard decisions in impairing the carrying value of our assets, we now have a Balance Sheet that recognises clear value in our exploration and production assets. Coupled with the fact that the Company is now carried on all its exploration commitments, we can expect to see positive results in both net income and cash flow in 2014 and beyond.

Operations in Peru

Block Z-34 offshore

The main event in early 2013 was the farm out of 80% of the interest in our very prospective North West Peru offshore block Z-34 to Union Oil & Gas Group ("Union"). Baron Oil has retained operatorship and 20% of the block equity and our share of all costs will be carried by Union until the end of the exploration commitment period in our license contract.

During 2013 we have progressed our partnership with Union and together have been working hard to obtain final approval for the Environmental Impact Assessment ("EIA") study which includes seismic coverage over 85% of the block area plus a selection of 90 well locations which were identified by interpreting the extensive 2D and 3D seismic data acquired in 2009 and 2011.

The EIA study is now in the final phase and the final approval is expected by the end of June this year. Baron Oil has prepared extensive information packages for all the fishing villages, towns and ports along the coast in the direct areas around the block and we believe we have created excellent local relationships with all stakeholders to enable further development of our block in the near future with minimum interference.

Now Baron Oil and its partner are presently discussing how to move forward into the Third Phase of our exploration program commitment by either drilling one or more of our identified prospects on the block or acquiring additional 3D seismic data. Any decision taken by the partnership group will of course be reported to shareholders immediately.

3 Chairman's Statement and Operations Report

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

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

Karoon Oil & Gas Company, the operator of the adjoining block Z-38 immediately to the north of Z-34, is well advanced with plans for the publicly announced drilling campaign in the near future on that block.

Positive developments have also been reported to the north east of our block where BPZ Resources Inc. in its offshore Block Z-1 during the first quarter of 2014 announced a substantial gross production increase. Their gross production increased to 5,050 barrels of oil per day ("bopd"), from 2,570 bopd in the previous quarter. In addition BPZ has announced additional and positive news concerning its aggressive drilling campaign and development of the Corvina and Albacora Fields.

Due to the proximity of both these blocks, these recent developments are regarded by the Board as being very positive news for our Z34 block.

Block XXI onshore

Developments in this large (3,030 sq km) onshore Block located in northern Peru are progressing very well. Baron Oil is the operator and holds a 30% carried interest while Vale has the remaining 70% interest and currently pays 100% of all the costs.

The EIA is in process and advancing in line with the Board's expectations. We are hopeful of obtaining final approval later this year.

The Company has commenced negotiations with contractors to shoot 350-450 kms of 2D seismic lines immediately after we obtain all necessary permits and EIA approval. The plan is to drill 2-3 shallow exploration wells in 2015 once the seismic survey is acquired and fully interpreted.

The EIA study includes extensive 2D seismic work plus 30 well locations identified by the aero gravimetric survey. Peruvian EIA regulations allow changes between well locations in a much quicker process than preparing a new EIA study after seismic acquisition; therefore the 30 well locations were included from the beginning of the process.

In December 2012 the Geotechnical Company, Fugro, completed the acquisition and processing of an 8,000km line of aeromagnetic and aero gravimetric data over the block.

This survey showed the presence of some deep sedimentary basins creating potential mature "cooking pots" for generating hydrocarbons. It is interesting to note that no seismic coverage exists at all over these gravity anomalies. Also several wells in the south of the block, drilled about 50 years ago without any seismic coverage, showed the presence of gas. The adjoining block to the west held by Olympic recently announced several large, commercial oil and gas discoveries.

Finally this block is located to the west of the Andes Mountains meaning that any potential hydrocarbon reserves discovered will have much easier access to a very attractive local market.

3 Chairman's Statement and Operations Report

Operations in Colombia

Nancy Burdine Maxine Producing Fields

2013 was a challenging year for all oil and gas operators in the Putumayo region of Colombia and also for the Nancy Burdine Maxine ("NMB") oil fields. The first half of the year was mainly focused on production optimization and cost reduction in the field whereas the second half was mostly dedicated to the commercial improvements and surface facilities repair and revamping.

In January 2013, a detailed in-house evaluation study was conducted on each existing well in the NMB field. This led to the identification of three wells being capable of producing untapped oil from either the U or N sands in the Villetas formation: B-5, B-2 and B-4. A workover program was designed for each well where the B-5 well was identified as the best candidate to be worked over first.

Early March 2013, B-5 was successfully worked over with a new production string able to independently test either the N or the U sand within the Villetas Formation. The overall B-5 workover results are very encouraging and shows Burdine is a field yet to be produced from the N and the U sand. B-5 is in a long term production test to further evaluate the flowing pressure and water cut behavior over time to enable us to gather sufficient reservoir data for an optimum field development model.

The B-1 well was steadily producing until late January 2013 when water production started to increase with an increasing amount of sediments and then suddenly stopped flowing completely. A work program was designed for B-1 aimed to clean the production string. Unfortunately the B-1 production string was found to be broken at 2,200 ft. and the well was shut-in until a larger rig became available to repair the casing and restart the oil production.

A full operational analysis was carried out during the year to optimize the communication between the field office and the headquarter office. As a result some personnel positions were relocated from the Bogota offices out to the field resulting in both cost reductions and improved relations with the local communities.

Unfortunately on 6 October 2013 the NBM surface facilities were destroyed by terrorists after a series of attacks and explosions. Thankfully no personnel were injured during these attacks. However these attacks left NBM without any functioning surface facilities resulting in a total shutdown of the field. The field was shut down until early November when B-5 was re-opened again and N-1 was re-opened in early January 2014.

Since January 2014 the NBM field has been producing consistently between 500-600 bopd from the two wells N-1 and B-5. Currently we are in the process of getting final approval from the local authorities to test the B-2 and B-4 wells.

The Company plans to carry out additional well workovers, a 3D seismic survey and drill several additional wells when we obtain the green light to continue the NBM operations after the end of the current license period which expires at the end of 2015. At present we are in active discussions with Ecopetrol about the potential continuation of our operations in the NMB field. We are anticipating obtaining more clarity from them over the next few months.

