

## **Baron Oil Plc**

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

### **Corporate Governance**

*Statement of Compliance with the QCA Corporate Governance Code*

*Last updated: 14 January 2020*

Baron Oil is an early stage oil & gas exploration company headquartered in London, UK. Its shares are quoted on the Alternative Investment Market ("AIM") of the London Stock Exchange (TIDM: BOIL).

The Company currently owns exploration acreage in the UK and Peru and is entitled to be issued a 33.3% shareholding in SundaGas (Timor-Leste Sahul) Pte.Ltd, a wholly-owned subsidiary of SundaGas Pte.Ltd, which has been awarded the Timor-Leste offshore Chuditch Petroleum Sharing Contract (the "Chuditch PSC").

Under AIM Notice 50, AIM companies are required to disclose details of the recognised Corporate Governance Code it has decided to follow. At a Baron board meeting on 13 June 2018, the Directors 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 recognises 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  
Executive Chairman  
14 January 2020

### **QCA Corporate Governance Principles**

#### **Principle One**

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

The Company's overall objective remains that of delivering shareholder value by generating substantial increases in net asset value through the discovery of commercial quantities of hydrocarbons.

Previously, we have looked to mitigate risks and costs whenever possible by taking minority interests in ventures in established hydrocarbon-bearing areas and allocating cash resources to less expensive, near-term drilling prospects in areas where discoveries can be easily and profitably developed.

Despite our capital constraints, and as a result of the management changes in 2019, we have also been investigating ways of attracting institutional shareholder support for the Company in order to develop a material diversified oil & gas business by getting involved in other international opportunities, targeting larger interests in assets with high potential impact.

As we move into 2020, we believe that we have assembled a strong portfolio of assets for the future, which range from an early stage drilling opportunity in Peru through to exploration and development potential in the UK and a significant Interest in Timor-Leste in terms of resources, ownership and potential value.

As a non-operator of early stage oil & gas assets, it is expedient to run Baron as a virtual company. The Company has only three direct employees, two 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 changed the direction of our strategy during 2018 and 2019. This communication is achieved through company presentations, timely and considered news flow, one on one meetings and correspondence, investor roadshows, attending and speaking at investor conferences and is supported by our regulatory reporting calendar.

The Annual General Meeting ("AGM") 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 Managing Director. 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 recognises 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, in a way that minimises any adverse environmental and social impacts and achieves 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 Baron's 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. For example, after the devastating floods of 2017 in Peru, Baron provided financial assistance to help rebuild schools and local infrastructure. The local community is vital to ensuring Baron's longevity and success and 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 highly 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 ongoing review of business risks and implementation of appropriate internal controls. While risks cannot be eliminated entirely, internal controls are implemented so as 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.

As we move into 2020, the Company is currently reviewing its principal risks. A number of these risks are discussed within the Strategic Report in the Company's Annual Report & Accounts along with the potential impact on the Company and the action that the Board needs to take in order to minimise these risks to an acceptable level.

(<https://www.baronoilplc.com/investors/reports-presentations/>).

At present, the Company considers its principal risks - business, financial and operational – to be the following:

- Management of liquid resources and cash flow
- Exploration and drilling risk
- Cost overruns and delays
- Oil & gas market conditions
- Management of performance guarantees
- Failure to meet future commitments which may lead to loss of oil & gas rights
- Business disruption due to government, regulatory, community and NGO influences
- Reliance on third parties and ability to control underlying assets
- Reliance on key individuals
- Maintenance of adequate insurance
- 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 (FPPPM), 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, together with 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 the relevant Directors' and Officers' liability insurance and all drilling operations are appropriately insured.

Baron Oil's company policies include guidance on matters such as business integrity and include 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*

In March 2019 Malcolm Butler stepped away from his combined role as Chairman and CEO, to become Executive Chairman and Andrew (Andy) Yeo, who was appointed as a non-executive Director of the Company in 2018, agreed to take on the executive role of Managing Director. Jonathan (Jon) Ford, a senior and highly experienced exploration manager, joined the board as the Independent Non-Executive Director. Geoffrey Barnes, previously the Company's Finance

Director, resigned from the Board in 2019 but continues to be employed part-time as Financial Controller and Company Secretary. The Board is therefore currently comprised of three Directors. These management changes brought additional City and technical expertise, thereby increasing Baron's execution capacity and broadening deal access.

The Directors are not obliged to commit the whole of their time to the Company's business and are entitled to hold other Directorships as well as being able to enter consultancy arrangements. They are, however, required to devote such proportion of their time, attention and abilities during normal business hours as may be reasonable and necessary for the proper performance of their duties as Directors and to ensure that they continue to discharge such duties in a timely manner. They are required to inform the Company of any proposed arrangements for work outside the Company prior to taking such positions. At the date of this Statement, each of the Directors has other private interests and duties.

The Board is satisfied that it has a suitable balance between independence on the one hand and knowledge of the Company and industry 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 Annual Report & Accounts (<http://www.baronoilplc.com/Report&Accounts.php>).

