Bayfield Energy Holdings plc
Annual Report
Two Thousand and Eleven

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2011 Highlights

Financial

- Revenue up 55% to US$ 22 million (2010: US$ 14 million).
- IPO proceeds of US$ 87 million (US$ 80.9 milion net of expenses) in July.
- Cash balances of US$ 59 million at year-end. No debt outstanding.
- Capital expenditure of US$ 41.3 million.

Operational

- Net average production of 779 bopd up by 30% on 2010.
- Production levels below expectation have had an adverse impact on operating cash flow and profitability.
- New purpose-built slant rig mobilised to Trintes field and operational in September to commence development drilling programme of long-reach sidetrack and extended reach wells.
- The Group contracted in April for Rowan Gorilla III jack-up drilling unit to commence work on seven-well drilling programme in 2012.

2012

- Four wells of the Group's seven-well drilling programme (EG8, E7, EG9 and GAL25) to be drilled.
- Exploration right over Pletmos licence area in South Africa executed on 17 April 2012.
- Seeking additional funding.

Finian O'Sullivan
Chairman
25 May 2012

2011 was a landmark year for the Group, with both the operational progress made in Trinidad & Tobago and the admission of the Company's shares to trading on AIM following an Initial Public Offering ("IPO") in July which raised US$87 million (before expenses).

Since the formation of the Group in 2008, it had always been an expectation that capital would be sought in public markets primarily to fund an exploration and appraisal drilling programme in Trinidad. The timing of the fund-raising, coincident with the onset of the Eurozone crisis surrounding Greek indebtedness made the process somewhat challenging. The fact that the Group was successful in raising US$87 million reflected market confidence in the strength of the management team, the quality of the portfolio, and the team's ability to realise value from the underlying assets.

Whilst operational progress has been made, production from the Trintes field has lagged expectations with consequent adverse impact on operating cash flow and profitability. Issues arising from delays in the mobilisation of the rig to Trinidad and in achieving full operational performance resulted in delays to the development drilling programme of more than five months. We believe the operational issues have now been overcome and we expect to see continued production improvement through 2012.

In April 2012 the Group, together with Niko Resources, another operator in Trinidad & Tobago, entered into a contract with Rowan Drilling for the Gorilla III jack-up drilling unit. This allowed for the Group and Niko to meet respective seven-well and three-well exploration and appraisal drilling commitments which represent the most extensive oil exploration drilling programmes in Trinidad for more than thirty years. An indication of the significance of the contracted programmes for Trinidad was the attendance of the Minister of Energy and Energy Affairs at a formal signing ceremony. The ability of the Group to have entered into a drilling contract less than two years after the award to it of an interest in the Galeota licence clearly demonstrated that it had earned its status as an established and respected operator in Trinidad.

An important aspect of the progress we have made in the rehabilitation of the Trintes field and the execution of the exploration and appraisal and drilling programme has been the support of our partner Petrotrin and the Ministry of Energy and Energy Affairs, who have provided continual cooperation as the Group works towards fulfilling its objectives.

Trinidad is at the heart of a long-established hydrocarbon producing region with commercial oil production having commenced more than a century ago in 1909. This maturity brings benefits such as access to an experienced local management and staff and pre-existing transportation and storage infrastructure but also creates challenges; especially in relation to commerciality of smaller remaining accumulations of oil and gas and ageing infrastructure. In the UKCS, the oil industry has responded to the similar challenges in a number of ways. Larger operators have sold mature and marginal field to smaller independents of a similar size and nature to the Group and there has been increased collaboration between operators and innovation in contract structures. Development of marginal reserves has been assisted by broader third-party access to pre-existing pipeline and terminal infrastructure with balanced commercial terms between owners and users. This objective has been further advanced by tax reforms which included successively the abolition of royalty and then petroleum revenue tax.

The Group's collaboration with Niko is an outstanding example of what can be achieved through innovative contract structure. The arrangement between the companies has extended beyond contracting for a jack-up drilling unit to procurement of tubulars and also for other drilling support services. We estimate that this cooperation has permitted Niko and the Group together to have realised savings of least US$8 million. This brings commercial benefits for operators but ultimately will also increase tax receipts for the Trinidad government.

It has always been the Group's expectation that we will proceed to development of the oil and gas resources identified in the Galeota licence area outside of the Trintes field. We believe that there are significant opportunities to reduce the costs of any development and the time taken to achieve first production as a consequence of the proliferation of export and storage infrastructure in the vicinity of our licence area and we will be continuing dialogues with other operators to ensure we are best placed to take advantage of such opportunities.

A key element in assuring the fullest development of Trinidad's hydrocarbon resources is the tax structure. Reduction in rate of supplementary petroleum tax applicable to marginal fields has enabled us to retain more cash to accelerate redevelopment expenditure and stimulate production from Trintes. Together with other operators, we will continue our engagement with the government to discuss tax structure which would optimise the exploitation of new hydrocarbon discoveries.

In April 2012 we were able to report that the exploration right over the Pletmos licence area in South Africa had been signed. A work programme is presently being prepared for submission and approval by the Petroleum Agency of South Africa and we are excited by the potential for this block in what is becoming a region of increased focus and activity for majors and larger independents.

A significant strategic move for the Group in 2011 was the decision to discontinue its operation in Russia. Processes for the orderly dissolution of the Russian operating company, surrender of licence and termination of personnel should be completed shortly.

It was pleasing that the first of the Group's exploration and appraisal wells, EG8, had spudded on schedule in January 2012 and encouraging to report success from that well which we have estimated results in additional net development potential in the Galeota block of 5 mmbbl + 45 bcf (gross 32 mmbbl + 69bcf) to augment pre-existing 2C Contingent Resources. The results from the second well in the programme, EG7, have disappointed and focus now shifts to the highly prospective targets of EG9 and GAL25 which we are expecting to drill in Q3 and Q4 of 2012.

Despite the success of the first well of its drilling programme and production improvements the failure to achieve levels of production previously forecast has significantly impacted upon the financial position of the Group. Accordingly, the Company is taking steps to secure additional finance to ensure that it is in a position to meet its liabilities and commitments.

Your board's aim has always been to create value for shareholders and the Group will continue to pursue the strategic goals that will deliver this for our investors. The attractive combination of production, near term development and exploration assets means the Group is well placed to increase both cashflow and resources and I look forward to reporting on further progress in the coming months.

Bayfield ENERGY

Operations

Trinidad

Trintes field

Average gross production from the Trintes field grew by 30% during 2011 from 923 bopd (net 600 bopd) to 1,198 bopd (net 779 bopd). This resulted from the year round operation of Rig #1 in 2011 following its mobilization in September 2010 and the mobilization of Rig #2 in September 2011. Rig#1 is a refurbished workover rig modified to allow it to be used for light workover operations and to drill shorter sidetracks. Rig #2 is a purpose built slant rig modified for deployment for operation on fixed offshore platforms and provides more extensive ability to drill longer sidetracks and extended reach wells. During the year, 11 workover and sidetrack operations were completed.

Although work on drilling new development wells in the Trintes field is now progressing well, production levels are still below expectations. Delays in the deployment of Rig #2 to Trintes followed by problems encountered in the process of bringing the rig to its full operating potential have resulted in a lag in excess of five months in achieving the forecast production profiles. The delays to achievement of forecast levels of production result entirely from operational and mechanical well issues unrelated to reservoir performance and, therefore, not relevant to any consideration of reserve estimates.

East Galeota

Processing of 240 km^2 of seismic data acquired over the Galeota licence in September 2010 was completed by March 2011 to assist in identifying well locations for its seven-well exploration and appraisal drilling programme.

As a critical pre-condition for its drilling programme, the Group prepared a detailed environmental impact assessment to the Environmental Management Agency to secure the issuance of a certificate of environmental compliance. Other preparatory work included well site and hazard surveys.

In April 2011, the Group and Niko Resources contracted with Rowan Drilling for the Gorilla III jack-up drilling unit to be mobilised to Trinidad. The contract allows, at a minimum, for the Group and Niko to drill their respective seven-well and three-well programmes but also allows for assignment of the benefit of the contract to third parties to give the contracting parties additional flexibility in the timing of the drilling of their programmes.

Another essential element in planning for the exploration and appraisal drilling programme has been the set-up of a marine logistics base, pipe-yard and warehouse facility near LABIDCO. The site of the facilities was brown-field wasteland and the process of bringing the location to an operational condition involved civil works, construction and fabrication and significant organisational efforts.

Russia

Interpretation of the reprocessed 2D seismic data acquired over the Karalatsky license area in the first quarter of 2011 did not identify any prospects that would justify further investment in an exploration well. Accordingly, the Group is taking steps to prepare for the surrender of the Karalatsky Licence and the orderly dissolution of Astrakhanskaya Gas and Oil Company ("AGOC"), the local operating company in which it holds a 74% interest. This decision has been taken following consultation with the Astrakhan Regional Government, its co-shareholder in AGOC. The termination of operations in Russia by the Group will result in a write-down of approximately US$ 3.5 million.

Financial Review

Income statement

The Group's loss before tax was US$17.2 million (2010: US$7.1 million), and loss after tax was US$14.3 million (2010: US$4.7 million) which was below expectation.

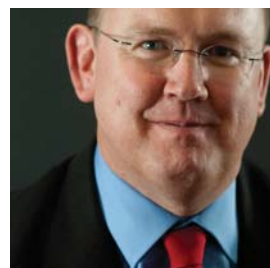
Group revenue of US$22.0 million (2010: US$14.2 million) resulted from net production of 285,293 bbls (2010: 219,000 bbls) and a realised sales price of US$77.14 (2010: US$65.02). Despite the higher average oil prices in the year, revenue was below expectations as a result of the lower production volumes as mentioned in the operations review.

The Group's cost of sales of US$24.8 million (2010: US$16.3 million) includes operating costs of US$18.4 million (2010: US$11.0 million), depreciation, depletion and amortisation of US$1.9 million (US$ 1.2 million) and supplementary petroleum tax and royalties of US$4.5 million (2010: US$ 4.1 million). Exploration expenses of US$3.3 million (2010: US$ nil) result from the decision to discontinue the Group's operations in Russia. Administrative expenses of US$5.7 million (2010: US$3.8 million) increased during the year reflecting an increase in corporate business running costs including staff costs, property costs and consultancy fees. Administrative expenses also include a charge under IFRS 2 Share Based Payments in respect of the Group's share option and LTIP schemes of US$1.6 million (2010: US$0.5 million), which is a non cash item. Listing expenses of US$3.5 million (2010: US$ nil) represent professional fees arising in the course of the Initial Public Offering in July 2011. The proportion of transaction costs that related to the issuing of the new equity in the Company totalled US$ 2.7 million. These have been capitalised against share premium.

Balance sheet

Capital expenditure for the year was US$41.3 million (2010: US$9.2 million) comprising the acquisition cost and additions of the licence in Russia (US$3.3 million), Trintes field development costs (US$33.0 million), exploration costs (US$4.2 million) and US$0.8 million other capital expenditure.

Hywel John
Chief Executive Officer
25 May 2012



Inventories US$9.8 million (2010: US$2.6 million) are higher due to the purchase of long-lead items such as casing in preparation for the seven-well exploration and appraisal drilling programme commencing in 2012.

Trade and other receivables of US$10.6 million (2010:US$3.8 million) are higher due to a US$3.0 million cash advance to cover VAT on vessels and higher VAT receivable on the increased costs. Cash balances at year end were US$59.4 million (2010: US$23.3 million). Gross IPO proceeds during the year were US$87 million.

Trade and other payables of US$10.9 million (2010: US$5.5 million) are higher resulting from the increased spend on the development plan and accruals in relation to exploration costs. Convertible bonds comprising principal of US$6.7 million and accrued interest were converted to equity on 28 April 2011 resulting in the issue of 19,625,298 shares to loan note holders. Short term convertible loan notes of US$4.25 million were issued on 4 March 2011. The principal and accrued interest was converted to equity at the date of IPO resulting in the issue of 5,386,807 shares to loan-note holders.

The Group's tax credit for the year of US$ 3.0 million (2010: US$2.5 million) is due to the increase in the deferred tax asset arising from accelerated depreciation over capital allowance and losses carried forward.

The decommissioning provision of US$6.7 million (2010: US$3.6 million) increased primarily as a consequence of a lower discount rate used to estimate its present value. The majority of this change has been included as an addition to oil and gas non-current assets.

The Group had no debt outstanding at 31 December 2011.