In July 2013, Baron Oil created a 50% partnership in the field ownership company with S&J Full Services ("S&J"). Subsequently in April 2014 Baron Oil purchased back the S&J 50% interest in NMB and they were replaced by CI International Fuels Limited, a major Colombian private company with over 10 years experience of working in the commercialization, storage and supply of petroleum derivatives, fuels and lubricants. This joint venture will help Baron Oil with the crude marketing and transportation options in addition to the financial strength of our new partner.

Rosa Blanca Block

Baron Oil has been closely working with P&IG to reactivate the Rosa Blanca exploration permit and to further evaluate its hydrocarbon potential. Baron Oil has a 5% carried interest and is also the operator.

3 Chairman's Statement and Operations Report

New ventures

Baron Oil considers Latin America a continent with enormous untapped hydrocarbon potential and is currently seeking out additional opportunities in this part of the world. The Company is presently initiating local contacts in Mexico besides potentially expanding in both Colombia and Peru.

Baron Oil will participate in the upcoming bidding round scheduled for later this year for the onshore exploitation blocks 3 and 4 located in the Talara basin in Peru.

Conclusions

Baron Oil has three exciting exploration and producing assets in Peru and Colombia where the Directors believe each asset has the potential to become a "company maker". Farming out of part of our interest in all three has reduced both the risk and our capital requirements. In Colombia the potential extension of the NMB field would create a completely different scale of operations. In Peru, offshore Z-34 block and onshore block XXI both have significant exploration potential while the Company remains cost carried through the exploration phases, meaning that we have no financial commitments while we are exposed to our share of the upside of any commercial fields discovered.

I would like to thank all Shareholders for their continued support and I am looking forward to a very exciting and rewarding future for our company in South America.

Rudolph Berends
Chairman and CEO

2 June 2014

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 2013.

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 2013 £'000	Year ended 31 December 2012 £'000
Liquid cash reserves	2,078	951
Administrative expenses	2,043	3,267

Key risks and uncertainties

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

Oil prices

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

Impact

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

Action

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

4 Strategic Report

Liquidity risk

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

Impact

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

Action

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

Taxation

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

Impact

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

Action

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

By order of the Board

Rudolph Berends

Chairman

2 June 2014

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 2013.

Directors

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

Rudolph Berends Chairman

Rudolph Berends, aged 68, has more than 40 years experience in the oil and gas industry. He started with Shell as an explorationist and has more than 20 years experience in Latin America where he has been the CEO/President of various public and private companies. Rudolph has a Doctoral degree in Geology/Geophysics and a BSc in Economics from universities in the Netherlands and the United States.

Camilo Merendoni Non-Executive Director

Camilo Merendoni, aged 81, has 50 years of diversified experience in the Oil and Gas industry. He started as a Petroleum Engineer with Texas Petroleum Company in Colombia and has worked mainly in Latin America, the Middle East and Central Asia. His career included stints with Ecopetrol, Petrobras, Hocol, Shell and Bridas Energy. He has degrees in Petroleum Engineering from Pittsburgh University and Advanced Management from Universidad de los Andes.

William ("Bill") Colvin Non-Executive Director

Bill Colvin, aged 56, has over 30 years experience in the international oil and gas and healthcare sectors both in senior management and board positions of large corporations. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. From 1990 to 1992, Bill was Finance Manager at Oryx UK Energy. From 1984 to 1989, he worked in a variety of financial roles for Atlantic Richfield (ARCO) Inc. He qualified as a Scottish Chartered Accountant in 1982 and holds a Bachelor of Commerce degree from the University of Edinburgh. Bill is currently a non-executive Director of Energy XXI, a NASDAQ and UK listed oil & gas exploration and production company, and Infrastrata PLC. He also advises the private equity firm Duke Street Capital.

Proposed dividend

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2013.

Political and charitable contributions

In the year ended 31 December 2013 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 2013 were 165 days (2012: 172 days).

5 Report of the Directors

Activities and results

A loss of £3,565,000 (2012: £9,471,000) was recorded for the year. Net assets of the Group at 31 December 2013 amounted to £8,343,000 (2012: £9,456,000). 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.

Change of name

On 29 June 2013, the Company changed its name from Gold Oil Plc to Baron Oil Plc.

Issue of shares

On 24 January 2013, the Company placed 278,000,000 Ordinary Shares at a subscription price of £0.0075, raising £2,050,000 after expenses.

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 and be recognised by regulatory agencies, environmental groups and governments where we do business for our efforts to safeguard the environment.

Community

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

Future outlook

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

Directors' interests

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

	31 December 2013		31 December 2012	
	Number of Ordinary shares	% Holding	Number of Ordinary shares	% Holding
R Berends	39,098,335	3.3%	–	–
C Merendoni	–	–	–	–
W Colvin (appointed 24 January 2013)	–	–	–	–
	39,098,335	3.3%	–	–

5 Report of the Directors

Options held by the directors are as follows:

	31 December 2013 Number of options £0.0075*	31 December 2012 Number of options £0.0075*
R Berends	22,000,000	–
	Number of options £0.016**	Number of options £0.016**
R Berends	11,250,000	–
	Number of options £0.0167***	Number of options £0.0167***
W Colvin	2,990,431	–
	36,240,431	–

*Each £0.0075 option grants the holder the right to subscribe for one Ordinary Share at £0.0075 per share, and is exercisable at any time prior to 27 January 2016.

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

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

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

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

Remuneration policy

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

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 the salaries are shown below.

	2013 £	2012 £
Chairman		
R Berends (appointed 10 August 2012)	170,925	58,465
J R Bell (not re-appointed 29 June 2012)	–	15,000
Executive Directors		
R Mew (resigned 31 May 2012)	–	128,364
J Garcia (appointed 13 February 2012, not re-appointed 10 August 2012)	–	92,704
I Reid (not re-appointed 29 June 2012)	–	93,416
T Tidow (resigned 24 May 2012)	–	40,428
Non Executive Director		
C Merendoni (appointed 10 August 2012)	38,787	11,387
W Colvin (appointed 24 January 2013)	46,987	–
Dr J Charlton (not re-appointed 29 June 2012)	–	12,500
G Cowan (not re-appointed 29 June 2012)	–	12,500
W Dailly (appointed 29 June 2012, not re-appointed 10 August 2012)	–	12,000
M Neville (appointed 29 June 2012, not re-appointed 10 August 2012)	–	12,000
	256,699	488,764

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

Employees

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

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

Events after the reporting period

On 14 April 2014, the company announced the sale of 50% of its interest in the Nancy-Burdine-Maxine fields in Colombia for US\$2,000,000.

