

## **Baron Oil Plc**

("Baron Oil", "Baron" or the "Company")

### **Corporate Governance**

*Statement of Compliance with the QCA Corporate Governance Code*

*Last updated: 26 September 2018*

Baron Oil is an independent early stage oil & gas exploration company headquartered in London, UK. The Company currently owns exploration acreage in the UK and Peru and its shares are listed in the UK on the AIM market of the London Stock Exchange (TIDM: BOIL).

Under AIM Notice 50, from 28 September 2018 onwards, AIM companies are required to disclose details of the recognised Corporate Governance Code it has decided to follow. In preparation for that, a board meeting of the Directors of Baron Oil Plc ("Baron" or "the Company") was held on 13 June 2018 at which it was unanimously agreed to adopt the principles-based Quoted Companies Alliance ("QCA") Corporate Governance Code. In this Statement of Compliance, we have set out in broad terms how we comply and, as required, will provide annual updates.

Corporate governance broadly refers to the mechanisms, relations and processes by which a corporation is controlled and directed. It is the Board's job to ensure that the Company is managed for the long-term benefit of all stakeholders, whether they be Directors/employees, shareholders, customers, suppliers or the community at large.

The Board recognizes the importance of sound corporate governance. We have adopted the QCA Code as we believe it to be the most appropriate for a company of our size, stage of development and nature. Where policies differ from the norm we have made use of the "Comply or Explain" maxim in a manner that enables shareholders to evaluate how the principles have been applied, rather than simply identifying areas of non-compliance.

Malcolm Butler  
Chairman and Chief Executive Officer  
26 September 2018

### **QCA Corporate Governance Principles**

#### **Principle One**

*Establish a strategy and business model which promote  
long-term value for shareholders*

The Company's objective is to deliver shareholder value by generating substantial increases in net asset value through the discovery of commercial quantities of hydrocarbons, while mitigating both risks and costs whenever possible by taking minority interests in ventures in established hydrocarbon-bearing areas.

The Directors strive to achieve this primary objective by allocating cash resources to less expensive, near-term drilling prospects in areas where discoveries can be easily and profitably developed.

In the UK, each of the Wick and Colter prospects offers an excellent opportunity to drill relatively low-risk wells with significant potential, as well as providing the possibility of early, low-cost development. Success in either of these wells would provide shareholders with a meaningful uplift in the asset value of the Company.

In Peru, where the Company has a 100% interest in onshore Block XXI, the contract has been retained pending the outcome of farmout negotiations. However, the Directors have declared that, in line with the stated objectives, they are unwilling to drill the El Barco well on a 100% basis, based on the estimates of cost, risk and potential resources.

Whilst the Board continues to scope and assess other opportunities to add to the portfolio, the priority over the coming months is to push ahead alongside our partners with the Wick and Colter wells for each of which our share of the drilling programme is fully funded.

As a non-operator of early stage oil & gas assets, it is expedient to run Baron as a virtual company. The Company has only two direct employees, both of whom are Directors, and a single Non-Executive Director. The Board believes that it has the requisite skills and experience to direct and control operations with all other functions being outsourced.

### **Principle Two**

*Seek to understand and meet shareholder needs and expectations*

The Company remains committed to listening and communicating openly with its shareholders. It is through this iterative process that we set about a re-focusing of our strategy towards near-term drilling activities. This communication is achieved through company presentations, timely and considered news flow, one on one meetings & correspondence, investor roadshows, attending and speaking at investor conferences and is supported by our regulatory reporting calendar.

The Annual General Meeting is the main open forum for dialogue between shareholders and the Board and all shareholders are encouraged to attend. All Directors are expected to attend and make themselves available to answer questions raised by shareholders. As part of the regulatory process, the results of the AGM are subsequently published on the Company's corporate website (<http://www.baronoilplc.com/>).

Shareholder relations are managed primarily by the Chairman and Chief Executive Officer. The Independent Non-Executive Director is available to meet with major shareholders at their request. All communications are subject to legal and regulatory requirements including the Market Abuse Regulation ("MAR").

### **Principle Three**

*Take into account wider stakeholder and social responsibilities and their implications for long-term success*

Engaging with stakeholders strengthens the Company's relationships and enables the Board to make better business decisions to deliver on its commitments. The Board recognizes that this is fundamental to ensuring sustainability and delivering long-term value to shareholders.

As an oil & gas exploration company, Baron Oil has a particular responsibility to ensure safe and sustainable operations, which minimise any adverse environmental and social impacts, and achieve the highest standards of health and safety.