Financing the Company's activities

The delays to achieve the forecast production profiles have significantly reduced net cash generated from operating activities and profitability. The Company has taken a number of steps to manage its liquidity position including securing an extension of the period in which it has to fulfil its seven-well drilling commitment and advancing negotiations with third parties to assign, for a period of at least nine months from December 2012, its interest in the rig contract with Rowan for the Gorilla III jack-up drilling unit. Notwithstanding these measures, it is necessary for the Company to secure additional funding to ensure that it can meet its liabilities and satisfy commitments and is taking steps to do so.

Subsequent events

EG8 discovery

The exploration well, EG8, has demonstrated development potential of 32 million barrels (mmbbl) of oil and 69 billion standard cubic feet (bcf) of gas in the EG2/EG5/EG8 Central and East fault blocks. Initial interpretation suggested that substantially all of the gas potential lies within the Galeota Licence though the oil potential extends into an adjacent licence in which the Group has no participating interest. The Group has signed a memorandum of understanding ("MoU") with the operator of the adjacent block, Repsol E&P T&T Limited ("Repsol"). The MoU confirms the intention of the Group and Repsol to cooperate in establishing a joint technical team to assess and allow for the potential accelerated development of the accumulations of oil and gas identified by EG8 and may ultimately lead to a reclassification of prospective and contingent resources.

Well results from EG7

Well EG7 has reached a target depth of 7,029 feet. The lower sections of the well are to be logged prior to suspending the well and mobilising the drilling unit to its next well location away from the Galeota licence. The well encountered all the shallow reservoir objectives and in the interval between 1,000ft and 3,000ft, the reservoirs identified as the F,G and H Sands were predominantly water bearing. Well data from EG7 will reduce the contingent resources volumes assigned to the EG1 structure in the Group's competent person's report (the "CPR"), prepared by Gaffney, Cline & Associates (May 2011). Management has assessed that the Group's net 2C contingent resources of 24.67 mmbbl (37.96 mmbbl gross) will be reduced by approximately 5.9 mmbbl (9 mmbbl gross). In addition, the exploration objectives identified from the EG1 prospect were classified as prospective resources in the CPR. The shallowest of these was the "P Sand" section which has been proven to be water bearing in EG7. Accordingly, management assesses that it will no longer be appropriate to recognise the unrisked prospective resources associated with the "P sands" in the EG1 prospect.

South Africa

The formal execution of an exploration right over the Pletmos Inshore Block ("Pletmos") offshore South Africa was completed with an effective date of 17 April 2012. The Group's focus during the initial three-year term will be on the reprocessing of existing 2D seismic data over the block and a programme for the acquisition of new 2D data and 3D data to help define drilling locations. An environmental study of the block was completed in January 2011.

Outlook

Following the completion of EG7, the Gorilla III jack-up unit will return to Niko to drill the second well of its programme and is then expected to return to the Group later in the third quarter of 2012 for the next planned two wells in its programme, EG9 and GAL25, which are both structurally independent of EG7.

Trinidad and Tobago

Tobago

Port of Spain

Trinidad

Bayfield Galeota Block

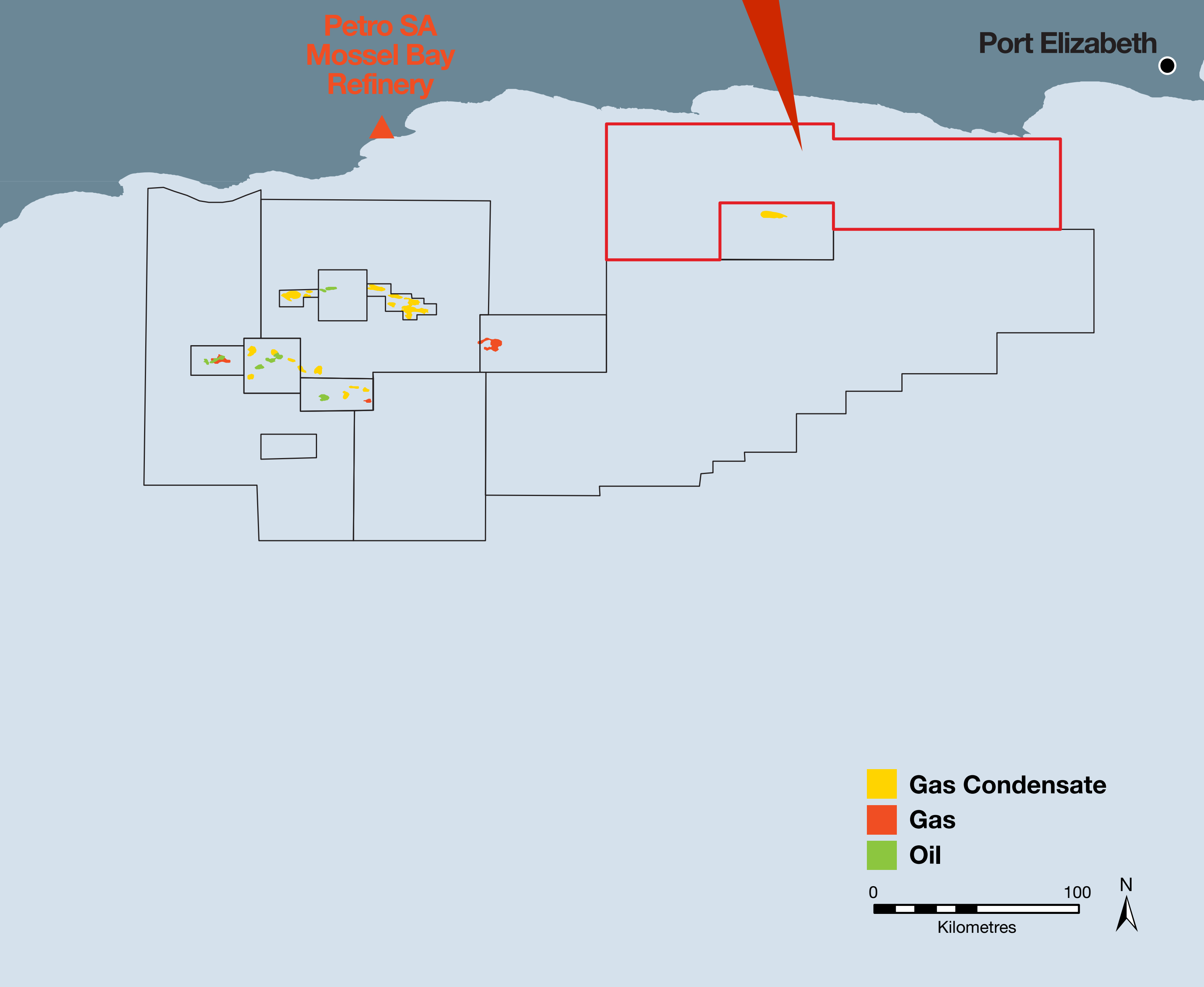
Venezuela

Gas Condensate
Gas
Oil

0 20
Kilometres
N

South Africa

North Pletmos Application



Finian O'Sullivan
Executive Chairman
(aged 57)

Finian O'Sullivan has been chairman of the Group since it was established in 2008. Finian is a member of the remuneration committee.

Finian holds an honours degree in Geology from University College Galway and has pursued an international career in the oil industry with Chevron, Geophysical Systems and Olympic Oil and Gas. He founded Burren Energy in 1994 and developed its business in Turkmenistan and West Africa leading to Burren's flotation on the London Stock Exchange with a market capitalisation of £175 million in 2003. As chief executive, Finian expanded Burren's activities with successful exploration and steady growth in production. In 2008, Burren Energy was sold to Eni for £1.7 billion.

Hywel John
Chief Executive Officer
(aged 48)

Hywel John joined the Group in 2010.

Hywel holds an honours degree in Law from Cambridge University. Following qualification as a Chartered Accountant with Arthur Andersen he held progressively senior roles in the oil and gas sector with Kerr McGee and PowerGen North Sea. Hywel worked for Burren Energy between 2000 and 2008 in a number of executive positions with legal, commercial and financial responsibilities including being Burren's operating committee representative on the 50,000 bopd M'Boundi Field in Congo (Brazzaville). Most recently he was chief financial officer of Candax Energy, a Canadian oil and gas company listed on the Toronto Stock Exchange.

Andrey Pannikov
Non-Executive Director (aged 62)

Andrey Pannikov has been a non-executive director of the Group since it was established in 2008.

Andrey has worked in the oil industry for almost 30 years. He was a co-founder of Lukoil and, in 1990, he established Urals Trading to work in Russia, Kazakhstan and Western Europe. In 1995, Andrey became a director and major shareholder in Burren Energy and continued to be a substantial shareholder in the company until its sale to Eni in 2008.

Jonathan Cooke OBE
Non-Executive Director (aged 69)

Jonathan Cooke joined the board when the Company floated in July 2011. He is a member of both the audit and remuneration committee, and is chairman of the remuneration committee.

Jonathan served in the Royal Navy for 35 years, principally as a submariner, where he commanded diesel and nuclear submarines, including a squadron. He had operational experience in Indonesia, the Falklands and the Cold War. More recently he served as a British naval attaché in Paris and as director intelligence in the ministry of defence. He left the Royal Navy having obtained the rank of Commodore in 1996 and became chief executive of The Leathersellers' Company until 2009. In 1997 he became a non-executive director of the Anglo Siberian Oil Company plc prior to its flotation on AIM and remained a director until it was acquired by Rosneft in 2003.

David MacFarlane
Non-Executive Director (aged 55)

David MacFarlane joined the board when the Company floated in July 2011. He is a member of both the audit and remuneration committee, and is chairman of the audit committee.

David is an economics graduate and Chartered Accountant, having more than 30 years experience in financial control and management in the upstream oil and gas industry. Between 1985 and 1993 he was finance director of the MOM Group, later becoming finance director for two key sub-groups of John Wood Group plc. He joined Dana Petroleum in 2002 from Amerada Hess. David was finance director of Dana Petroleum when it was acquired by Korea National Oil Corporation in 2010. He has recently been appointed a non-executive director of Energy Assets Group plc.

Dino F. Giannatos
Operations Director

Dino Giannatos has degrees in Geology from the Hofstra and West Virginia Universities. Dino has 30 years of oil industry experience having worked for Texaco and then Chevron in a variety of technical and management positions both in exploration and production in the USA, Portugal, Angola, Egypt, Nigeria and Khazakstan. Dino joined Burren in 2007 as General Manager Operations in Turkmenistan with a budget of $136 mm, over 1,000 employees and 24,000 bopd production. Dino has been with the Group since its inception in 2008.

Peter Machikan
Chief Financial Officer Trinidad

Peter Machikan is a Chartered Certified Account (FCCA), and a graduate of the Institute of Chartered Secretaries and Administrators. Peter has previously worked with Ernst & Young, Trinmar and Petrotrin. Peter joined the Group in 2009.

Richard Fritz
General Manager, Business Services

Richard Fritz has held a wide range of senior managerial positions in the oil and gas industry, most recently with the Italian multinational Eni on the giant Kashagan Project and previously with ChevronTexaco and Texaco. Richard joined the Group in 2010.

Dave Mohammed
Technical Manager

Dave Mohammed has more than 35 years experience in the oil and gas sector, working for a number of companies including Petrotrin, Trinmar and Chevron Trinidad and Tobago. Dave joined the Group in 2011.

Nazir Ali
Operations Manager

Nazir Ali holds a Bsc degree in Petroleum Engineering from Louisiana State University. He has almost 40 years of experience in the oil and gas industry and served with several companies in Trinidad and internationally. Nazir joined the Group in 2011.

Shawn McNicholls
Production Manager

Shawn McNicholls has ten years experience in the oil and gas sector working for a number of leading international firms in the oil and gas industry. Shawn joined the Group in 2009.

Stefano Santoni
Exploration Manager

Stefano Santoni gained a degree in Geology from the University of Firenze, Italy. Stefano has over 30 years of oil industry experience having worked for many companies in various technical and management positions in many countries. Stefano joined Burren in 2007 as Exploration Manager focusing on high-grading the remaining exploration potential of Burren Congo assets and identifying high impact new venture opportunities. Stefano joined the Group in 2008.

Simon Moy
Reservoir Engineering Manager

Simon Moy has a MSc in Petroleum and Reservoir Engineering from the Imperial College, London, and a BSc and PhD in Astrophysics from the University of Kent at Canterbury. Simon has 15 years of oil industry experience having worked for British Gas and Centrica in the UK offshore before joining Burren in 2001. In 2007 Simon became Burren's Reservoir Engineering Manager responsible for monitoring the reservoir performance of Burren's fields in Turkmenistan and Congo, as well as data reviews in a number of new ventures. Simon joined the Group in 2009.