5 Report of the Directors

Financial review

Liquidity & Share Trading

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

Shares in Issue and Shareholders Profile

The number of shares in issue at 22 May 2014 was 1,169,513,025 Ordinary Shares, each share having equal voting rights.

Baron Oil Plc has 1,297 shareholders.

The shareholding distribution at 22 May 2014 is as follows:

Range	Number of shares	Number of shareholders
> 10%	342,440,667	2
5-10%	126,967,066	2
1-5%	412,215,251	16
0.5-1%	99,910,416	12
<0.5%	187,979,625	1,265
	1,169,513,025	1,297

Significant shareholdings

The Company has been informed that, as of 22 May 2014, the following shareholders own 3% or more of the issued share capital of the Company:

Name	Shares	% of company
Fitel Nominees Limited	221,630,057	18.95%
W B Nominees Limited	120,810,610	10.33%
Commerz Nominees Limited	67,800,400	5.80%
Mr Mark Pritchard	59,166,666	5.06%
Barclayshare Nominees Limited	51,553,836	4.41%
Lynchwood Nominees Limited	50,871,881	4.35%
TD Direct Investing Nominees	45,136,208	3.86%
Mr R Berends	39,098,335	3.34%
Total	656,067,993	56.10%

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 are the Company's Nominated Adviser and Broker. As of 31 December 2012, the Company's listing on AIM was suspended. The suspension was lifted on 24 January 2013 and shares commenced trading on that day. The closing mid-market price on 22 May 2014 was 1.3p.

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.

5 Report of the Directors

Going concern

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

Publication on company's website

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

Indemnity of officers

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

By order of the Board

Geoffrey Barnes

Secretary

2 June 2014

6 Corporate Governance Statement

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

The Board

The board comprises one executive director and two non-executive directors, details of who 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 Camilo Merendoni as the other member. The Audit Committee meets at least twice a year and the external auditors have the opportunity to meet with 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 Rudolph Berends as chairman, Bill Colvin and Camilo Merendoni are the other members. The Remuneration Committee determines the contract terms, remuneration and other benefits of the directors and senior employees. The Remuneration Committee meets as required, but at least twice a year.

The Nominations Committee

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

Communications

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

Internal control

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

7 Statement of Directors' Responsibilities

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

Directors' responsibilities

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

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

In preparing those financial statements, the directors are required:

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

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

Statement of disclosure to auditor

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

Auditors

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

By order of the Board

Rudolph Berends
Chairman

2 June 2014

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 2013, 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. 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 2013 and of the Group's loss and Group's and Parent Company's cash flow for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jonathan Issacs

Senior Statutory Auditor

For and on behalf of Jeffreys Henry LLP, Statutory Auditor

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

2 June 2014

9 Consolidated Income Statement

for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Revenue		2,211	2,832
Cost of sales		(2,397)	(2,623)
Gross (loss)/profit		(186)	209
Intangible asset impairment	3	(384)	(5,535)
Loss on disposal of investment		(88)	–
Loss on destruction of oilfield assets		(232)	–
Goodwill impairment	11	(526)	(728)
Administration expenses		(2,043)	(3,267)
Other operating Income		486	17
Operating loss	3	(2,973)	(9,304)
Finance cost	5	(68)	(69)
Finance income	5	43	20
Loss on ordinary activities before taxation		(2,998)	(9,353)
Income tax expense	6	(567)	(118)
Profit/(loss) on ordinary activities after taxation		(3,565)	(9,471)
Dividends		–	–
(Loss) for the year		(3,565)	(9,471)
(Loss) on ordinary activities after taxation is attributable to:			
Equity shareholders		(3,565)	(9,471)
Minority interests		–	–
		(3,565)	(9,471)
Earnings per ordinary share – continuing			
Basic	8	(0.31p)	(1.06p)
Diluted		(0.31p)	(1.06p)

10 Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Loss on ordinary activities after taxation attributable to the parent	(3,565)	(9,471)
Other comprehensive income:		
Share based payments	205	–
Exchange difference on translating foreign operations	197	394
Total comprehensive income for the year	(3,163)	(9,077)
Total comprehensive income attributable to Owners of the parent	(3,163)	(9,077)

11 Consolidated Statement of Financial Position

as at 31 December 2013

	Notes	2013 £'000	2012 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	9	2,405	1,893
– others	9	–	–
Intangibles	10	2,275	2,039
Goodwill	11	922	2,004
Intangible assets held for resale	12	–	2,476
		5,602	8,412
Current assets			
Inventories	14	235	113
Trade and other receivables	15	2,211	2,423
Cash and cash equivalents	16	4,354	3,184
		6,800	5,720
Total assets		12,402	14,132
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	18	292	223
Share premium account	19	27,304	25,323
Share option reserve	19	205	–
Foreign exchange translation reserve	19	1,489	1,292
Retained earnings	19	(20,947)	(17,382)
Total equity		8,343	9,456
Current liabilities			
Trade and other payables	17	3,290	4,438
Taxes payable	17	769	238
		4,059	4,676
Total equity and liabilities		12,402	14,132

The financial statements were approved and authorised for issue by the Board of Directors on 2 June 2014 and were signed on its behalf by:

Rudolph Berends
Director

Bill Colvin
Director

Company number: 5098776

12 Company Statement of Financial Position

as at 31 December 2013

	Notes	2013 £'000	2012 £'000
ASSETS			
Non current assets			
Property plant and equipment			
– oil and gas assets	9	110	981
– others	9	–	–
Intangibles	10	–	2,166
Investments	13	1,108	4,216
		1,218	7,363
Current assets			
Inventories	14	–	18
Trade and other receivables	15	1,606	812
Cash and cash equivalents	16	2,501	2,528
		4,107	3,358
Total assets		5,325	10,721
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent			
Share capital	18	292	223
Share premium account	19	27,304	25,323
Share option reserve	19	205	–
Foreign exchange translation reserve	19	(64)	214
Retained earnings	19	(23,150)	(18,878)
Total equity		4,587	6,882
Current liabilities			
Trade and other payables	17	658	3,792
Taxes payable	17	80	47
		738	3,839
Total equity and liabilities		5,325	10,721