Baron has adopted its own Health, Safety and Environment (HSE) Plan which is designed to achieve safe and reliable conduct of operations and activities, to avoid significant and unintended impact on the safety and health of people, on property, and on the environment, and to comply with laws and regulations relating to HSE. The goal is to ensure that Baron's joint venture partners and third-party companies that operate on Baron's behalf also plan, design and conduct joint operations and operate joint property consistent with the HSE Plan and with the laws and regulations relating to HSE while behaving in a manner consistent with standards and procedures generally followed in the international petroleum industry.

The Company is committed to safeguarding the environment and minimising risk to its employees, contractors and the communities in which it operates. Through developing sustainable long-term relationships with its partners and the community, Baron aims to conduct business and enhance value in a responsible manner. Both the Company and its employees will try to be recognised by regulatory agencies, environmental groups and governments in each jurisdiction where its business is conducted for its efforts to safeguard the environment.

The Board believes in its responsibility to act as a good corporate citizen to improve the quality of life in the communities in which it operates and seeks to contribute towards local cultural and educational organisations. By way of example, in Peru, after the devastating floods in 2017, Baron Oil provided financial assistance to help rebuild schools and local infrastructure. The local community is vital to ensuring Baron's longevity and success and as such, community members are treated with the utmost respect.

#### **Principle Four**

*Embed effective risk management, considering both opportunities and threats, throughout the organisation*

Exploration for hydrocarbons is speculative and involves significant degrees of risk. The Board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and ongoing review of business risks. The process of internal control is not to eliminate risk, but to manage the risk to reasonably minimise losses.

The optimisation of capital resources, combined with careful cost management, allows us to achieve the appropriate balance between short and long-term goals.

The Company is currently preparing a Risk Assessment Register (RAR) which it intends to make available to shareholders via the corporate website in due course. In addition, a number of these risks are discussed within the Strategic Report in the Company's latest Annual Report & Accounts along with the potential impact on the Company and the action that the Board needs to take to minimise these risks (<http://www.baronoilplc.com/Report&Accounts.php>).

The proposed RAR, which is wider in its scope, so far considers the Company's principal risks - business, financial and operational – to be the following:

- Exploration risk
- Drilling risk
- Cost overruns and delays
- Business disruption due to government, regulatory, community and protest group influences
- Failure to meet immediate and future commitments and loss of oil & gas rights
- Requirement for a Farm-In Partner in Peru - Block XXI
- Reliance on key individuals
- Reliance on Third Parties and ability to control underlying assets
- Maintenance of adequate insurance
- Oil and gas market conditions
- Currency exchange rate fluctuations
- Successful management of fiscal regimes and free movement of cash
- Breach of business or ethical conduct standards

The Company adheres to its financial position and prospects procedures memorandum (FPPP), which sets out a framework of internal financial controls, the effectiveness of which is reviewed by the executive management, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company. All material contracts and expenditures are approved by the Board. Monthly results and variances from plans and forecasts are reported to the Board alongside forecasts for the current financial year and the following year.

The Audit Committee assists the Board in discharging its duties regarding financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls.

In addition, directors are covered by relevant directors' and officers' liability insurance and all drilling operations are appropriately insured.

Baron Oil's Corporate Governance Code includes guidance on matters such as business integrity and includes a separate policy relating to anti-bribery and corruption issues.

## **Principle Five**

*Maintaining the Board as a well-functioning,  
balanced team led by the Chair*

The Board is currently comprised of three Directors. Malcolm Butler, who combines the roles of Chairman and Chief Executive Officer (CEO), Geoff Barnes as Finance Director and Company Secretary and Andrew Yeo who is an Independent Non-Executive Director. Bill Colvin, previously Chairman, resigned from the Board in February 2018.

Given the change of direction and refocusing of operations in the current year and the binary nature of exploration drilling, the Board decided that it made sense both strategically and financially to combine the roles of Chairman and CEO until the outcome of the current drilling programme becomes clear.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. Together, the Board combines a broad range of business, commercial and other relevant experience.

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

The Board delegates certain decisions to an Audit Committee and Remuneration Committee. Details of these committees can be found under Principle Nine below and in the Company's latest Annual Report (<http://www.baronoilplc.com/Report&Accounts.php>).

Last year (2017), twelve Board meetings took place.

## **Principle Six**

*Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities*

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience required at this stage of its development, which includes managerial, technical, financial and City expertise. An overview of the Directors' CV's is included below.