Cecilia Odergren
Finance Director

Cecilia Odergren holds a degree in economics and business from Stockholm School of Economics. Cecilia has led an international career in financial management, treasury management, corporate governance and compliance covering Africa, South America and Asia. Cecilia previously held the position of audit manager and business controller with NCC, a leading construction and property development company. A certified internal auditor, Cecilia joined the Group in 2009.

Amanda Bateman
Company Secretary

Amanda Bateman, Chartered Secretary, provides company secretarial services to the group through her consulting company AMBA Company Secretarial Services. Amanda has worked for a number of international and FTSE 100 companies.

Bayfield ENERGY

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2011. The consolidated accounts for the Group are in respect of the 12 months ended 31 December 2011; references to the 'Company' alone are in respect of the 10 month period from incorporation to 31 December 2011. The Corporate Governance Statement set out on page 22 forms part of this report.

Principal activities

The principal activities of the Group are upstream oil and gas exploration and production, with the current major focus on Trinidad and Tobago.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 33 to the financial statements.

Business review

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found on pages 7 and 8, which are incorporated in this report by reference.

Principal Business Risks

As a participant in the upstream oil and gas industry, the Group encounters and has to manage several business risks of varying degrees. Such risks include:

- operational risk;
- reservoir and reserves risk;
- oil price risk;
- competitive environment;
- changes to (and challenges by environmental and other interest groups to) the regulatory environment;
- changes to the taxation system;
- failure by contractors to carry out their duties;
- retention of key business relationships;
- ability to exploit successful discoveries;
- cost overruns or significant delays in the commercialisation of fields; and
- ongoing access to sources of funding.

These risks are considered typical for an upstream oil and gas exploration and production group of the Company's size and stage of development and the directors continue to monitor these specific risks faced by the Group.

The Group has assembled a highly experienced team combining strong technical expertise with financial and transactional knowledge of the oil and gas sector gained in various companies and jurisdictions in order to manage these risks. The Group's strategy to managing these risks includes building and maintaining a portfolio of assets; focusing on delivering production and maintaining financial and operational flexibility.

Reserves

	Proved plus Probable Reserves
As reported as at 31 December 2010	19.32
Production in the year	0.28
Additions / Revisions	0
As at 31 December 2011	19.04

The Group's reserves evaluation at the end of 2010 was conducted by Gaffney Cline & Associates Ltd, a global consultancy providing technical, commercial and strategic advice to the petroleum sector. The Company has derived the reserves as at 31 December 2011 by subtraction of production during the year.

Going Concern

In making their going concern assessment, the directors have considered Group budgets and cash flow forecasts. The Group is incurring expenditure in order to further develop and enhance production from the Trintes field and also drill a number of exploration and appraisal wells. The committed expenditure in respect of this programme exceeds the existing cash reserves and the forecast cash generation from the Trintes field. As such the Group will need to generate additional funding during the second half of 2012 in order to continue operations.

The Company has commenced a process to obtain external funding. However, at the date of signing the accounts, funding has not been secured. The need for additional funding indicates the existence of a material uncertainty which may cast doubt on the Company and the Group's ability to continue as a going concern and, therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

However, the board of directors has carefully considered and formed a reasonable judgement that, at the time of approving the financial statements, there is a reasonable expectation that the Company will be able to obtain sufficient funding to continue operations for the foreseeable future. For this reason, the board of directors continues to adopt the going concern basis in preparing the financial statements.

Dividends

The Group's loss for the year after taxation amounted to US$14.3 million. The directors have not recommended a dividend.

Dividend Policy

It is the intention of the Directors to achieve capital growth for shareholders. In the short term, the directors therefore intend to retain any future profits in the Group for reinvestment in the business and, accordingly, are unlikely to declare dividends in the foreseeable future. However, the directors will consider the payment of dividends, subject to the availability of distributable reserves, when they consider it is appropriate to do so.

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the period are shown in note 19. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company's redeemable preference shares were redeemed on 18 July 2011. The percentage of the issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 25.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its articles of association, the Companies Act and related legislation. The articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the main board terms of reference, copies of which are available on request and the corporate governance statement on page 22.

Directors

The directors, who served throughout the period were as follows:

Finian O'Sullivan - Executive Chairman
(appointed 21 February 2011)
Hywel John - Chief Executive Officer
(appointed 21 February 2011)
Andrey Pannikov - Non-Executive Director
(appointed 21 February 2011)
Jonathan Cooke - Non-Executive Director
(appointed 8 July 2011)
David MacFarlane - Non-Executive Director
(appointed 8 July 2011)

All directors, having been appointed by the board during the period from incorporation, stand to be re-appointed in accordance with article 110 of the Company's articles of association.

Directors' interests

The directors who held office at 31 December 2011 had the following interests in the ordinary shares of the Company:

Name of director	31 December 2011
Finian O'Sullivan*	36,261,665
Hywel John	Nil
Andrey Pannikov*	38,513,363
Jonathan Cooke*	102,436
David MacFarlane	Nil

* Finian O'Sullivan holds 4,941,667 shares directly, 29,299,515 shares through his company, Prelude Holdings Limited, a further 1,576,483 shares jointly with his spouse and 444,000 held by the O'Sullivan Family Charitable Trust.

* Andrey Pannikov holds 500,000 shares directly, 3,041,667 through his company, Latravia Limited and the remaining 34,971,696 through his company Lion Invest and Trade Limited.

* Jonathan Cooke holds 36,351 shares directly.
66,085 shares are held by his spouse.

No changes took place in the interests of directors between 31 December 2011 and 25 May 2012.

Directors' share options / LTIP

Details of directors' share options are provided in the directors' remuneration report on page 23.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

Supplier payment policy

The Company's policy, which is also applied by the Group, is to settle supplier invoices within 30 days of the date of the invoice. The Company may, by exception, pay individual suppliers on different terms.

Trade payables of the Group at 31 December 2011 were equivalent to 33 (2010: 36) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

The Group has made neither material charitable nor any political contribution to any source during both the current and preceding years.

Health Safety and Environment (HSE)

The Group continuously monitors and evaluates all aspects of HSE performance with a goal of ensuring a strong HSE culture across its operations. The Group has implemented a robust HSE plan focusing on key elements to ensure continuous improvement in important areas such as: safe operations, emergency management, incident investigation, environmental stewardship, third party services, compliance assurance, management of change, reliability and efficiency and the security of personnel and assets.

HSE objectives form an integral part of the Group's annual key performance indicators (KPI's) and include zero lost time incidents, a low rate of total recordable incidents and continuous delivery and improvement against the HSE plan. HSE KPI's, performance and deliverables are regularly reviewed both at the business unit level as well as with the board of directors.

The Group's HSE Policy is predicated on:

- managing all Group activities and contractors through their life-cycles in a way that protects the health, safety and welfare of all employees and ensures the protection of the environment;
- ensuring that the management of HSE is seen as a critical business activity;
- managing HSE in order to achieve our objective of incident free operations;
- playing a leading role in promoting 'best practice' in all our activities; and
- creating a culture where the Group's employees and its contractors share these commitments.

The Group will conduct its operations in a responsible manner with the aim not to harm the environment or affect the ecosystem in the areas in which it operates.

Prior to undertaking any drilling activity, extensive surveys are undertaken to identify, and assist in minimising, the key risks to the environment, and the workforce are educated to ensure that awareness of the environment pervades the Group's operational approach.

The Galeota block is located in an area of environmental importance, and its well-being is of great importance to the local community and the Group. Following a thorough ecosystem identification survey conducted in January and February 2011, a comprehensive environmental management plan was put in place to ensure that the surrounding areas are not affected by the Group's activities.

Systems are in place to ensure that catastrophic events will not take place, but situation-specific exercises are held on a weekly basis to ensure all personnel are trained and ready for any contingency. The Group and the drilling contractor have a Tier 1 response capability on board as part of standard operating procedure. The Group also has a Tier 2 capability through a local service provider, along with mutual aid agreements with other operators to ensure that if any spill occurs an appropriate response will be undertaken swiftly. For Tier 3 response, the Group is a member of Clean Caribbean and Americas (CCA), which ensures that international experts and equipment are in place within 24 hours.

Sustainable Development and Social Responsibility

The Group's goal is to be a good corporate citizen and an integral part of the communities in the areas in which it operates, while at the same time balancing its responsibility to its shareholders. The Group has adopted a sustainable development approach in areas such as protecting the environment, promoting local content, and preserving and supporting the development aspirations of the surrounding communities.

To this end, the Group has focused on sustainable activities which focus first and foremost on ensuring the health and safety of its workforce and making the protection of the environment a top priority. In Trinidad, the Group has made every effort to maximise local content by employing and utilising companies, services and people from the immediate vicinity of its Guayguayare-Mayaro area of operations. Over 75% of employees and contractors in Trinidad and Tobago are from the local area.

Bribery

It is the policy of the board that all group companies should conduct business in an honest and ethical manner. The Group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships wherever operating by implementing and enforcing effective systems to counter bribery.

The Group's policy applies to all individuals working for the Group in any capacity, including consultants, contractors and any other person providing a service.

Substantial shareholdings

On 31 December 2011, the Company had been notified, in accordance with chapter 5 of the disclosure and transparency rules, of the following voting rights as a shareholder of the Company.

Name of holder	Percentage of voting rights and issued share capital	No. of ordinary shares
Andrey Pannikov	17.91	38,513,363
Finian O'Sullivan	16.87	36,261,665
Brian Thurley	11.53	24,780,036
Black Rock Investment Management	9.90	21,284,383
Rathbone Investment Management	4.78	10,285,134
Alta Limited	4.54	9,758,366

During the period between 31 December 2011 and 25 May 2012 the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the board

Amanda Bateman
Company Secretary
25 May 2012

The Group is committed to maintaining high standards of corporate governance. Whilst not required to comply with the UK combined code on corporate governance, the directors nonetheless chose to comply with the code so far as it is practicable having regard to the size and current stage of development of the Group.

The Board

The board generally will meet four times throughout the year and additionally as issues arise. The board comprises of two executive directors, including the executive chairman, and three non-executive directors.

The board is responsible for strategy, performance and approval of any major capital expenditure and the framework of internal controls. The board has a formal schedule of matters specifically reserved to it for decision making, including matters relating to major capital expenditure, management structure and appointments, strategic and policy considerations, corporate transactions and finance.

The board has responsibility for establishing and maintaining the Group's system of internal financial controls and reviewing its effectiveness. The board recognises, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The effectiveness of the system of internal financial control operated by the Group will therefore be subject to regular review by the board in light of the future growth and development of the Group and adjusted accordingly.

To enable the board to discharge its duties it is intended that all of the directors will receive timely information. If necessary, the non-executive directors may take independent advice, and there is a procedure in place to allow them to do this.

The board does not consider it necessary, at the current time to establish a nominations committee.

The board has delegated specific responsibilities to the committees described below:

The Remuneration Committee

The remuneration committee comprises Jonathan Cooke (chairman), David MacFarlane and Finian O'Sullivan. The committee is responsible for determining and agreeing with the board the framework for the remuneration of the company's chairman, executive directors and other members of the executive management team. It is responsible for the design of all share incentive plans and the determination each year of individual awards to executive directors and other senior executives and the performance targets to be used. The remuneration of the non-executive directors is agreed by the chairman and executive directors. No director may participate in any meeting at which discussion or any decision regarding his own remuneration takes place. The committee's terms of reference can be found on the Group's website www.bayfieldenergy.com.

The Audit Committee

The audit committee comprises David MacFarlane (chairman) and Jonathan Cooke. The committee will generally meet twice a year. Its main functions include monitoring the integrity of the Group's financial statements, reviewing the effectiveness of the Group's internal controls and risk management systems. The committee makes recommendations to the board in relation to the appointment of the Group's auditors, overseeing the approval of their remuneration and term's of engagement and assessing annually their independence, objectivity and effectiveness.

The Group's auditors provide additional professional services including tax, advisory and risk advisory services. The audit committee assesses the objectivity and independence of the Group's auditors.

The committee's terms of reference can be found on the Group's website www.bayfieldenergy.com.

Relationship with Shareholders

The board remains fully committed to maintaining communication with its shareholders. There is regular dialogue with major institutional shareholders and meetings following significant announcements. The Group's website (www.bayfieldenergy.com) contains all announcements, press releases, major corporate presentations, interim and year end results. The board will use its annual general meeting to communicate with both private and institutional investors.

The Share Dealing Code

The Group has adopted a code on dealings in securities which the board regards as appropriate for an AIM listed company. The Group takes all reasonable steps to ensure compliance by the directors, employees and agents with the provisions of the AIM rules relating to dealings in securities.