The financial statements were approved and authorised for issue by the Board of Directors on 2 June 2014 and were signed on its behalf by:

Rudolph Berends

Director

Bill Colvin

Director

Company number: 5098776

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2013

GROUP	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Share Option Reserve £'000	Foreign Exchange Translation £'000	Total Equity £'000
As at 1 January 2012	223	25,323	(7,911)	–	898	18,533
Loss for the year	–	–	(9,471)	–	–	(9,471)
Foreign exchange translation adjustments	–	–	–	–	394	394
Total comprehensive income for the period	–	–	(9,471)	–	394	(9,077)
As at 1 January 2013	223	25,323	(17,382)	–	1,292	9,456
Shares issued	69	1,981	–	–	–	2,050
Transactions with owners	69	1,981	–	–	–	2,050
Loss for the year	–	–	(3,565)	–	–	(3,565)
Share based payments	–	–	–	205	–	205
Foreign exchange translation adjustments	–	–	–	–	197	197
Total comprehensive income for the period	–	–	(3,565)	205	197	(3,163)
As at 31 December 2013	292	27,304	(20,947)	205	1,489	8,343

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 company attributable to equity shareholders.

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

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

13 Consolidated and Company Statement of Changes in Equity

for the year ended 31 December 2013

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 2012	223	25,323	(9,240)	–	107	16,413
(Loss) for the year	–	–	(9,638)	–	–	(9,638)
Foreign exchange translation adjustments	–	–	–	–	107	107
Total comprehensive income for the period	–	–	(9,638)	–	107	(9,531)
As at 1 January 2013	223	25,323	(18,878)	–	214	6,882
Shares issued	69	1,981	–	–	–	2,050
Transactions with owners	69	1,981	–	–	–	2,050
(Loss) for the year	–	–	(4,272)	–	–	(4,272)
Share based payments	–	–	–	205	–	205
Foreign exchange translation adjustments	–	–	–	–	(278)	(278)
Total comprehensive income for the period	–	–	(4,272)	205	(278)	(4,345)
As at 31 December 2013	292	27,304	(23,150)	205	(64)	4,587

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.

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

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 2013

	Group 2013 £'000	Company 2013 £'000	Group 2012 £'000	Company 2012 £'000
Operating activities	(1,470)	(4,492)	(2,877)	(2,230)
Investing activities				
Return from investment and servicing of finance	43	3	20	4
Sale of intangible assets	2,579	–	2,337	1
Disposal of tangible assets	640	189	–	–
Acquisition of investment assets	–	–	–	–
Acquisition of goodwill	–	–	(573)	–
Cash deposited for Peru performance guarantees	–	–	(949)	(949)
Loan to subsidiary (advanced/(repaid))	–	2,181	–	205
Acquisition of intangible assets	(438)	–	(1,598)	(1,203)
Acquisition of tangible fixed assets	(2,276)	–	(494)	(209)
	548	2,373	(1,257)	(2,151)
Financing activities				
Proceeds from issue of share capital	2,050	2,050	–	–
Net cash inflow	1,128	(69)	(4,134)	(4,381)
Cash and cash equivalents at the beginning of the year	950	294	5,084	4,675
Cash and cash equivalents at the end of the year	2,078	225	950	294
Reconciliation to Consolidated Statement of Financial Position				
Cash not available for use	2,276	2,276	2,234	2,234
Cash and cash equivalents at the end of the year	4,354	2,501	3,184	2,528

14 Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2013

Notes to the Statement of Cash Flows

	Group 2013 £'000	Company 2013 £'000	Group 2012 £'000	Company 2012 £'000
Operating activities				
Loss for the year	(3,565)	(4,272)	(9,471)	(9,638)
Depreciation, amortisation and impairment charges	1,411	2,065	7,055	3,878
Loss on disposal of assets	320	–	–	–
Non-cash movement arising on consolidation of minority interests in tangible fixed assets	555	–	(593)	–
Non-cash movement arising on transfer of assets to subsidiary undertaking	–	764	–	–
Share based payments	205	205	–	–
Impairment of investment	–	927	–	3,836
Finance income shown as an investing activity	(43)	(3)	(20)	(4)
Tax expense	567	–	118	3
Foreign exchange translation	174	(301)	307	77
Operating cash outflows before movements in working capital	(376)	(615)	(2,604)	(1,848)
(Increase)/decrease in inventories	(122)	18	5	12
(Increase)/decrease in receivables	213	(794)	(1,506)	51
Tax paid	(36)	33	(47)	(124)
Increase/(decrease) in payables	(1,149)	(3,134)	1,275	(321)
Net cash (outflows)/inflows from operating activities	(1,470)	(4,492)	(2,877)	(2,230)

15 Notes to the Financial Statements

for the year ended 31 December 2013

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 Report of the Directors in section 4.

1 Significant accounting policies

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

Going concern basis

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

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

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

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

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

Basis of preparation

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

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the group.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies *continued*

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

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

Reference	Title	Summary	Application date of standard	Application date of Group
Amendments to IFRS 2, IFRS 3	Amendments resulting from Annual Improvements 2010-12 Cycle	IFRS 2: clarifies definition of vesting conditions IFRS 3: clarifies contingent consideration in a business combination	1 July 2014	1 July 2014
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	Clarifies that the treatment of contributions when they are independent of the number of years of service	Periods commencing on or after 1 July 2014	1 January 2015
IFRS 9	Financial Instruments	Revised standard for accounting for financial instruments	Periods commencing on or after 1 January 2015	1 January 2015
IAS 36	Impairment of assets	Limited scope amendments to disclosure requirements	Periods commencing on or after 1 January 2014	1 January 2014
IAS 39	Hedge accounting and novation of derivatives	Provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria	Periods commencing on or after 1 January 2014	1 January 2014
IFRS 21	Accounting for levies imposed by governments	Clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy	Periods commencing on or after 1 January 2014	1 January 2014
IFRS 10, IFRS 12, IAS 27	Exception from consolidation for "investment entities"	Amendments have been made to define an "investment entity" and to introduce an exception from consolidation and the required disclosures	Periods commencing on or after 1 January 2014	1 January 2014
IAS 32	Financial instruments: Presentation	Clarifies the requirements for offsetting of financial assets and financial liabilities	Periods commencing on or after 1 January 2014	1 January 2014
IFRS 14	Regulatory deferral accounts	Aims to enhance the comparability of financial reporting by entities subject to rate-regulations	Periods commencing on or after 1 January 2016	1 January 2016