Malcolm Butler, aged 70, has extensive operational and financial experience having worked for over 45 years as an explorationist and senior executive in the international oil & gas industry, having also taken on a secondary role as an investment banker. He was responsible, as CEO, for the IPO of Industrial Scotland Energy and Brabant Resources and later became CEO of Houston-based Energy Development Corporation until its circa \$800 million sale to Noble Energy. In 1998, Malcolm joined HSBC Investment Bank as Advisory Director responsible for oil & gas mandates in the UK, Libya, Russia, Indonesia and China, and following that acted as senior adviser on energy-related matters to Seymour Pierce Limited from 2003 to 2013. Malcolm holds a BSc in Geology from Aberystwyth and a PhD in Geology from Bristol. He has been awarded the Aberconway Medal of The Geological Society of London, in recognition of his contributions to the oil & gas industry and in 1995 he was appointed an Honorary Professor at the University of Aberystwyth.

Geoff Barnes, aged 65, qualified as a Chartered Accountant in 1976 having trained with one of the major international accounting practices. After a number of years in professional practice, he held several senior finance positions in commerce and industry in the engineering and media sectors, including ten years at Board level, before returning to form Langley Associates, a professional accounting practice in South East England.

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

The Director's service contracts and consultancy agreements are available for inspection at the Company's registered office and at the Annual General Meeting ("AGM").

If required, the Board has access to a range of external professional advisers, including but not limited to, accountants, lawyers, technical consultants and a nominated adviser, as required under the AIM Rules.

### **Principle Seven**

*Evaluate board performance based on clear and relevant objectives, seeking continuous improvement*

At this stage in the Company's development, the key performance indicators (KPIs) that are monitored on a regular basis relate to the management of liquid resources, that is cashflows and bank balances, and also general administrative expenses, which are tightly controlled.

Specific exploration-related KPI's that will be relevant in the future include the following for the Company's exploration and appraisal prospects.

- Probability of geological success (Pg);
- Probability of commerciality or completion (Pc) and;
- Probability of economic success (Pe).

The following table summarises the key changes in the two KPI's during the last financial year

- |                           |              |              |        |
|---------------------------|--------------|--------------|--------|
| • Liquid cash reserves    | 2017 £3.873m | 2016 £2.158m | +79.5% |
| • Administrative expenses | 2017 £0.510m | 2016 £0.700m | -27.1% |

It is the role of the Chairman, in consultation with the Non-Executive Director, to assess the individual contributions of each of the members of the team to ensure that their respective contributions are relevant and effective; that they are committed; and where relevant, they have maintained their independence.

### **Principle Eight**

*Promote a culture that is based on ethical values and behaviours*

The Board recognises that a corporate culture based on sound ethical values and behaviours is an asset. The Company operates in international markets and is careful to ensure it operates in conformity with its listing regulations as well as the social, legal, religious and cultural requirements of the countries in which it operates. Through developing sustainable long-term

relationships with its partners and the community, Baron aims to conduct business and enhance value in a responsible manner.

The Company aspires to achieve the highest standards of HSE performance as we wish to earn the confidence of those we work with and to be a good corporate citizen. To achieve the high standards of health, safety and environmental protection to which the Board is committed, it will:

- Actively protect the environment in its areas of operation by preventing pollution, making efficient use of energy and natural resources, reducing emissions and avoiding waste
- Comply with all applicable laws, rules and regulations
- Ensure that all contractors and employees understand their HSE responsibilities, are trained and have the appropriate resources to meet them
- Identify, assess and effectively manage risks and re-evaluate those risks following significant changes to operations, facilities or personnel
- Ensure appropriate preparation and handling of emergencies
- Ensure that responsibility for health, safety and environmental matters is a condition of employment for all of the Company's personnel, contractors and consultants.

The Board is committed to conduct all its business in an honest and ethical manner. The Directors take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all the Company's business dealings and relationships, wherever it operates, and to implementing and enforcing effective systems to counter bribery and corruption. Baron Oil upholds all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates. In particular, it adheres to the laws of England & Wales, including the Bribery Act 2010, in respect of conduct in all jurisdictions in which it operates

Due to the current size of the Company, the Board does not feel it necessary to formally adopt a whistle-blowers policy. Instead, the directors are encouraged to raise such matters with the Board and non-directors should, in the first instance, approach the Chairman.

The Company seeks to keep employees, contractors and consultants informed and involved in the operations and progress of the business.

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.

## **Principle Nine**

*Maintain governance structures and processes that are fit for purpose  
and support good decision-making by the board*

We believe the board is adequately staffed and skilled for the current role that is expected of it. As the Company expands, further additions to the team will be made as appropriate.