On behalf of the board

Chairman
25 May 2012

The remuneration committee is responsible for making recommendations to the board regarding the framework for the remuneration of the chairman, executive directors and members of the executive management. The committee works within its terms of reference, the role of the committee includes:

- determining and agreeing with the board the remuneration policy for all executive directors and executive management,
- ensuring executive remuneration packages are competitive,
- determining whether annual bonus payments should be made and recommending levels for individual executives,
- determining whether awards should be made under the LTIP and the value of such awards,
- consider any new long term incentive schemes and performance criteria, and
- agreeing directors service contracts and notice periods.

Basic salary

Salaries are reviewed annually taking into account individual performance, market data and levels of increases applicable to other employees in the Group. Salaries are benchmarked against comparable roles in companies of a similar market capitalisation and against similar roles in companies within the industry sector. Basic salaries were reviewed in June 2011 with increases taking effect in July 2011. The salaries for the executive directors and executive management for the financial year were as follows:

Name	2011 £	2010 £
Hywel John	190,000	61,437*
Finian O'Sullivan	50,000	259
	240,000	61,696

*pro-rata since appointment, September 2010.

Benefits-in-kind

Annual bonus payments

The Group has a discretionary annual cash bonus scheme. No bonuses were paid during the period.

Share options

The Group has granted options over its ordinary shares to certain directors and employees pursuant to individual option agreements. During the first quarter of 2012 a number of option holders were offered and accepted the chance to surrender their options in full consideration of the grant of an award of ordinary shares under the Company's LTIP. As at the date of this report, options over a total of 4,447,546 ordinary shares remain, representing 2.05% of the enlarged share capital.

Long-term incentive plan ('LTIP')

The Company established a long term incentive plan upon admission to AIM on 18 July 2011. The board believes that total shareholder return (TSR) is the most appropriate long term performance measure for the Company. Awards will normally vest after three years provided certain performance criteria have been met.

The initial performance condition applying to all current awards is based on growth in the Company's TSR as detailed below:

Growth on the Company's TSR over the performance period	Per cent of award which shall vest
less than 5 per cent per annum	0%
5 per cent per annum	25%
10 per cent per annum	50%
15 per cent per annum	75%
20 per cent per annum	100%

No award shall be granted to any individual if the aggregate market value of the ordinary shares subject to that award together with the aggregate market value of any ordinary shares committed to be issued or transferred pursuant to any other award made to him after the Company's shares were admitted to trading on AIM during the previous 12 months under the LTIP would exceed a sum equal to his earnings.

No award may be granted on any date if, as a result, the aggregate number of ordinary shares issued or transferred from treasury, or committed to be issued or transferred from treasury, pursuant to awards made after the Company's shares were admitted to trading on AIM under the LTIP and pursuant to grants or appropriations made after the ordinary shares became so admitted during the previous ten years under all other employee share schemes established by the Company would exceed ten per cent of the issued ordinary share capital of the Company on that date.

Directors' contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice.

The chief executive officer, Hywel John entered into his contract on 8 July 2011. In the event of early termination, the contract provides for compensation up to a maximum of his basic salary for the notice period.

Chairman and Non-Executive Directors

All non-executive directors and the executive chairman serve under letters of appointment and either party can terminate on one month's written notice. Their remuneration is determined by the board within the limits set by the articles of association and is based on information on fees paid in similar companies and the skills and expected time commitment of the individual concerned. Neither the chairman nor the non-executive directors have any right to compensation on the early termination of their appointment.

In addition to the basic fees, additional fees for committee duties are paid, to reflect the extra responsibilities attached to these roles. The non-executive directors do not participate in any of the Group's incentive or share schemes, nor do they receive other benefits. The fees are reviewed annually and our annual fees for 2011 are shown in the table below:

	2011 £	2010 £
Chairman	100,000	-
Non-executive director annual basic fee	40,000	-
Additional fee per annum:		
Chairman of remuneration committee	5,000	-
Chairman of audit committee	10,000	-

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration for the period was as follows:

	2011 £	2010 £
Salaries, fees, bonuses and benefits in kind	306,614	61,696
Compensation for loss of office	-	
Gains on exercise of share options	-	
Amounts receivable under long-term incentive schemes	-	
	306,614	61,696

Directors' emoluments (and compensation)

Name of director	Fees/Basic salary £	Benefits in kind £	Annual bonuses £	2011 total £	2010 total £
executive					
Hywel John	190,000	7,483	-	197,483	61,437
Finian O'Sullivan*	50,000	1,251	-	51,251	259
non-executive					
Jonathan Cooke*	25,962	157	-	26,119	-
David MacFarlane*	28,846	2,915	-	31,761	-
Andrey Pannikov	-	-	-	-	-
Aggregate emoluments	294,808	11,806	-	306,614	61,696

*pro-rata since July 2011.

The emoluments prior to the incorporation of the Company are those earned by directors of Bayfield Energy Limited prior to the reorganisation of the Group's holding company structure.

Benefits in kind relate to the reimbursements of expenses incurred in connection with directors fulfilling their executive and non-executive duties.

Directors' share options

No directors exercised options during the period.

On appointment in 2010 Hywel John was granted options in Bayfield Energy Limited, a wholly owned subsidiary of the Company, over 750,000 ordinary shares at an option price of US$0.25 (the 'Original Options'). Pursuant to the re-organisation of the Group's holding company structure, on 7 June 2011, these options were surrendered in consideration for the grant of 750,000 options over shares in the Company (the 'New Options'). The New Options had the same option price and performance conditions as the Original Options. On 26 January 2012 the New Options were surrendered in full in consideration of the grant of an award of 750,000 shares under the Company's LTIP.

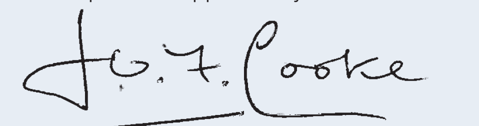
The market price of the ordinary shares at 30 December 2011 was 55p and the range during the year was 46p to 73.5p.

LTIP

Hywel John was awarded 3m shares under the Company's LTIP in July 2011. Following the surrender of his New Options in January 2012 he holds an aggregate award of 3,750,000 shares under the LTIP. No LTIP awards vested during the period.

There have been no variations to the terms and conditions or performance criteria for the LTIP schemes during the financial year.

This report was approved by the board of directors on 25 May 2012 and signed on its behalf by:



Jonathan Cooke
Chairman
Remuneration Committee
25 May 2012

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 year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

Chief Executive Officer
Hywel John
25 May 2012

We have audited the financial statements of Bayfield Energy Holdings plc for the year ended 31 December 2011 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 42. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, 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 an 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 the financial and non-financial information in the annual report 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 of the parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs 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 prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

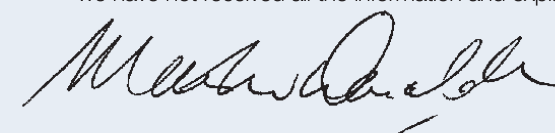
Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Company's ability to continue as a going concern. The Group incurred a net loss of $14.3 million during the year ended 31 December 2011. The Group's committed expenditure in respect of its exploration and development activities exceeds the existing cash reserves and forecast cash generation, and therefore the Group's ability to continue as a going concern is dependent on obtaining additional funding. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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



Matthew Donaldson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
25 May 2012

	Notes	31 Dec 11 US$000's	31 Dec 10 US$000's
Revenue	6	22,007	14,240
Cost of sales		(24,804)	(16,341)
Gross loss		(2,797)	(2,101)
Exploration expense	11	(3,324)	-
Administrative expenses		(5,719)	(3,784)
Listing expenses		(3,467)	-
Operating loss	7	(15,307)	(5,885)
Finance income	9	32	72
Finance costs	10	(1,951)	(1,327)
Loss before tax		(17,226)	(7,140)
Taxation	20	2,970	2,481
Loss for the year	27	(14,256)	(4,659)
Attributable to:			
Owners of the Company		(13,333)	(4,659)
Non-controlling interest		(923)	-
Loss for the year	27	(14,256)	(4,659)
Basic and diluted loss per share (US$)	22	(0.09)	(0.06)

All operations were continuing throughout all years.

The notes on pages 33 to 55 are an integral part of these financial statements.

	Notes	31 Dec 11 US$000's	31 Dec 10 US$000's
Loss for the year		(14,256)	(4,659)
Exchange differences on translation of Group subsidiaries		29	(51)
Other comprehensive loss		29	(51)
Total comprehensive loss for the year		(14,227)	(4,710)
Attributable to:			
Owners of the Company		(13,304)	(4,710)
Non-controlling interest		(923)	-
Loss for the year	27	(14,227)	(4,710)

The notes on pages 33 to 55 are an integral part of these financial statements.

	Notes	31 December 2011 US$000's	31 December 2010 US$000's
Assets			
Non-current assets			
Intangibles: exploration and evaluation assets	11	11,358	7,189
Property, plant and equipment	12	37,414	5,750
Deferred tax	21	7,593	4,623
		56,365	17,562
Current assets			
Inventories	13	9,822	2,635
Trade and other receivables	14	10,647	3,827
Cash and cash equivalents	15	59,444	23,255
		79,913	29,717
Total assets		136,278	47,279
Liabilities			
Current liabilities			
Trade and other payables	16	(10,931)	(5,502)
Convertible bonds	18	-	(7,648)
		(10,931)	(13,150)
Net current assets		68,982	16,567
Non-current liabilities			
Decommissioning provision	26	(6,693)	(3,554)
Total liabilities		(17,624)	(16,704)
Net assets		118,654	30,575
Equity			
Share capital	19	21,498	9,294
Share premium	19	80,586	-
Merger reserve	19	35,046	27,196
Share based payment reserve		2,247	650
Convertible bonds	18	-	149
Translation reserve		(53)	(82)
Accumulated losses	27	(19,747)	(6,632)
Equity attributable to the owners of the Company		119,577	30,575
Non-controlling interests		(923)	-
Total equity		118,654	30,575

The financial statements were approved by the board of directors and authorised for issue on 25 May 2012. They were signed on its behalf by:

Hywel John
Chief Executive Officer

The notes on pages 33 to 55 form an integral part of these financial statements.

	Share capital US$000's	Share premium US$000's	Merger Reserve US$000's	Share based payment reserve US$000's	Convertible debt US$000's	Translation reserve US$000's	Accumulated losses US$000's	Sub-total US$000's	Non-controlling interest US$000's	Total equity US$000's
Balance at 31 December 2009	7,388	-	17,662	104	493	(31)	(2,317)	23,299	-	23,299
Loss for the year	-	-	-	-	-	-	(4,659)	(4,659)	-	(4,659)
Currency translation differences	-	-	-	-	-	(51)	-	(51)	-	(51)
Total comprehensive expense	-	-	-	-	-	(51)	(4,659)	(4,710)	-	(4,710)
Share based payments	-	-	-	546	-	-	-	546	-	546
Transfer from retained losses	-	-	-	-	(344)	-	344	-	-	-
Issue of share capital	1,906	-	9,534	-	-	-	-	11,440	-	11,440
Balance at 31 December 2010	9,294	-	27,196	650	149	(82)	(6,632)	30,575	-	30,575
Loss for the year	-	-	-	-	-	-	(13,333)	(13,333)	(923)	(14,256)
Currency translation differences	-	-	-	-	-	29	-	29	-	29
Total comprehensive loss	-	-	-	-	-	29	(13,333)	(13,304)	(923)	(14,227)
Share based payments	-	-	-	1,597	-	-	-	1,597	-	1,597
Acquisition of AGOC	300	-	1,500	-	-	-	-	1,800	-	1,800
Issue of convertible loan stock	-	-	-	-	69	-	-	69	-	69
Transfer from retained losses	-	-	-	-	(218)	-	218	-	-	-
Issue of share capital prior to scheme of arrangement (net of share issue costs)	2,263	-	6,350	-	-	-	-	8,613	-	8,613
Issue of share capital post scheme of arrangement (net of share issue costs)	9,641	80,586	-	-	-	-	-	90,227	-	90,227
Issue of redeemable preference shares	82	-	-	-	-	-	-	82	-	82
Redemption of redeemable preference shares	(82)	-	-	-	-	-	-	(82)	-	(82)
Balance at 31 December 2011	21,498	80,586	35,046	2,247	-	(53)	(19,747)	119,577	(923)	118,654

The notes on pages 33 to 55 form an integral part of these financial statements.