15 Notes to the Financial Statements

for the year ended 31 December 2013

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. 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

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

Business combinations

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

Goodwill

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies *continued*

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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies continued

Intangible assets continued

Oil and gas assets: exploration and evaluation continued

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

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

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

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

Property, plant and equipment

Oil and gas assets: development and production

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

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

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

The D&P assets for Nancy-Burdine-Maxine wells are amortised evenly over the remaining life of the licence.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies *continued*

Property, plant and equipment *continued*

Non oil and gas assets

Non oil 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.

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.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies continued

Taxation

Income tax

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

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

Deferred tax

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

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

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

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

Trade payables

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

Fair values

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

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

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.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies *continued*

Share-based compensation *continued*

Share based payments (Note 20)

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

Equity instruments

Ordinary shares are classified as equity.

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

Provisions

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

Financial instruments

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

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

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

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.

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies continued

Foreign currencies continued

(iii) **Group companies**

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

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

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

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

Management of capital

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

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

Dividends will be issued when there are sufficient reserves available.

Critical accounting judgments and key sources of estimation uncertainty

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

Plant and equipment, intangible assets & impairment of goodwill

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

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

1 Significant accounting policies *continued*

Plant and equipment, intangible assets & impairment of goodwill *continued*

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

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

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

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

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

Commercial reserves estimates

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

Decommissioning costs

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

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 2013

2 Segmental Information

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

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

Exploration and production

year ended 31 December 2013

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

2 Segmental Information *continued*

Exploration and production

year ended 31 December 2012

	United Kingdom £'000	South America £'000	Total £'000
Revenue – oil	–	2,832	2,832
Cost of sales	–	(2,623)	(2,623)
Gross profit	–	209	209
Intangible asset impairment	–	(5,535)	(5,535)
Goodwill impairment	–	(728)	(728)
Administration expenses	(1,922)	(1,345)	(3,267)
Other operating income	–	17	17
Operating (loss)/profit	(1,922)	(7,382)	(9,304)
Finance costs	–	(69)	(69)
Finance income	4	16	20
(Loss)/Profit before taxation	(1,918)	(7,435)	(9,353)
Income tax expense	–	(118)	(118)
Loss/(Profit) before taxation	(1,918)	(7,553)	(9,471)
Assets and liabilities			
Segment assets	36	10,912	10,948
Cash and cash equivalents	2,287	897	3,184
Total assets	2,323	11,809	14,132
Segment liabilities	(236)	4,674	4,438
Current tax liabilities	–	238	238
Total liabilities	(236)	4,912	4,676
Other segment items			
Capital expenditure	–	2,092	2,092
Depreciation, amortisation and impairment charges	–	7,057	7,057

15 Notes to the Financial Statements

for the year ended 31 December 2013

3 Loss from operations

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

	2013 £'000	2012 £'000
Auditors' remuneration		
Group – audit	46	54
Group – prior year audit	–	34
Company – audit	28	30
Company – prior year audit	–	21
Group – other non-audit services	12	5
Company – other non-audit services	–	5
Depreciation of non oil and gas assets	5	5
Depreciation of oil and gas assets	1,209	789
Loss on disposal of investment	88	–
Impairment of intangible assets	384	5,535
Loss on exchange	104	191

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

	2013 £'000	2012 £'000
Employee benefit expense	599	884
Depreciation, amortisation and impairment charges	663	6,329
Legal and professional fees	410	745
(Gain)/loss on exchange	104	191
Other expenses	651	653
	2,427	8,802

4 Staff numbers and cost

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

	2013 Number	2012 Number
Directors	3	4
Technical and production	22	23
Administration	9	10
Total	34	37

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	365	741
Directors' salaries	257	395
Share based payments	205	–
Social security costs	26	244
	853	1,380

In addition to the above figure for directors' salaries, in the year ended 31 December 2012 there was an amount of £93,415 (of which £56,563 was capitalised as an intangible) of directors' fees paid to Sheer Energy Pty Ltd in respect of services provided by Ian Reid, a director during that year. There were no such charges in 2013.

15 Notes to the Financial Statements

for the year ended 31 December 2013

5	Finance income	2013	2012
		£'000	£'000
	Bank interest received	43	20
	Finance cost	(68)	(69)
	Total	(25)	(49)

6 Income tax expense

The tax charge on the loss on ordinary activities was:

		2013	2012
		£'000	£'000
	UK Corporation Tax – current	–	–
	Foreign taxation	567	118
	Total	567	118

Foreign taxation arises from an under-provision for tax in 2012.

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

		2013	2012
		£'000	£'000
	(Loss) before tax		
	Continuing operations	(2,998)	(9,353)
	Tax at composite group rate of 25% (2012: 26.5%)	(750)	(2,478)
	Effects of:		
	Losses/(profits) not subject to tax	(906)	1,441
	Change of tax rate on brought forward tax loss	(157)	–
	Increase in tax losses	1,813	1,037
	Foreign taxation	567	118
	Tax expense	567	118

At 31 December 2013, the Group has tax losses of £17,733,000 (31 December 2012: £10,480,000) to carry forward against future profits. The deferred tax asset on these tax losses at 25% of £4,433,000 (31 December 2012: at 26.5%, £2,777,000) has not been recognised due to the uncertainty of the recovery.

7 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:

		2013	2012
		£'000	£'000
	Parent company's loss	4,272	9,638

15 Notes to the Financial Statements

for the year ended 31 December 2013

8 Earnings per share

	2013	2012
Loss per ordinary share		
– Basic	(0.31p)	(1.06p)
– Diluted	(0.31p)	(1.06p)

Earnings per ordinary share is based on the Group's loss for the year of £3,565,000 (2012: loss of £9,471,000).