During the year ended 31 December 2019, twelve Board meetings took place. The table below shows the attendance record of each meeting:

Number of Board meetings held in 2019	Number of meetings attended by each Director			
	Malcolm Butler	Andy Yeo	Jon Ford*	Geoff Barnes*
12	12	12	10	2

\*In March 2019, Jon Ford was appointed as a Non-Executive Director and Geoff Barnes resigned from the Board as Finance Director but has continued as Financial Controller and Company Secretary

## 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 the 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.

**Dr Malcolm Butler (aged 71), Executive Chairman**

Has extensive operational and financial experience having worked for over 45 years as an explorationist and senior executive in the international oil and gas industry. During this period, he also took on a secondary role as a senior investment banker for 15 years. He was responsible, as CEO, for the IPO of Industrial Scotland Energy in 1984 and Brabant Resources in 1990 and later became CEO of Houston-based Energy Development Corporation until its \$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 is a Fellow of the Geological Society and was awarded its Aberconway Medal in 1994, in recognition of his contributions to the oil and gas industry. He is also a Full Member of the American Association of Petroleum Geologists. In 1995 he was appointed an Honorary Professor at the Aberystwyth University. He has been Chairman of the UK Onshore Geophysical Library, a registered charity, since its establishment in 1994 and is co-Director of the Oxford University based “Beneath Britain” research group.

Malcolm is a member of the Remuneration Committee and Chairman of the Audit Committee

**Andy Yeo (aged 56), Managing Director**

Has significant expertise in the oil and gas sector, having had a variety of roles including private equity and operational and financial experience in exploration and production activities as CFO of Wessex Exploration PLC. In addition, he brings 20 years’ experience in multi-discipline corporate advisory services, having worked for UBS and ABN AMRO Hoare Govett before becoming a founder member of Evolution Securities, where he was a board member and executive Director.

Andy is a member of the Remuneration Committee

**Jon Ford (aged 60), Independent Non-Executive Director**

Has more than 35 years’ experience in the upstream oil and gas industry in a variety of roles in petroleum geoscience and senior management. Following an initial 10 years with BP in the UK, the Netherlands, Italy and Indonesia, Jon has worked worldwide in the junior sector as a senior technical manager for listed oil companies including Clyde Petroleum, Paladin Resources and Stratic Energy, and advised multiple clients as a consultant. Jon has a BSc in Geology & Geophysics from Durham University, is a Fellow of the Geological Society and a Member of the European Association of Geoscientists and Engineers.

Jon is Chairman of the Remuneration Committee and a member of the Audit Committee

The Directors’ service contracts, appointment letters and consultancy arrangements are available for inspection at the Company’s registered office and at the AGM.

Each member of the Board is committed to spending sufficient time on Continuing Professional Development (CPD) activities. CPD is important because it delivers benefits to the individual, their profession and, last but not least, the Company they represent.

In a highly technical industry, the Directors are able to keep their skillsets up-to-date through membership of their respective professional bodies which also requires them to maintain ethical standards, attendance at industry conferences and as a result of interaction with the academic and industry groups with which they work. In addition, through their involvement with other listed

and private companies the Directors are exposed to a diversity of opinions and inputs ensuring that the Company can operate with an open not inwards-looking culture. Continuous engagement in the Company's activities including regular operational updates ensures professional competency is maintained.

The Board is kept abreast of developments of Governance and AIM regulation. The Company's lawyers, Kerman & Co, provide updates on corporate & governance matters and the Company's NOMAD – SP Angel Corporate Finance LLP – provides refresher training as well as initial training as part of a new Director's onboarding programme.

The Directors regularly attend and present at trade and technical sessions such as Petex, Prospex, the Oil & Gas Council, Proactive Capital and the 121 Oil & Gas Investment conference. The Company also attends the North American Prospect Expo (NAPE) Summit Conference in Houston. Company representatives are also active participants in the Petroleum Exploration Society of Great Britain (PESGB), the North West Europe Scout Group (NWES) and the Latin America, Caribbean Area Scout Group (LACAS).

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 are relevant for 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).

It is the role of the Chairman, in consultation with the Independent 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 the Board wishes to earn the confidence of those the Company works with and for it 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-blower policy. Instead, the Directors and any employees and consultants are encouraged to raise such matters initially with the Chairman or the non-executive Director, who can then discuss their concerns with the rest of the Board as appropriate.

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

The Company is an equal opportunity employer and seeks to hire, promote and retain highly skilled people based on merit, competence, performance, and business needs. The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation. 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 Executive Chairman is responsible for running the business of the Board, ensuring appropriate strategic focus and direction, and also for overseeing technical aspects of the Company's operations.
- The Managing Director is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing financial management of the Company.
- 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 Malcolm Butler as Chairman and Jon Ford as the other member. The Audit Committee meets at least twice a year and the external auditors can meet with members of the Audit Committee without any other 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 Jon Ford as Chairman; Malcolm Butler and Andy Yeo 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. No Director can vote on matters pertaining to their individual remuneration.

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 26,000,000 ordinary shares and held 30,000,000 ordinary shares under option and Andy Yeo owned 56,250,000 ordinary shares and held 10,000,000 ordinary shares under option. In total, there are 71,000,000 ordinary shares under option which represents 3.5% 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 AGM, 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 AGM 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 subsequent AGM and shall not be considered in determining the Directors or the number of Directors who are to retire by rotation at the meeting. If not reappointed at such AGM, 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 can 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 Financial Statements, full-year and half-year announcements and the 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. RIS announcements provide updates to stakeholders on all material issues related to the Company, including annual and financial reports, annual and general meeting announcements, voting results of the meetings, Board changes, acquisitions, divestments and operational updates.

The Executive Chairman and other executive Directors are responsible for communicating with major shareholders and other shareholders who wish to be part of a dialogue.

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/>), which include the following:

- Articles of Association
- Health, Safety and Environment Plan and Policy
- Anti-Bribery and Corruption Policy
- AIM Rule 26 Regulatory Information
- Information on the Board of Directors
- Directory of Company Advisers
- Information on Major Shareholders
- Dealing Code and Company Wide Dealing Policy
- Regulatory and Press Releases
- Annual Reports and Accounts
- Unaudited Interim Results (under Regulatory News and Alerts)