	31 December 2011 US$000's	31 December 2010 US$000's
Cash flow from operating activities		
Operating loss	(15,307)	(5,885)
Adjustments for:		
Share based transactions	1,633	546
Depreciation on property, plant and equipment	2,190	1,249
Exploration write-off	3,324	-
Profit on disposal of property, plant and equipment	-	23
Operating cash flow before movement in working capital	(7,616)	(4,067)
Increase in inventory	(7,185)	(2,028)
Increase in trade and other receivables	(7,238)	(1,771)
Increase in trade and other payables	2,142	1,186
Net cash used in operating activities	(20,441)	(6,680)
Cash flow from investing activities		
Interest received	32	72
Additions of exploration and evaluation assets	(2,209)	(4,674)
Additions of property, plant and equipment	(30,432)	(2,952)
Net cash generated used in investing activities	(32,609)	(7,554)
Cash flow from financing activities		
Interest paid	(20)	(194)
Proceeds from issue of convertible loan	4,250	-
Share capital issued (net of costs)*	86,549	11,440
Net cash generated from financing activities	90,779	11,246
Net increase/(decrease) in cash and cash equivalents	37,729	(2,988)
Cash and cash equivalents at beginning of year	23,255	26,274
Foreign exchange differences	(1,540)	(31)
Cash and cash equivalents at end of year	59,444	23,255

*US$3,467,000 of issue costs were included in the income statement. Including these costs, share capital issued net of costs amounts to US$83,082,000.

The notes on pages 33 to 55 form an integral part of these financial statements.

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Bayfield (Topco) plc was incorporated in England and Wales on 21 February 2011. The Company changed its name to Bayfield Energy Holdings plc on 10 March 2011 and pursuant to a court approved scheme of arrangement under part 26 of the Companies Act (2006), which became effective on 19 May 2011, the Group was reorganised so that Bayfield Energy Holdings plc became the holding company of the Group. Pursuant to the scheme, Bayfield Energy Limited, which had previously been the holding company of the Group became a directly owned subsidiary of Bayfield Energy Holdings plc and the existing shareholders of Bayfield Energy Limited ceased to be shareholders in that company and became shareholders in Bayfield Energy Holdings plc.

This transaction has been accounted for as a reverse acquisition. Accordingly, the comparative information presented in these financial statements represents the consolidated results of Bayfield Energy Limited, except that a retrospective adjustment has been recorded to reflect the legal share capital of Bayfield Energy Holdings plc at the date of reorganisation. The reorganisation was achieved via a direct share for share exchange and as such the issued share capital of Bayfield Energy Limited and Bayfield Energy Holdings plc was identical at the date of the reorganisation. However, an amount equal to the share premium of Bayfield Energy Limited at the date of reorganisation (and all prior dates) has been recorded as a merger reserve, reflecting the fact that Bayfield Energy Holdings plc had not issued any shares at a premium up to and including the date of reorganisation.

New and amended standards adopted by the Group:

The following standards and amendments to existing standards have been published and are mandatory for the first time for the financial year beginning 1 January 2011 but had no significant impact on the Group:

- The amendments to IFRS 1 relating to (a) accounting policy changes in year of adoption, (b) revaluation as deemed cost and of deemed cost for operations subject to rate regulation (c) additional exemptions for first time adopters, and (d) limited exemption from comparative IFRS 7 disclosure for first-time adopters.
- IFRS 7 - clarification of disclosures. The amendments emphasise the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- IAS 1 - clarification of the Statement of Changes in Equity ('SOCE'). The amendments clarify that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- IAS 24 - Related Party Disclosures — Revised definition of related parties. The IAS is applicable for periods beginning on or after 1 January 2011. It clarifies and simplifies the definition of a related party.
- IAS 27 - describing the transition for amendments resulting from IAS 27 (2008).
- IAS 32 - Financial Instruments: Presentation — Amendments relating to classification of rights issues. The IAS addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.
- IFRIC 14 - prepayments of a minimum funding requirement. The amendments are effective for periods beginning on or after 1 January 2011.
- IFRIC 19 - Extinguishing liabilities with equity instruments. The IFRIC is applicable for periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

The following new standards, amendments to standards and interpretations have been issued, but are not effective (and in some cases had not yet been adopted by the EU) for the financial year beginning 1 January 2011 and have not been early adopted:

- IFRS 7 - clarification of disclosures. For accounts beginning on or after 1 July 2011 amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- IFRS 9 - Financial Instruments - Classification and Measurement. The standard is applicable for periods beginning on or after 1 January 2013 and introduces new requirements for classifying and measuring financial assets.
- IFRS 10 – The new standard, effective from 1 January 2013, will establish principles for the presentation and preparation of consolidated financial statements.
- IFRS 11 – Joint Arrangements - IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The standard is applicable for periods beginning on or after 1 January 2013.
- IFRS 12 – Interests in Other Entities - IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is applicable for periods beginning on or after 1 January 2013.
- IFRS 13 – Fair Value Measurement - IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard is applicable for periods beginning on or after 1 January 2013.

- IAS 1 – Financial Statement presentation - The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendments are applicable for periods beginning on or after 1 July 2012.
- IAS 12 – Income taxes on deferred tax - This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendments are applicable for periods beginning on or after 1 January 2012.
- IAS 27 (revised 2011) – Includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The amendments are applicable for periods beginning on or after 1 January 2013.
- IAS 28 (revised 2011) – Amendments include the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendments are applicable for periods beginning on or after 1 January 2013.

2. Summary of significant accounting policies

The principal accounting policies adopted are set out below.

2.1 Going concern

In making their going concern assessment, the directors have considered Group budgets and cash flow forecasts. The Group is incurring expenditure in order to further develop and enhance production from the Trintes field and also drill a number of exploration and appraisal wells. The committed expenditure in respect of this programme exceeds the existing cash reserves and the forecast cash generation from the Trintes field. As such the Group will need to generate additional funding during the second half of 2012 in order to continue operations.

The Company has commenced a process to obtain external funding. However, at the date of signing the accounts, funding has not been secured. The need for additional funding indicates the existence of a material uncertainty which may cast doubt on the Company and the Group's ability to continue as a going concern and, therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

However, the board of directors has carefully considered and formed a reasonable judgement that, at the time of approving the financial statements, there is a reasonable expectation that the Company will be able to obtain sufficient funding to continue operations for the foreseeable future. For this reason, the board of directors continues to adopt the going concern basis in preparing the financial statements.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Uniform accounting policies have been adopted across the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. For each business combination, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Where the Group has acquired assets held in a subsidiary undertaking that do not meet the definition of a business combination, purchase consideration is allocated to the net assets acquired and the interests of non-controlling shareholders are initially measured at their proportionate share of the acquiree's net assets.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Revenue is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

2.5 Employee services settled in equity instruments

The Group issues equity-settled share-based payments to certain employees. These are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant, measured by using an option valuation model. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

2.6 Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in US dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.7 Exploration and evaluation assets

Exploration and evaluation assets – capitalisation

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Under this method, costs are accumulated on a prospect-by-prospect basis and capitalised upon discovery of commercially viable mineral reserves. If the commercial viability is not achieved or achievable, such costs are charged to expense.

Costs incurred in the exploration and evaluation of assets includes:

(i) License and property acquisition costs

Exploration and property leasehold acquisition costs are capitalised within exploration and evaluation assets.

(ii) Exploration and evaluation expenditure

Costs directly associated with an exploration well are capitalised until the determination of reserves is evaluated. Such costs include topographical, geological, geochemical, and geophysical studies, exploratory drilling costs, trenching, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. Capitalisation is made within property, plant and equipment or intangible assets according to its nature however a majority of such expenditure is capitalised as an intangible asset. If commercial reserves are found, the costs continue to be carried as an asset. If commercial reserves are not found, exploration and evaluation expenditures are written off as a dry hole when that determination is made.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets as applicable. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

Exploration and evaluation assets - impairment

Exploration and evaluation assets are tested for impairment (in accordance with the criteria set out in IFRS 6: Exploration for and Evaluation of Mineral Resources) when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the exploration and evaluations assets' fair value less costs to sell and their value in use.

2.8 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write-off the costs of assets less their residual value over their estimated useful lives, using the straight-line method commencing in the month following the purchase, on the following basis:

Fixtures and fittings	10 years
Computer equipment	3 years
Motor vehicles and plant and machinery	4 years
Land and buildings	10 years
Oil and gas properties – see depletion and amortisation – oil and gas assets	

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2.9 Commercial reserves
Commercial reserves (2P) are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent. statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent. statistical probability that it will be less.

2.10 Depletion and amortisation – oil and gas assets
At Depreciation on drilling rigs is charged so as to write-off the costs of the rig less its residual value over its estimated useful life, using the straight-line method commencing in the month following the purchase.

All other expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

2.11 Impairment
At each balance sheet date, the Group reviews the carrying amount of its tangible assets with finite lives 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). For the purposes of impairment the Group estimates the recoverable amount of the cash-generating unit to which assets belong.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or 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.

2.12 Inventories
Inventories (stocks of drilling equipment) are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Oil stocks are valued at net realisable value.

2.13 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. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

2.14 Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.15 Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidence a residual interest in the asset of the Group after deducting all of its liabilities.

2.16 Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Equity instruments
Equity issued by the Group is recorded at the proceeds received, net of direct issue costs.

2.18 Current and deferred income tax
The tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years 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 balance sheet date.

(b) Deferred tax
Deferred tax is the tax expected to be payable or recoverable 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 balance sheet 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 the initial recognition of 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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.

2.19 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is included as a finance cost.

Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment or intangible asset. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment or intangible asset. The unwinding of the discount on the decommissioning provision is included as a finance cost.

2.21 Leasing
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

2.22 Retirement benefit costs
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

2.23 Investments
Investments are shown at cost less provision for any impairment in value. The Company performs impairment reviews in respect of investments whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised when the higher of the investment's net realisable value and its value in use is less than the carrying amount.

2.24 Convertible loan stock
Convertible loan stock is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar but non-convertible debt. The difference between the proceeds of issue of the convertible loan stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan stock based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar but non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan stock.

The difference between the cost of borrowing and the coupon interest is processed as a reserves transfer between the convertible debt reserve and the accumulated losses reserve.

3. Financial risk management
3.1 Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk Management is carried out by management under policies approved by the board of directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, non-derivative financial instruments and investment of excess liquidity.

3.1.1 Market risk - foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GB pound and USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of the Group's transactions are conducted in United States Dollars. As a result there is no significant foreign exchange risk, however, the Group does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.

Currency risk is managed by matching costs with income as far as possible. Each of the companies within the Group accounts for its business in its functional currency, US Dollars, thereby minimising translation risk.

3.1.2 Credit risk
Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. Approximately 98 per cent. of the Group's cash and cash equivalents are held by 'A' or better rated banks. All trade and other receivables are considered operational in nature and have payment terms of 20 days.

3.1.3 Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity and cash and cash equivalents on the basis of expected cash flow. Management refers to the disclosures of section 2.1 "Going Concern" for more information regarding the factors considered by the Company in managing liquidity risk.

3.2 Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.
In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group maintains capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance plus net debt.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011 US$000's	2010 US$000's
Total borrowing	-	(7,648)
Less: cash and cash equivalents (note 15)	59,444	23,255
Net cash	59,444	15,607
Total equity	118,654	30,575

As there is a net cash position in both years, the gearing ratio is not presented.

3.3 Fair value estimation
The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values because of the short term nature of such assets and the effect of discounting liabilities is negligible.

4. Critical accounting estimates and judgements

Details of the Group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

• Recoverability of intangible exploration and evaluation assets (note 11)
Where a project is sufficiently advanced the recoverability of intangible exploration and evaluation assets is assessed by comparing the carrying value to internal and operator estimates of the net present value of projects. Intangible exploration assets are inherently judgemental to value. The amounts for intangible exploration and evaluation assets represent active exploration projects. These amounts will be written-off to the income statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of exploration and evaluation assets will ultimately be recovered, is inherently uncertain.

• Carrying value of property, plant and equipment (note 12)
Management perform impairment assessments on the Group's property, plant and equipment assets at least annually with reference to indicators in IAS 36: Impairment of Assets. In order to test assets for impairment, value in use calculations are prepared which require an estimate of the timing and amount of cash flows expected to arise from the cash generating unit. Key assumptions in the value in use models relate to prices that are based on management's best estimate of future oil prices and discount rates that are risked to reflect conditions specific to individual assets.

• Commercial reserves estimates
Proven and probable reserves are estimated using standard recognised evaluation techniques. Reserve estimates are periodically reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers. The amount that will ultimately be recovered cannot be known with certainty until the end of the fields life.