The Board is responsible for the long-term success of the Company and there is a formal schedule of matters reserved to the Board.

The roles of the Board are as follows

- The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction.
- The CEO is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company.
- The Finance Director is responsible for monitoring and reporting on the Company's financial health. This includes managing the accounting and financial control functions and the establishment of a financial strategy for the profitable long-term growth of the business.
- The role of the Company Secretary is to ensure that the Company complies with relevant legislation and regulations.
- The Non-Executive Director role (NED) is to provide a creative contribution to the Board by providing independent oversight and constructive challenge to the Executive Directors.

As part of the workings of the Board, a number of oversight committees are in place to ensure control over certain financial and non-financial matters.

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

The Remuneration Committee is comprised of three Directors with Andrew Yeo as chairman; Malcolm Butler and Geoff Barnes are the other members. The Remuneration Committee determines the contract terms, remuneration and other benefits of the Directors and senior employees. The Remuneration Committee meets as required, but at least twice a year.

Due to the small size of the Company, it is not considered necessary to have a separate Nominations Committee at this time. Instead this role is fulfilled by the Board as a whole. The Board also reserves to itself the process by which a new Director is appointed.

Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties.

Baron Oil is committed to strict policies governing when Directors or employees wish to deal in the shares of the Company, including the procedures to be followed. These policies also govern the prevention of dissemination of inside information about the Company's activities.

Unless otherwise determined by ordinary resolution of the Company, the number of Directors shall not be less than two but shall not be subject to any maximum number; no shareholding qualification for Directors shall be required. At the time of publication of this document, Malcolm Butler owned 1,000,000 ordinary shares and held 20,000,000 ordinary shares under option; Geoff Barnes owned 1,379,310 ordinary shares and held 10,500,000 ordinary shares under option; and Bill Colvin, former Chairman, held 10,500,000 ordinary shares under option. In total, there are 41,000,000 ordinary shares under option which represents 2.89% of the fully diluted share capital of the Company.

The business of the Company shall be managed by the Board which may exercise all powers of the Company. The Board may delegate any of its powers, authorities and discretions to any committee consisting of such person or persons as it thinks fit provided that the majority of the members of the committee are Directors.

At every annual general meeting, one-third of the Directors, or if their number is not three or a multiple of three, the number nearest to but not exceeding one-third (unless there are fewer than three Directors, in which case one of those Directors) shall retire. The Directors to retire by rotation on each occasion (both as to number and identity) shall be determined by the composition of the Board at the start of business on the date of the notice convening the annual general meeting and shall comprise: first, any Director who wishes to retire and not to offer himself for re-election; and secondly, those who have been longest in office since their last appointment or reappointment.

The Board may appoint a person who is willing to act to be a Director, whether to fill a vacancy or as an addition to the existing Board, but so that the total number of Directors shall not at any time exceed any maximum number fixed by or in accordance with the Company's Articles. Any Director so appointed shall hold office only until the next following annual general meeting and shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the meeting. If not reappointed at such annual general meeting, he shall vacate office at the conclusion of the meeting. No person shall be disqualified from being appointed a Director, and no Director shall be required to vacate his office, by reason only of the fact that he has attained the age of seventy years or any other age.

Questions arising at a Board meeting shall be decided by a majority of votes. In the case of an equality of votes, the Chairman shall have a second or casting vote; and the quorum necessary for the transaction of the business of the Board may be fixed by the Board and unless so fixed at any other number shall be two. A meeting of the Board at which a quorum is present shall be competent to exercise all powers, authorities and discretions for the time being vested in or exercisable by the Board. The Company Secretary shall be appointed by the Board.

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

### **Principle Ten**

*Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders*

The Company communicates with shareholders through the normal regulatory channels such as the Annual Report and Accounts, full-year and half-year announcements and the Annual General Meeting (AGM). In addition, Baron also conducts company presentations, undertakes one on one meetings and correspondence, investor roadshows and attends and speaks at investor conferences.

All Company announcements are released without delay via a regulatory information service (RIS) and the Board ensures that announcements are written in a clear and informative manner.

A range of corporate information (including all Company announcements and presentations) is also available to shareholders, investors and the public on the Company's corporate website (<http://www.baronoilplc.com/>).

## Specifically relating to the Statement of Compliance

- Articles of Association
- Health, Safety and Environment Plan and Policy
- Anti-Bribery and Corruption Policy
- AIM Rule 26 Regulatory Information
- Board of Directors
- Advisors
- Shareholders
- Dealing Code & Company Wide Dealing Policy
- Regulatory and Press Releases
- Report & Accounts