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

	2013 Number	2012 Number
Weighted average ordinary shares in issue during the year	1,151,995,217	891,513,025
Potentially dilutive warrants issued	32,474,523	24,072,404
Weighted average ordinary shares for diluted earnings per share	1,184,469,740	915,585,429

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

9 Property, plant and equipment

GROUP	Development and production costs £'000	Equipment and machinery £'000	Vehicles £'000	Total £'000
Cost				
At 1 January 2012	49	1,992	19	2,060
Foreign exchange translation adjustment	–	3	4	7
Acquisition of minority interest	–	858	–	858
Expenditure	–	494	–	494
Disposals	–	(3)	–	(3)
At 1 January 2013	49	3,344	23	3,416
Foreign exchange translation adjustment	–	(1)	–	(1)
Expenditure	–	2,276	–	2,276
Disposals	–	(731)	–	(731)
At 31 December 2013	49	4,888	23	4,960
Depreciation				
At 1 January 2012	15	430	19	464
Foreign exchange translation adjustment	–	–	4	4
Acquisition of minority interest	–	265	–	265
Charge for the period	13	779	–	792
Disposals	–	(2)	–	(2)
At 1 January 2013	28	1,472	23	1,523
Foreign exchange translation adjustment	–	(1)	–	(1)
Charge for the period	9	1,205	–	1,214
Disposals	–	(181)	–	(181)
At 31 December 2013	37	2,495	23	2,555
Net book value				
At 31 December 2013	12	2,393	–	2,405
At 31 December 2012	21	1,872	–	1,893

15 Notes to the Financial Statements

for the year ended 31 December 2013

9 Property, plant and equipment *continued*

COMPANY	Development and production costs £'000	Equipment and machinery £'000	Total £'000
Cost			
At 1 January 2012	34	1,459	1,493
Expenditure	–	209	209
Disposals	–	(3)	(3)
At 1 January 2013	34	1,665	1,699
Transferred to subsidiary undertakings	(34)	(1,335)	(1,369)
Disposals	–	(19)	(19)
At 31 December 2013	–	311	311
Depreciation			
At 1 January 2012	10	302	312
Charge for the year	10	398	408
Disposals	–	(2)	(2)
At 1 January 2013	20	698	718
Transferred to subsidiary undertakings	(20)	(566)	(586)
Charge for the period	–	79	79
Eliminated on disposals	–	(10)	(10)
At 31 December 2013	–	201	201
Net book value			
At 31 December 2013	–	110	110
At 31 December 2012	14	967	981

15 Notes to the Financial Statements

for the year ended 31 December 2013

10 Intangible fixed assets

GROUP	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2012	1,896	8,938	10,834
Foreign exchange translation adjustment	–	116	116
Expenditure	–	1,598	1,598
Disposals	–	(2,336)	(2,336)
Reclassify as held for resale	–	(2,560)	(2,560)
At 1 January 2013	1,896	5,756	7,652
Foreign exchange translation adjustment	–	(19)	(19)
Expenditure	–	438	438
Disposals	–	(1,620)	(1,620)
At 31 December 2013	1,896	4,555	6,451
Impairment			
At 1 January 2012	–	162	162
Charge for the period	1,896	3,639	5,535
Reclassify as held for resale	–	(84)	(84)
At 1 January 2013	1,896	3,717	5,613
Charge for the period	–	(328)	(328)
Disposals	–	(1,109)	(1,109)
At 31 December 2013	1,896	2,280	4,176
Net book value			
At 31 December 2013	–	2,275	2,275
At 31 December 2012	–	2,039	2,039

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

Block Z34 offshore Peru: the carrying value of this asset has been set by reference to the value of the farm-out to Union Oil & Gas, which was US\$6,000,000 for an 80% interest, equating to an overall value of US\$7,500,000. The sale of the Group's share in Plectrum Petroleum Limited during the year, accounting for a 50% interest in the asset, gives rise to a release of impairment amounting to £511,000. The remaining 50% has been impaired to a value representing 50% of the value implied by the farm-out.

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

10 Intangible fixed assets *continued*

COMPANY	Licence £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
At 1 January 2012	–	4,433	4,433
Expenditure	–	1,203	1,203
At 1 January 2013	–	5,636	5,636
Disposals	–	(2,917)	(2,917)
At 31 December 2013	–	2,719	2,719
Impairment			
At 1 January 2012	–	–	–
Charge for the year	–	3,470	3,470
At 1 January 2013	–	3,470	3,470
Charge for the period	–	1,986	1,986
Disposals	–	(2,737)	(2,737)
At 31 December 2013	–	2,719	2,719
Net book value			
At 31 December 2013	–	–	–
At 31 December 2012	–	2,166	2,166

The exploration and evaluation costs above represent the cost in acquiring, exploring and evaluating the company's and group's assets. The Nancy Burdine Maxine oil fields have commercial reserves and are currently in production. The assets have been assessed for impairment and appropriate provisions have been made.

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

11 Goodwill

GROUP	Goodwill on consolidation of subsidiaries £'000
Cost	
At 1 January 2012	2,341
Foreign exchange translation adjustment	(32)
Expenditure	573
At 1 January 2013	2,882
Adjustment to goodwill	(556)
At 31 December 2013	2,326
Impairment	
At 1 January 2012	150
Charge for the period	728
At 1 January 2013	878
Charge for the period	526
At 31 December 2013	1,404
Net book value	
At 31 December 2013	922
At 31 December 2012	2,004

The carrying value of goodwill represents the acquisition of Inversiones Petroleras de Colombia SA. Between November 2012 and January 2013, this subsidiary entered into agreements to acquire the 41.95% interest in the Nancy-Burdine-Maxine oil fields not previously held which, when added to the Group's existing 59.05% interest in these assets, gives the Group 100% control over these operations. Under these agreements, the group is entitled to 100% of the net income from these fields with effect from January 2012. Accordingly, the goodwill cost of acquiring the remaining interests in these fields is fully reflected in these Financial Statements.

12 Intangible assets held for sale

	2013		2012	
	Group £'000	Company £'000	Group £'000	Company £'000
Intangible assets:				
exploration and evaluation costs	–	–	2,476	–

The assets and liabilities related to Plectrum Petroleum Limited were presented as held for sale following the completion of the sale of this company on 30 April 2013.