• Decommissioning costs (note 26)
The costs of decommissioning are regularly reviewed and are estimated by reference to external consultants, where applicable, and internal engineers.

During 2010 a review of the majority of decommissioning estimates was undertaken by an independent specialist and the financial information includes estimates in accordance with this study.

Provision for environmental clean-up and remediation costs is based on current legal and constructive requirements, technology and price levels.

• Recoverability of deferred tax assets (note 21)
Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period in which the change occurs.

• Share-based payments (note 25)
Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements.

• Acquisition of business assets (note 11)
IFRS3 Business Combinations applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired.

5. Segment reporting

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic business decisions. Management considers the business from a geographical perspective. For management purposes, the Group currently operates in two geographical markets: Trinidad and Russia. Russia only became a distinct operating segment in the current period following the acquisition of AGOC in February 2011. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the Group.

	Trinidad US$000's	Russia US$000's	Unallocated US$000's	Consolidated US$000's
2011				
Sales revenue by origin	22,007	-	-	22,007
Segment result	(4,156)	(4,560)	(6,591)	(15,307)
Investment revenue				32
Finance costs				(1,951)
Loss before tax				(17,226)
Income tax credit				2,970
Loss after tax				(14,256)
Segment assets – non-current	52,498	-	3,867	56,365
Segment assets – current	22,714	795	56,404	79,913
Segment liabilities	(16,961)	(249)	(414)	(17,624)
Capital additions – oil and gas assets	32,971	-	-	32,971
Capital additions – exploration and evaluation	4,169	3,324	-	7,493
Capital additions – Other	678	-	205	883
Depletion, depreciation and amortisation	(2,146)	-	(44)	(2,190)
2010				
Sales revenue by origin	14,240	-	-	14,240
Segment result	(835)	-	(5,050)	(5,885)
Investment revenue				72
Finance costs				(1,327)
Loss before tax				(7,140)
Income tax credit				2,481
Loss after tax				(4,659)
Segment assets – non-current	12,913	-	4,649	17,562
Segment assets – current	11,127	-	18,590	29,717
Segment liabilities	(8,759)	-	(7,945)	(16,704)
Capital additions – oil and gas assets	4,343	-	-	4,343
Capital additions – exploration and evaluation	4,674	-	-	4,674
Capital additions – Other	209	-	-	209
Depletion, depreciation and amortisation	(1,157)	-	(92)	(1,249)

Business segments
The operations of the Group comprise one class of business, being oil and gas exploration, development and production.

All revenues in the Group are from external customers. Included in revenues arising from Trinidad are revenues of $22.00 million which arose from sales to the Group's largest customer (2010: $14.24 million).

6. Revenue

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Crude oil sales	21,999	14,240
Other sales	8	-
	22,007	14,240

Interest income forms part of total revenue and is disclosed in note 9.

7. Operating loss for the year

The operating loss for the year is stated after charging:

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Staff costs (note 8)	5,441	3,017
Depletion, depreciation and amortisation	2,190	1,249
Property lease rentals	741	55
Exploration expense	3,324	-
Listing related expenses	3,467	-

US$1,870,000 (2010: US$1,150,119) of the depletion, depreciation and amortisation charge of is included within cost of sales while US$320,000 (2010: US$83,281) is included within administration expenses.

Listing related expenses
Expenses incurred in connection with the Listing that relate to obtaining the listing for ordinary shares and the restructuring, rather than the costs incurred solely in relation to the issuance of the new equity.

Auditor's remuneration
During the year the Group (including its overseas subsidiaries) obtained the following services from the Groups auditor as detailed below:

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Fees payable to the Group's auditor for		
The audit of the Company	40	26
The audit of subsidiaries	72	55
	112	81
Fees payable to the Group's auditor for the audit of other services to the Group		
- Audit related assurance serves - interim review	54	-
- Other assurance services*	302	-
Total assurance	356	-
- Tax compliance services	27	-
- Tax advisory services	24	20
- Services related to corporate finance transactions not covered above - IPO	696	-
Total non-audit excluding assurance services	747	20
Total auditor's remuneration	1,215	101

*Fees relate to reporting on the historical financial information included in the investment circular. These fees, together with the services related to corporate finance transactions above, are included in listing expenses, which have been partially written-off in the Income Statement and partially offset against the share premium.

8. Staff costs

The average number of employees (including executive directors) employed was as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Administration	9	5
Professional	46	20
	55	25

The aggregate remuneration comprised (including directors) employed was as follows:

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Wages and salaries	3,477	2,344
Social security costs	331	127
Share-based payments	1,633	546
	5,441	3,017

Staff costs charge of US$2,024,000 (2010: US$1,844,000) is included within cost of sales in the income statement while US$3,416,000 (2010: US$1,173,000) is included within administration expenses. Staff costs charge of US$412,000 (2010: US$56,000) was capitalised in property, plant and equipment and US$482,000 (US$nil) in intangible exploration assets.

The remuneration of the key management personnel of the Group, is set out below in aggregate:

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Wages and salaries	1,355	618
Social security costs	112	26
Share-based payments	687	105
	2,054	749

Further details in respect of directors' emoluments are set out in the audited information in the directors' remuneration report which forms part of these financial statements.

9. Finance Income

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Interest on bank deposits	32	72

10. Finance costs

	Year ended 31 December 2011 US$000's	Year ended 31 December 2010 US$000's
Bank interest payable	-	6
Convertible loan interest payable	424	998
Bank charges	20	188
Unwinding of discount on decommissioning provision (note 26)	213	203
Foreign exchange movements*	1,294	(68)
	1,951	1,327

Foreign exchange in 2011 largely relates to cash balances held in GBP following the listing of the Company.

11. Intangible assets

	Exploration and evaluation assets US$000's
At 1 January 2010	2,515
Additions	4,674
At 31 December 2010	7,189
Additions	7,493
Write down of AGOC	(3,324)
At 31 December 2011	11,358

Acquisition of Astrakhanskaya Gas and Oil Company ("AGOC")
On 2 February 2011, Bayfield Energy (Alpha) Limited ("Bayfield Alpha") a wholly owned subsidiary of Bayfield Energy Holdings plc, purchased 74 per cent of AGOC located in the Astrakhan region of Russia for consideration of US$30,000 plus 3,000,000 ordinary shares in the Group, pursuant to the share purchase agreement dated 14 December 2010 with Lion Invest and Trade Limited ("Lion"). The shares have been valued, for the purposes of accounting for the consideration, at US$0.60 each which was the price at which shareholders had subscribed for shares most recently prior to the acquisition.

AGOC holds a 100% interest in the Karalatsky licence which is in its exploration phase. The licence was granted by Astrakhannedra on 26 October 2006 and is administered by various federal and regional state authorities. The term of the licence is 25 years.

This acquisition does not meet the definition of a business combination as outlined in IFRS3 – Business Combinations (2008). As such the transaction has been treated as an asset acquisition resulting in the recognition of exploration and evaluation assets of US$1.9 million.

Interpretation of the reprocessed 2D seismic data acquired over the Karalatsky license area in the first quarter of 2011 has not identified any prospects that would justify further investment in an exploration well. Accordingly, the Group is taking steps to prepare for the surrender of the Karalatsky Licence and the orderly dissolution of AGOC. This decision has been taken following consultation with the Astrakhan Regional Government, its co-shareholder in AGOC, and management does not believe that the Group is exposed to any financial penalty or sanction in consequence.

The additions in the year include, in relation to AGOC, the costs of acquisition of $1.9 million together with $1.4m of seismic exploration costs incurred on the Karalatsky licence post acquisition and before the decision was made to abandon the licence and write off all associated capitalised costs.

12. Property, plant and equipment

	Oil and gas property US$000's	Land and buildings US$000's	Other US$000's	Total US$000's
Cost:				
At 31 December 2009	2,776	214	212	3,202
Additions	4,343	-	209	4,552
Disposals	-	-	(40)	(40)
At 31 December 2010	7,119	214	381	7,714
Additions	32,971	-	883	33,854
At 31 December 2011	40,090	214	1,264	41,568
Depreciation:				
At 31 December 2009	670	4	58	732
Charge for the year	1,157	4	88	1,249
Disposed of	-	-	(17)	(17)
At 31 December 2010	1,827	8	129	1,964
Charge for the year	1,870	4	316	2,190
At 31 December 2011	3,697	12	445	4,154
Net Book Value:				
At 31 December 2010	5,292	206	252	5,750
At 31 December 2011	36,393	202	819	37,414

Other property, plant and equipment comprises motor vehicles of net book value US$nil (2010: US$2,000), plant and machinery of net book value $93,000 (2010: US$40,000), fixtures and fittings of net book value US$133,000 (2010: US$63,000) and computer equipment of net book value US$593,000 (2010: US$147,000).

13. Inventories

	31 December 2011 US$000's	31 December 2010 US$000's
Stocks of drilling equipment	9,744	2,557
Oil stocks	78	78
	9,822	2,635

14. Trade and other receivables

	31 December 2011 US$000's	31 December 2010 US$000's
Trade receivables	1,852	1,611
Other receivables	4,355	430
Prepayments and accrued income	783	538
Value added tax recoverable	3,657	1,248
	10,647	3,827

Other receivables comprise cash advances made to contractors.

In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivable from the date credit was granted up to the reporting date. Credit risk is limited due to substantially all oil production being sold to Petrotrin, the Trinidad and Tobago State oil and gas company, which has a good credit standing. Accordingly the directors believe there is no credit provision required, and no classes of receivable contain impaired assets. The carrying value of receivables is considered to represent its fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable shown above. The Group does not hold any collateral as security.

The Group has trade and other receivables denominated in foreign currencies. The carrying amounts of trade and other receivables in £ Sterling amount to US$271,522 (2010:US $294,291) and in Trinidad & Tobago dollars US$537,377 (2010: US$1,214,452).

15. Cash and cash equivalents

	31 December 2011 US$000's	31 December 2010 US$000's
Cash and cash equivalents	59,444	23,255

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value. All of the Company's cash and cash equivalents at 31 December 2011 are at floating interest rates and are in US Dollars except for US$9,031,922 (2010: US$241,222) held in £ Sterling and US$181,301 (2010: US$420,000) held in TT Dollars.

16. Trade and other payables

	31 December 2011 US$000's	31 December 2010 US$000's
Trade payables	5,454	2,052
Other payables	295	1,591
Accruals	4,949	1,754
Social security and other taxes	233	105
	10,931	5,502

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing capital costs.

The directors consider that the carrying amounts of trade and other payables are approximate to their fair values. All trade and other payables are denominated in US dollars except for US$453,761 (2010: US$182,572) held in £ Sterling and US$720,599 (2010: US$1,156,229) held in TT Dollars.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

17. Financial instruments

The Company is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group 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.

Capital risk management
The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group is funded by a mixture of equity and debt financing.

The capital structure of the Group consists of cash and cash equivalents and equity, comprising issued capital.

The Group has no externally imposed capital requirements.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies of these financial statements.

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

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents

Financial assets

	31 December 2011		31 December 2010	
	Current US$000's	Non-current US$000's	Current US$000's	Non-current US$000's
Cash and cash equivalents	59,444	-	23,255	-
Loans and receivables	6,207	-	2,041	-
	65,651	-	25,296	-

Financial liabilities

	31 December 2011		31 December 2010	
	Current US$000's	Non-current US$000's	Current US$000's	Non-current US$000's
Amortised cost:				
Trade and other payables	10,698	-	5,502	-
Convertible loan stock	-	-	7,648	-
	10,698	-	13,150	-

Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices.

Foreign currency risk management
As highlighted earlier in these financial statements, the functional currency of the majority of Companies in the Group is US$. All of the Group's sales are denominated in US$ as are a proportion of its costs, the remainder of costs being denominated in TT$, £ Sterling and Russian Roubles. The Group also has foreign currency denominated assets and liabilities. Exposures to exchange rate fluctuations therefore arise. The Group pays for invoices denominated in a foreign currency in the same currency as the invoice therefore suffers from a level of foreign currency risk.

The Group does not enter into any derivative financial instruments to manage its exposure to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2011 is as follows:

	Assets 2011 U$000's	Liabilities 2011 U$000's
Cash at bank	9,213	-
Trade and other payables	-	(1,424)
Trade and other receivables	809	-
	10,022	(1,424)

	Assets 2011 U$000's	Liabilities 2011 U$000's
Cash at bank	661	-
Trade and other payables	-	(1,174)
Trade and other receivables	1,509	-
	2,170	(1,174)

At 31 December, if the US dollar had strengthened or weakened by 10% against the GB pound with all other variables held constant, post-tax loss for the year would have increase/(decreased) by:

	Strengthened by 10% Increase/decrease in post-tax loss and impact on equity US$000's	Weakened by 10% Increase/decrease in post-tax loss and impact on equity US$000's
31 December 2011	880	(880)
31 December 2010	(1)	1

At 31 December, if the US dollar had strengthened or weakened by 10% against the TT$ with all other variables held constant, post-tax loss for the year would have increase/decreased by:

	Strengthened by 10% Increase/decrease in post-tax loss and impact on equity US$000's	Weakened by 10% Increase/decrease in post-tax loss and impact on equity US$000's
31 December 2011	6	(6)
31 December 2010	53	(53)

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number above indicates an increase in profit or other equity where the US$ strengthens 10% against the relevant currency. For a 10% weakening of the US$ against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

This differences are mainly as a result of foreign exchange gains/losses on translation of £ Sterling denominated trade and other payables and £ Sterling and USD dominated bank balances. 10% is deemed appropriate for the foreign exchange sensitivity analysis due to the current financial market.

Interest rate risk management
The Group has minimal exposure to interest rate risk and the directors believe that interest rate risk is at an acceptable level.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Groups' cash balances and trade and other receivables. The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk.

The concentration of the Company's credit risk is considered by counterparty, geography and currency. The Company holds its cash with three large banks and as at 31 December 2011 the proportion of cash held between the three banks was 57%/41%/2%.

At 31 December 2011, the Group held no collateral as security against any financial asset. No financial assets were past their due date and there were no problems with the credit quality of any financial asset in either year.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained. At 31 December 2011, no financial assets were past their due date. As a result, there has been no impairment of financial assets during the year.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

Liquidity risk management
Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the Company's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. The Company maintains good relationships with its bank, which has a high credit rating and its cash requirements are anticipated via the budgetary process. At 31 December 2011, the Group had US$59.4 million (2010: US$23.26 million) of cash reserves, of which US$nil was restricted (2010: US$16.25 million).

Fair values
The directors consider that the carrying amount of financial assets and liabilities approximates to their fair value because of the short term nature of such assets the effect of discounting is negligible.

18. Convertible loan stock

	31 December 2011 US$000's	31 December 2010 US$000's
Liability component at 1 January	7,648	6,650
Nominal value of convertible loans issued	4,250	-
Interest charged	424	998
Conversion of loan stock	(12,322)	-
Total liability component at 31 December 2011	-	7,648

Reported in:

	31 December 2011 US$000's	31 December 2010 US$000's
Current liabilities	-	7,648
Non-current liabilities	-	-
Total liability component at 31 December 2011	-	7,648

The fair value of the liability component, included in current borrowings, was calculated using the cost of borrowing (15%). The residual amount, representing the value of equity conversion option, is included in shareholders equity. The difference between the cost of borrowing and the coupon interest is processed as a reserves transfer between the convertible debt reserve and the accumulated losses reserve resulting in an equity balance of US $nil (2010: US$149,000)

The convertible loan stock issued on 13 March 2009 matured on 14 April 2011 and was fully converted to 19,625,298 ordinary shares.

On 4 March 2011, Bayfield Energy Limited was authorised to issue up to US$20,000,000 10 per cent unsecured convertible loan notes to raise finance for general corporate purposes. Notes amounting to US$4,250,000 were issued on 4 March 2011. Interest was accrued and compounded quarterly at a rate of 10 per cent per annum. The loan stock, together with any interest accrued thereon can be converted into shares at the option of the loan stock holder on the repayment date, being the earlier of the date of a listing or the sale of Bayfield Energy Limited on 30 June 2012. The loan stock was converted into 5,386,807 shares on 18 July 2011.

19. Issued share capital, share premium and merger reserve

	Number of shares No.	Ordinary shares US$000's	Share premium US$000's	Merger US$000's	Total US$000's
As at 31 December 2010	92,942,338	9,294	-	27,196	36,490
Issued prior to scheme of arrangement	25,625,298	2,563	-	7,850	10,413
Issued after scheme of arrangement	96,411,807	9,641	83,236	-	92,877
Share issue costs	-	-	(2,650)	-	(2,650)
As at 31 December 2011	214,979,443	21,498	80,586	35,046	137,130

The Company has one class of ordinary shares with a par value of US$0.10 which carry no right to fixed income. It does not have authorised share capital. All shares have equal voting rights and rank pari passu.

(i) On incorporation 1 10c share was issued at par value.
(ii) Under the scheme of arrangement 118,567,636 shares of 10c each were transferred from the former parent company.
(iii) On 18 July 2011 90,625,000 shares were issued at 60 pence each (97c) for ordinary share value of US$9,062,500 with a premium of US$79 million. These shares were issued as an Initial Public Offering (IPO) on the AIM market on the London Stock Exchange.
(iv) The March 2011 loan stock was converted into 5,386,807 shares on 18 July 2011.
(v) On 7 March 2011, in order to enable the Company to obtain a trading certificate, the Company allotted 50,000 redeemable preference shares of £1 each to Finian O'Sullivan (16,666), Andrey Pannikov (16,666) and Brian Thurley (16,667). These shares were redeemed on 18 July 2011.
(vi) In November 2011 400,000 shares were issued at 60c each for ordinary share value of US$40,000 with a premium of US$200,000.

Listing
The gross proceeds raised were US$87 million and total transaction (restructuring and listing) and related expense incurred were US$6.1 million. US$2.7 million represents the proportion of transaction costs that related to the issuing of the new equity in the Company. Transaction costs were allocated based on the ratio of the new shares issued, in relation to total shares outstanding.

20. Taxation

The current tax can be reconciled to the overall tax charge as follows:

	31 December 2011 US$000's	31 December 2010 US$000's
Current tax	-	-
Deferred tax	2,970	2,481
	2,970	2,481

	31 December 2011 US$000's	31 December 2010 US$000's
Pre-tax loss	(17,226)	(7,140)
Tax at the T&T corporate tax rate of 55% (2010: 55%)	9,474	3,927
Tax effect of items which are not deductible for tax	(3,124)	(24)
Losses not recognised	(3,380)	(1,422)
	2,970	2,481

21. Deferred taxation

The following are the major deferred tax assets recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation US$000's	Tax losses US$000's	Total US$000's
At 1 January 2010	(44)	2,185	2,141
Charge to profit and loss	(473)	2,955	2,482
At 1 January 2011	(517)	5,140	4,623
Charge to profit and loss	(6,354)	9,324	2,970
At 31 December 2011	(6,871)	14,464	7,593

Deferred taxation arises from accelerated depreciation over capital allowance and losses carried forward. The Group has losses carried forward of US$26,298,182 (2010: US$9,345,000) in Trinidad available for offset against future profits. A deferred tax asset has been recognised in respect of these losses. The Group also has tax losses of US$15,478,000 (2010: US$2,849,000) in the UK and Russia available for offset against future profits for which no deferred tax asset has been recognised.

22. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (less those non-vested shares held by employee ownership trusts). For diluted earnings/(loss) per share the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares arising from unvested share-based awards including share options. As there is a loss for the year there is no difference between the basic and diluted loss per share.

	31 December 2011 US$000's	31 December 2010 US$000's
Loss for the year attributable to the owners of the Company	(13,333)	(4,659)
Denominator:		
Weighted average number of shares used in basic and diluted loss per share (thousands)	154,262	79,248
Loss per share – basic and diluted (cents per share)	(0.09)	(0.06)

During the period the Group was reorganised so that Bayfield Energy Holdings plc became the holding company of the Group via a share for share exchange. At the date of reorganisation, the numbers of shares in issue in Bayfield Energy Holdings plc was the same as the number of shares in issue in the previous holding company, Bayfield Energy Limited and as such there has been no impact on earnings per share.

23. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2011 US$000's	31 December 2010 US$000's
Within one year	78	-
In the second to fifth years	1,976	631
	2,054	631

24. Capital commitments

	31 December 2011 US$000's	31 December 2010 US$000's
Oil and gas assets	37,200	4,832

25. Share options

During 2011 the Group had in place two share-based payment arrangements for its employees, the option scheme and the long term incentive plan ('LTIP').

The charge in relation to these arrangements is show below, with further details of each scheme following:

	31 December 2011 US$000's	31 December 2010 US$000's
Share option scheme	1,591	547
LTIP	42	-
	1,633	547

Share Option Scheme

Share options are granted to directors and to selected employees and consultants. The exercise price of the granted options is equal to management's best estimate of the market price of the shares at the time of the award of the options. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

On 10 July 2008, the Group issued 17,000,000 options with an exercise price of US$0.10 each. In 2010, an additional 4,400,000 options were issued under the same terms. The share options are exercisable between 31 August 2011 and 31 August 2015 at an average exercise price of US$0.27 per option.

1,408,416 options with an exercise price of US$0.40 each, which were granted on 13 March 2009, lapsed on 14 April 2011. On 7 June 2011 the Group issued 947,546 options at a value of US$0.40 each which vested immediately.

The share options in Bayfield Energy Limited were replaced with share options in Bayfield Energy Holdings plc on 7 June 2011.

The options were valued on grant date using a Black-Scholes option pricing model which calculates the fair value of an option by using the vesting period, the expected volatility of the share price, the current share price, the exercise price and the risk free interest rate. The fair value of the option is amortised over the vesting period. There is no requirement to revalue the option at any subsequent date.

Movements in the number of share options outstanding and their related weighted average exercise prices as are follows:

	31 December 2011		31 December 2010	
	Average exercise price in $ per share	Number of options	Average exercise price in $ per share	Number of options
At 1 January	0.26	22,640,481	0.11	18,408,416
Granted	0.40	947,546	0.27	21,400,000
Lapsed	(0.32)	(5,340,481)	(0.10)	(17,167,935)
Exercised	(0.29)	(3,400,000)	-	-
At 31 December	0.26	14,847,546	0.26	22,640,481

Share options outstanding at the end of year have the following expiry date and exercise prices:

Expiry date	Exercise price in $ per share	31 December 2011 Shares (thousands)	31 December 2010 Shares (thousands)
2011	0.40	-	1,240
2012	0.40	948	-
2013	0.25	13,750	20,250
2013	0.60	150	1,150
		14,848	22,640

The inputs into the Black-Scholes model are as follows:

	2011	2010
Weighted average share price	0.24	0.21
Weighted average exercise price	0.28	0.28
Expected volatility	51.7%	51.7%
Risk-free rates	5%	5%
Expected dividends yields	0%	0%

Expected volatility was determined by calculating the historical volatility of similar listed companies over the previous 3 years.

Long Term Incentive Plan
On 18 July 2011 5,391,195 LTIP awards were granted by the Company to certain management. The LTIP awards vest three years from the date of grant, subject to the satisfaction of certain performance conditions based on the growth in the Company's total shareholder return.

The conditions of the scheme are market based, and therefore the scheme is valued on the date of grant and amortised over the three year vesting period. There is no requirement to revalue the option at any date. The grants have been valued using a model which uses a Gaussian distribution in order to calculate the expected share price after three years. The key inputs into the model are the mean share price of the Company's shares, the share price variance and a risk free rate.

Movements in the number of LTIPs outstanding and their related weighted average exercise prices as are follows:

	31 December 2011	
	Average exercise price in £ per share	Number of options
At 1 January	-	-
Granted	-	5,391,195
Lapsed	-	(465,547)
At 31 December	-	4,925,648

26. Provisions

	31 December 2011 US$000's	31 December 2010 US$000's
At 1 January	3,554	3,351
Changes in estimates (note a)	3,344	-
Payments made to Supplementary Abandonment Fund (note b)	(418)	-
Unwinding of discounts (note 10)	213	203
	6,693	3,554

a) Decommissioning
The decommissioning provision is the discounted present value of the estimated cost of decommissioning the Group's oil and gas production facilities in Trinidad. The discount factor used is 2.8%. The Group makes provision for the cost of decommissioning its producing wells at the completion of their useful lives. Decommissioning is estimated to be required in 2034, with additional provision to be made as new production wells are brought on stream. The time frame for decommissioning is based upon the projected profile and remaining proved and probable reserves. During the year the Group used US discount and inflation rates instead of Trinidad and Tobago due to the Company now expecting to incur the majority of costs in US$ and the fact that decommissioning work is expected to be outsourced to a US based company. This resulted in a change in estimation amount of US$3.3 million which has been included as an addition to oil and gas non-current assets.

b) Supplemental abandonment fund
Pursuant to clause 18.2 of the Fairmount Agreement with the Petroleum Company of Trinidad and Tobago (Petrotrin), a joint account has to be opened with Petrotrin at a reputable financial institution. This joint account is to act as a sinking fund or Supplemental Abandonment Fund to accumulate cash reserves for use as a contingency fund for the settlement of decommissioning liabilities and environmental liabilities attributable to both parties.