15 Notes to the Financial Statements

for the year ended 31 December 2013

13 Investments

COMPANY	Loans to group undertaking £'000	Shares in group undertaking £'000	Total £'000
Cost			
At 1 January 2012	5,743	7,139	12,882
Expenditure	(205)	–	(205)
Exchange rate adjustment	30	–	30
At 1 January 2013	5,568	7,139	12,707
Expenditure	379	–	379
Disposals	(2,560)	–	(2,560)
Exchange rate adjustment	–	–	–
At 31 December 2013	3,387	7,139	10,526
Impairment			
At 1 January 2012	1,928	2,727	4,655
Charge for the year	1,164	2,672	3,836
At 1 January 2013	3,092	5,399	8,491
Charge for the period	295	632	927
At 31 December 2013	3,387	6,031	9,418
Carrying value			
At 31 December 2013	–	1,108	1,108
At 31 December 2012	2,476	1,740	4,216

In August 2008, the Group acquired the whole of the issued share capital of Inversiones Petroleras de Colombia SA, incorporated in Colombia, which now holds an effective 100% interest in the Nancy-Burdine-Maxine oil fields.

The company has made provision on the the investment in Gold Oil Peru S.A.C. of £6,016,000 (2012: £5,636,000) to reflect the underlying impairment of exploration and evaluation assets in the subsidiary.

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

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

All shareholdings are in ordinary, voting shares.

15 Notes to the Financial Statements

for the year ended 31 December 2013

13 Investments continued

The results of subsidiaries is as follows:

	2013 £'000	2012 £'000
Gold Oil Plc Sucursal Colombia		
Aggregate capital and reserves	1,529	4,311
Profit for the year	(3,114)	(220)
Gold Oil Peru S.A.C		
Aggregate capital and reserves	(677)	407
Profit/(Loss) for the year	(780)	(343)
Gold Oil Caribbean Limited		
Aggregate capital and reserves	1,287	2,535
Profit for the year	(741)	–
Ayooopco Ltd		
Aggregate capital and reserves	–	12
(Loss) for the year	(12)	–
Red River Capital Advisors SA		
Aggregate capital and reserves	–	–
(Loss) for the year	–	–
Union Temporal II & B (i)		
Aggregate capital and reserves	(2,040)	1,340
Profit for the year	(2,259)	(676)
Nexus Energy Corporation		
Aggregate capital and reserves	–	–
Profit/(loss)for the year	–	–
Inversiones Petroleras de Colombia SA (ii)		
Aggregate capital and reserves	267	207
Profit/(loss)for the year	199	(174)
Plectrum Petroleum Limited (iii)		
Aggregate capital and reserves	–	9,944
Profit for the year	–	–
Invepetrol Limited		
Aggregate capital and reserves	–	–
Profit for the year	–	–

(i) The Union Temporal II & B ("UT") is a joint venture operating in the Nancy-Burdine-Maxine fields in southern Colombia. Since December 2012, the UT has been under the 100% control of Inversiones Petroleras de Colombia SA.

(ii) Held by Nexus Energy Corporation.

(iii) Disposed of during the year.

14 Inventories

	2013		2012	
	Group £'000	Company £'000	Group £'000	Company £'000
Exploration materials and consumables	78	–	67	18
Crude oil	157	–	46	–
	235	–	113	18

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

15 Trade and other receivables

	2013		2012	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	685	–	1,078	246
Other receivables	1,494	33	1,322	305
Amounts owed by subsidiary and associate undertakings	–	1,567	–	255
Prepayments and accrued income	32	6	23	6
	2,211	1,606	2,423	812

16 Cash and cash equivalents

	2013		2012	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank current accounts	26	21	41	36
Bank deposit accounts	4,328	2,480	3,143	2,492
	4,354	2,501	3,184	2,528

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 2013, bank deposits included £2,276,083 (2012: £2,233,760) that is being held as a guarantee in respect of a letter of credit and is not available for use until the Group fulfills certain licence commitments in Peru and Colombia. This is not considered to be liquid cash and has therefore been excluded from the cash flow statement.

17 Trade and other payables

	2013		2012	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts	12	–	–	–
Trade payables	1,881	54	2,637	758
Other payables	666	338	1,616	76
Amounts owed by subsidiary and associate undertakings	–	235	–	2,809
Accruals and deferred income	678	31	132	113
Provisions	53	–	53	36
Taxation	769	80	238	47
	4,059	738	4,676	3,839

18 Share capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
Equity: 1,169,513,025 (2012: 891,513,025) ordinary shares of £0.00025 each	292	223

During the year, the Company issued 278,000,000 ordinary shares at a price of 0.75p each.

15 Notes to the Financial Statements

for the year ended 31 December 2013

19 Share premium and reserves

GROUP	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	25,323	–	1,292	(17,382)
Loss for the year	–	–	–	(3,565)
Foreign exchange translation adjustments	–	–	197	–
Premium on share issues	2,016	–	–	–
Costs of issuing shares	(35)	–	–	–
Share based payments	–	205	–	–
	27,304	205	1,489	(20,947)

COMPANY	Share premium account £'000	Share option reserve £'000	Foreign exchange translation reserve £'000	Profit and loss account £'000
At beginning of the year	25,323	–	214	(18,878)
Loss for the year	–	–	–	(4,272)
Foreign exchange translation adjustments	–	–	(278)	–
Premium on share issues	2,016	–	–	–
Costs of issuing shares	(35)	–	–	–
Shares to be issued	–	205	–	–
	27,304	205	(64)	(23,150)

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

Issue date	Final exercise date	Exercise price	1 January 2013 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2013 Number
17 February 2010	17 February 2013	£0.04	4,000,000	–	–	4,000,000	–
26 October 2011	26 October 2014	£0.055	4,000,000	–	–	–	4,000,000
27 January 2013	27 January 2016	£0.0075	–	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
			8,000,000	36,240,431	–	4,000,000	40,240,431

Details of options issued, exercised and lapsed during the year together with options outstanding at 31 December 2012 are as follows:

Issue date	Final exercise date	Exercise price	1 January 2012 Number	New issue Number	Exercised Number	Lapsed Number	31 December 2012 Number
1 May 2009	30 April 2012	£0.04	2,500,000	–	–	2,500,000	–
17 February 2010	17 February 2013	£0.04	7,000,000	–	–	3,000,000	4,000,000
26 October 2012	26 October 2014	£0.06	32,000,000	–	–	28,000,000	4,000,000
			41,500,000	–	–	33,500,000	8,000,000

15 Notes to the Financial Statements

for the year ended 31 December 2013

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	27 June 2013	27 June 2013	27 January 2013	26 October 2011
Number of warrants granted	2,990,431	11,250,000	22,000,000	4,000,000
Share price at grant date	1.45p	1.45p	1.80p	2.74p
Exercise price at grant date	1.67p	1.6p	0.75p	5.5p
Option life	3 years	3 years	3 years	3 years
Risk free rate	0.85%	0.85%	0.59%	0.85%
Expected volatility	80%	80%	80%	80%
Expected dividend yield	0%	0%	0%	0%
Fair value of option	0.36p	0.36p	0.75p	0.48p

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

Options in respect of 36,240,431 ordinary shares were issued in 2013, and can be exercised at any time during the option period. All options are settled in equity. A share based payment charge of £205,000 (2012: nil) arose in relation to options in existence at 31 December 2013.

21 Directors' emoluments

	2013 £'000	2012 £'000
Directors' remuneration	171	438
Directors' fees	86	35
Share based payments	205	–
Compensation for loss of office	–	16
	462	489

Directors' remuneration for the year ended 31 December 2012 includes a salary paid to Ian Reid, a director until 29 June 2012, which was paid via the consultancy agreement referred to in note 27 below.

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

	2013 £'000	2012 £'000
Remuneration	171	128
Share based payments	205	–
	376	128

15 Notes to the Financial Statements

for the year ended 31 December 2013

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 receive regular updates from the Executive Directors through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

15 Notes to the Financial Statements

for the year ended 31 December 2013

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 2013 the ageing analysis of trade receivables is as follows:

	Total £'000	Neither past due nor impaired £'000
31 December 2013	688	688
31 December 2012	1,078	1,078

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 2013	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	200	14	214
US dollar (USD)	2,194	1,297	3,491
Euro (EUR)	–	–	–
Colombian pesos (COP)	453	1,164	1,617
Peruvian Nuevo Sol (PEN)	264	979	1,243
	3,111	3,454	6,565

15 Notes to the Financial Statements

for the year ended 31 December 2013

22 Financial instruments *continued*

Interest rates on financial assets and liabilities *continued*

31 December 2012

	Financial assets on which interest earned £'000	Financial assets on which interest not earned £'000	Total £'000
UK sterling	1	39	40
US dollar (USD)	2,272	–	2,272
Euro (EUR)	–	11	11
Colombian pesos (COP)	350	1,011	1,361
Peruvian Nuevo Sol (PEN)	545	1,378	1,923
	3,168	2,439	5,607

The Group earned interest on its interest bearing financial assets at rates between 0.1% and 5% (2012: 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 2012 was prepared under the same assumptions.

	Change of 1.0% in the interest rate as of			
	31 December 2013		31 December 2012	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Instruments bearing variable interest (£'000)	31	(31)	32	(11)

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

Foreign exchange risk

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

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

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

Foreign currency units to £1 UK Sterling (rounded)	USD	EUR	COP	PEN
Average for year ended 31 December 2013	1.57	1.18	2,934	4.17
At 31 December 2013	1.65	1.20	3,175	4.55
Average for year ended 31 December 2012	1.59	1.23	2,853	4.13
At 31 December 2012	1.62	1.23	2,851	4.12

15 Notes to the Financial Statements

for the year ended 31 December 2013

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. The Group's oil and gas sales revenue in 2013 have been affected by the decrease in crude oil price during this period.

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

It is considered that price risk of the Group at the reporting date has not increased compared to the previous period end given the Group's increase in hydrocarbon production levels in percentage terms and the volatility in oil and gas prices seen during 2013 which has continued in to 2014.

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 2013	Average price 31 December 2012	31 December 2011
Per barrel – US\$	102	116	102
Per barrel – £	65	73	64

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

Capital risk

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

Market risk

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

15 Notes to the Financial Statements

for the year ended 31 December 2013

23 Capital commitments

As of 31 December 2013, there were no capital commitments.

24 Contingent liabilities

The Group and the Company have given guarantees of \$3,760,000 (31 December 2012: \$3,760,000) to Perupetro SA to fulfil licence commitments for Block XXI and Z34. The Company has made provision in respect of decommissioning costs of producing fields and there is the possibility of decommissioning costs in respect of abandoned field which have yet to be quantified (if any) by the operator. Other than that, the Company does not consider that there are any further contingent liabilities in this regard.

25 Events after the reporting period

On 14 April 2014, the company announced the sale of 50% of its interest in the Nancy-Burdine-Maxine fields in Colombia for US\$2,000,000.

26 Ultimate controlling party

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

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 2013		Year ended 31 December 2012	
	Balance £'000	Loan advance/ repayment less impairment £'000	Balance £'000	Loan advance £'000
Gold Oil Peru S.A.C.*	–	379	–	(1,285)

*The company has provided for an impairment of £3,277,000 (2012: £3,007,000) on the outstanding loans.

Group and Company

During the year ended 31 December 2012, the Company was provided with services by Australian Drilling Associates Pty Ltd (ADA) and Sheer Energy Pty Ltd (Sheer). Such transactions are carried out on an arm's length basis. The companies are owned and controlled by John Bell who was Chairman of Gold Oil Plc until 29 June 2012.

The total amount of services provided by these companies in the period ended 31 December 2013 was nil (2012: £240,682). The balance owing at the end of the year was nil (2012: £734).

During the year ended 31 December 2012 the Company was provided with services by Terra Firma Technology Pty Ltd (TFT). Such transactions were carried out on an arm's length basis. The company is owned and controlled by Ian Reid who was also a Director of Gold Oil Plc until 29 June 2012.

The total amount of services provided by this company in the year ended 31 December 2013 was nil (2012: £237,959). The balance owing at the end of the year was £58,790 (2012: £58,790); the outstanding balance continues to be subject to dispute by the company. The services provided consisted of Geotechnical services.