27. Accumulated losses

	31 December 2011 US$000's	31 December 2010 US$000's
At 1 January	(6,632)	(2,317)
Loss for the year	(14,256)	(4,659)
Non-controlling interest	923	-
Transfers	218	344
At 31 December	(19,747)	(6,632)

28. Dividends
No dividends were paid or declared during the year.

29. Ultimate controlling party
The Company has multiple shareholders however there is no ultimate controlling party.

30. Related party transactions
Other than disclosed below, there have been no transactions with the board of directors, executive board, executive officers, significant shareholders or other related parties during the year besides intercompany transactions which have been eliminated in the consolidated financial information and normal remuneration of the board of directors and executive board.

US$3million of the convertible loan stock issued on 4 March 2011 was subscribed for by Andrey Pannikov and Finian O'Sullivan, both of whom are serving directors of the Company. The loan stock was issued on an arms-length basis on the same terms as to non-related parties. The loan stock was redeemed on 18 July 2011.

In February 2011 Bayfield Alpha entered into a share purchase agreement to purchase 74 shares (representing a 74 per cent. interest) in the issued charter capital of AGOC from Lion, an entity controlled by Andrey Pannikov, a non-executive director of the Company. The consideration payable by Bayfield Alpha comprised: (i) US$30,000; (ii) the issue and allotment of 3,000,000 ordinary shares in Bayfield Energy Limited to Andrey Pannikov.

31. Post balance sheet events
LTIP
In January 2012, certain executives and employees of the Company holding options over an aggregate of 6,900,000 shares have agreed to surrender their rights under the existing option agreements in consideration for the grant of new awards providing rights for the issuance of up to 6,900,000 shares granted under and subject to the rules of the Company's long term incentive plan. The performance conditions and vesting date for such awards are identical to those relevant to awards made at the date of IPO on 18 July 2011 and are linked to the issue price of £0.60 per share. These changes mean that equity incentivisation for substantially all executives and employees is now on identical terms and more closely aligns the interests of former option holders with those of shareholders in establishing a new vesting date of July 2014. The changes have no impact on the potentially fully diluted share capital.

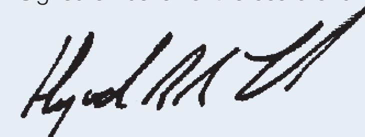
South Africa
The Licence for an exploration right for petroleum over the Pletmos Inshore block, South Africa was signed on 17 April 2012. The reprocessing of existing 2D seismic data will be carried out during the year. The acquisition of new 2D seismic data will be undertaken from December 2013.

Well results
On 13 March 2012, the Company announced that its first exploration well in the Galeota licence, EG8, was suspended as an oil and gas discovery. The Company is currently integrating the new well data into the 3D seismic mapping to study the impact on contingent and prospective resources. Management believes that EG8 has demonstrated development potential of 32 million barrels of oil and 69 billion standard cubic feet of gas in the EG2/EG5/EG8 Central and East fault blocks. Initial interpretation suggest that substantially all of the gas potential lies within the Galeota Licence though the oil potential extends into an adjacent licence in which the Company has no participating interest.

On 14 May 2012, the Company announced that its second exploration well, EG7, was drilling ahead, having reached 5,280ft and encountered all the shallow reservoir objectives. The reservoirs identified as F,G and H sands were found to be predominantly water bearing. Following the detailed logging and sampling of the shallow reservoirs, the well was sidetracked and is drilling ahead to the east to evaluate deeper exploration targets in a structurally optimal position. EG7 is planned to drill to a total depth of 6,500ft.

	Notes	31 December 2011 US$000's
Assets		
Non-current assets		
Investments	33	46,979
Trade and other receivables	34	51,771
		98,750
Current assets		
Trade and other receivables	34	317
Cash and cash equivalents	35	33,952
		34,269
Total assets		133,019
Liabilities		
Current liabilities		
Trade and other payables	36	(87)
Net current assets		34,182
Total liabilities		(87)
Net assets		132,932
Equity attributable to owners of the parent		
Share capital	39	21,498
Share premium	39	80,586
Merger Reserve	39	34,228
Share based payment reserve		872
Accumulated losses	38	(4,252)
Total equity		132,932

Signed on behalf of the board of directors by:



Hywel John
Chief Executive Officer
25 May 2012

The notes on pages 59 to 63 form an integral part of these financial statements.

	Share capital US$000's	Share premium US$000's	Merger reserve US$000's	Share based payment reserve US$000's	Accumulated losses US$000's	Total equity US$000's
Balance at incorporation	-	-	-	-	-	-
Loss for the period	-	-	-	-	(4,252)	(4,252)
Total comprehensive expense	-	-	-	-	(4,252)	(4,252)
Initial recognition at scheme of arrangement (note 39)	11,857	-	34,228	-	-	46,085
Issue of share capital (net of share issue costs)	9,641	80,586	-	-	-	90,227
Share based payments	-	-	-	872	-	872
Balance at 31 December 2011	21,498	80,586	34,228	872	(4,252)	132,935

The notes on pages 59 to 63 form an integral part of these financial statements.

	31 December 2011 US$000's
Cash flow from operating activities	
Operating loss	(3,655)
Operating cash flow before movement in working capital	(3,655)
Increase in trade and other receivables	(47,765)
Increase in trade and other payables	87
Net cash used in operating activities	(51,333)
Cash flow from investing activities	
Interest received	6
Net cash generated from investing activities	6
Cash flow from financing activities	
Share capital issued (net of costs)	85,800
Net cash generated from financing activities	85,800
Net increase in cash and cash equivalents	34,473
Cash and cash equivalents at incorporation	-
Foreign exchange differences	(521)
Cash and cash equivalents at end of period	33,952

The notes on pages 59 to 63 form an integral part of these financial statements.

32. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union.

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company profit and loss account.

The loss for the parent Company during the period from incorporation on 21 February 2011 to 31 December 2011 was US$4,252,000. The loss during 2010 of the former parent company was US$1,296,000.

The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements.

Merger reserve
In accordance with IAS 27, the investment in Bayfield Energy Limited achieved via the issue of new shares in the Company in exchange for the existing shares in Bayfield Energy Limited, has been measured at the carrying amount of the net assets of Bayfield Energy Limited at the date of the reorganisation. The merger relief provisions of the Companies Act 2006 have been applied to this transaction, such that a merger reserve is created at the date of the reorganisation, being the difference between the nominal value of shares in the Company issued up to an including the date of reorganisation and the net assets of Bayfield Energy Limited on that date.

As explained in the basis of preparation note to the consolidated accounts, the Group accounts have been retrospectively adjusted to reflect the legal share capital of the Company. As such, the issued share capital and share premium in the Company accounts is identical to the issued share capital and share premium in the Group accounts.

33. Investments

	31 December 2011 US$000's
On incorporation	-
Additions – investment in subsidiaries	46,979
At 31 December	46,979

A list of the investments in subsidiaries, including the name, proportion of ownership interest, country of operation and country of registration, is given below:

As at 31 December 2011:

Name	Country of operation	Principal activity	%	Country of registration
Directly held				
Bayfield Energy Limited	UK	Holding company	100%	England & Wales
Bayfield Energy (Services) Ltd	UK	Provision of services to Group companies	100%	England & Wales
Bayfield Energy (St Lucia) Limited	St Lucia	Holding company	100%	St Lucia
Bayfield Energy (Alpha) Ltd	UK	Holding company	100%	England & Wales
Bayfield Energy (Beta) Limited	UK	Dormant	100%	England & Wales
Bayfield Energy New Ventures Limited	UK	Holding company	100%	England & Wales
Bayfield Energy do Brasil Ltda	Brazil	Dormant	100%	Brazil
Indirectly held				
Bayfield Energy (Galeota) Limited	Trinidad & Tobago	Oil and gas exploration and production company	100%	Trinidad & Tobago
Bayfield Energy South Africa Limited	UK	Oil and gas exploration company	100%	England & Wales
Galeota Oilfield Services Limited	Trinidad & Tobago	Oil exploration and production company	100%	Trinidad & Tobago
Astrakhanskaya Gas and Oil Company	Russia	Oil and gas exploration	74%	Russia

34. Trade and other receivables

	31 December 2011 US$000's
Amounts due after more than one year	
Amounts due from Group companies	51,771
Amounts due within one year	
Other debtors	240
Prepayments	1
Value added tax recoverable	76
	317

The Company provides funding to other group companies. Accordingly the directors believe there is no credit provision required, and no classes of receivable contain impaired assets. The carrying value of receivables is considered to represent its fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable shown above. The Company does not hold any collateral as security.

The carrying amounts of trade and other receivables in GBP sterling amount to US$12,414,661.

35. Cash and cash equivalents

	31 December 2011 US$000's
Cash and cash equivalents	33,952

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

All of the Company's cash and cash equivalents at 31 December 2011 are at floating interest rates and are in US dollars except for US$74,901 held in GBP sterling.

36. Trade and other payables

	31 December 2011 US$000's
Trade payables	7
Accruals	80
	87

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amounts of trade and other payables are approximate to their fair values. The carrying amounts of trade and other payables in GBP sterling amount to US$7,000.

The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

37. Financial instruments

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

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents

Financial assets

	31 December 2011	
	Current US$000's	Non-current US$000's
Cash and cash equivalents	33,952	-
Trade and other receivables	317	51,771
	34,269	51,771

Financial assets

	31 December 2011	
	Current US$000's	Non-current US$000's
Trade and other payables	87	-

Market risk
The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices.

Foreign currency risk management
As highlighted earlier in these financial statements, the functional currency of the Company is US$. The Company has foreign currency denominated assets and liabilities. Exposures to exchange rate fluctuations therefore arise. The Company pays for invoices denominated in a foreign currency in the same currency as the invoice therefore suffers from a level of foreign currency risk.

The Company does not enter into any derivative financial instruments to manage its exposure to foreign currency risk.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at 31 December 2011 is as follows:

	Assets 31 December 2011 U$000's	Liabilities 31 December 2011 U$000's
Cash at bank	74	-
Trade and other payables	-	(7)
Trade and other receivables	12,415	-
	12,489	(7)

At 31 December, if the US dollar currency had strengthened or weakened by 10% against GBP sterling with all other variables held constant, post-tax loss for the period would have increase/decreased by:

	Strengthened by 10% Increase/decrease in post-tax loss and impact on equity US$000's	Weakened by 10% Increase/decrease in post-tax loss and impact on equity US$000's
31 December 2011	644	(644)

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number above indicates an increase in profit or other equity where the US$ strengthens 10% against the relevant currency. For a 10% weakening of the US$ against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

These differences are mainly as a result of foreign exchange gains/losses on translation of GBP sterling denominated trade and other payables and GBP sterling dominated bank balances. 10% is deemed appropriate for the foreign exchange sensitivity analysis due to the current financial market.

Interest rate risk management
The Company has minimal exposure to interest rate risk and the directors believe that interest rate risk is at an acceptable level.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises principally from the Company's cash balances and intercompany receivables.

The Company gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk.

The concentration of the Company's credit risk is considered by counterparty, geography and currency. The Company has a significant concentration of cash held on deposit with one large bank in the United Kingdom. The Company held all its cash with one bank in the United Kingdom. There are no other significant concentrations of credit risk at the balance sheet date.

At 31 December 2011, the Company held no collateral as security against any financial asset. No financial assets were past their due date and there were no problems with the credit quality of any financial asset in the period.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained. At 31 December 2011, no financial assets were past their due date. As a result, there has been no impairment of financial assets during the period.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

Liquidity risk management
Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the Company's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. The Company maintains good relationships with its bank, which has a high credit rating and its cash requirements are anticipated via the budgetary process.

Fair values
The directors consider that the carrying amount of financial assets and liabilities approximates to their fair value because of the short term nature of such assets the effect of discounting is negligible.

38. Accumulated losses

	31 December 2011 US$000's
At incorporation	-
Loss for the period	(4,252)
At 31 December	(4,252)

39. Share capital and share premium

The movements on these items are disclosed in note 19 to the consolidated financial statements.

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40. Related party transactions

Loans to subsidiaries

	31 December 2011 US$000's
Bayfield Energy Limited	47,712
Bayfield Energy (Alpha) Ltd	3,559
Bayfield Energy (Services) Ltd	500
	51,771

Amounts repayable from subsidiaries are long term and carry interest of LIBOR + 3% per annum charged on the outstanding loan balances.

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