

**Bahamas Petroleum Company plc**  
**Financial Statements**

For the year ended 31 December 2015

# Contents

Chairman's Report	1
Chief Executive Officer's Report	3
Corporate Governance	7
Directors' Report	9
Statement of Directors' Responsibilities	11
Independent Auditor's Report to the Members of Bahamas Petroleum Company plc	12
Consolidated Statement of Comprehensive Income	13
Consolidated Balance Sheet	14
Consolidated Statement of Changes in Equity	15
Consolidated Cash Flow Statement	16
Notes to the Consolidated Financial Statements	17
Independent Auditor's Report to the Members of Bahamas Petroleum Company plc	32
Parent Company Balance Sheet	33
Parent Company Statement of Changes in Equity	34
Parent Company Cash Flow Statement	35
Notes to the Parent Company Financial Statements	36
Corporate Directory	40

# Chairman's Report

When I wrote to you last year, I reflected on the then 8 month fall of international oil prices. As most of you will know, this trend has continued through 2015 and into 2016, with a continued and sustained fall in oil price. At around US\$30 – \$40 per barrel, oil prices have now fallen by up to 70% from the previous peak.

This fall is being driven by the complex interaction of a number of factors that are creating an imbalance between global over-supply and constrained demand for oil. This includes the continued slowdown in Chinese growth, sustained OPEC production levels, along with the emergence of Iranian production following the lifting of international sanctions, and the resilience of US unconventional production in the face of low prices.

The price of oil has not been this low for many years, and this is having a profound impact across the industry. Operationally, we are seeing oil companies slashing capital budgets, there have been industry-wide staff cuts, and all resource companies are seeking to preserve capital by whatever means possible. Corporately, there have been large-scale reductions to project reserve based lending, corporate bonds are being downgraded, and many oil companies are reducing or suspending dividend payments.

On the other hand, this also means the cost of input supplies for exploration activities has fallen to record lows as rig-rates have plummeted and equipment is being stacked globally. Short-term contracting of rigs and access to long-lead items and equipment is presently easier and cheaper than it has been for many years.

Most recently though, at a geopolitical level, we are for the first time seeing signs of production coordination between OPEC and Non-OPEC producing nations which has had a stabilising effect on prices and some small level of renewed confidence.

It is impossible to predict whether there will be a sustained recovery in oil prices, or the timeframe in which this will occur. In theory, the short-term oil price should have little bearing on the merits of a project which would be developed 5 – 6 years hence. That said, the practical reality is that in the oil and gas sector in which Bahamas Petroleum operates, the fall in oil prices has had a significant impact. Global investment in exploration and development has seen announced cuts totalling \$400 billion to 2020, with some analysts predicting this figure will grow to over \$1 trillion. At the same time, the lower price environment is starting to have an impact on the more marginally economic sources of production. For example, US total production peaked in July 2015 at 9.6 million barrels per day, and is forecast to reduce to 8.7 and 8.5 million barrels per day in 2016 and 2017 respectively, with reductions in production coming almost entirely from onshore unconventional sources.

This does not mean, however, that oil exploration and development has come to a complete standstill. The International Energy Agency (IEA) estimates there has been a cumulative decline in exploration and production (E&P) capital expenditure of 37% over 2015 and 2016, meaning that 63% of expenditure is still taking place albeit that access to this diminished pool of capital has become more competitive than ever. Only projects with material scale and robust economics are securing investment in the current industry cycle.

As a Company we believe that Bahamas Petroleum's assets have these attributes – material scale and robust economics – and will thus be able to attract industry attention, even in the current market. The sheer size of the structures identified in our licence areas, if charged with oil, are world class. And in a success case the project would be profitable even at today's oil prices, with the added advantage of being proximate to the largest hydrocarbon market in the world, an underutilised contracting and services industry, and a significant number of supply bases.

Over the past 12 months, two significant events have occurred that are specifically relevant to further increasing our attractiveness to potential industry partners. The first is the renewal of our licences into a second term, and the second is the passage into law of the revised Bahamian Petroleum Act and associated regulations. In combination, this now provides potential partners with the level of assurance typically required by large international oil companies. We continue to work towards a partnership agreement, with a pleasing level of engagement and interest on the part of industry participants.

That said, it is clear that the oil price collapse is delaying potential transaction timeframes, with industry participants taking longer than ever to evaluate, assess and negotiate new partnerships, with more elaborate and critical processes being applied.

With this in mind, the Board has recently agreed to implement further cash preservation measures, in order to ensure adequate time for our executive team to deliver the investment required to progress our project. These measures, to become effective 1 April 2016 are:

- (i) All Non-executive members of the Board have agreed to defer 50% of their fees (an extension of the current 20% fee deferral program). Deferred fees will be repaid in Company stock and only in the event that a farm out transaction is successfully concluded;
- (ii) The Company's Chief Executive Officer, Mr Simon Potter, and certain other executives of the Company, have agreed to defer 90% of their salary and remuneration. Any amounts deferred will be repaid only in the event that a farm-out transaction is successfully concluded and will comprise Company stock and fee reimbursement, with the ultimate mix at the discretion of the Board; and

# Chairman's Report

(continued)

(iii) The Company's option programme is being revised, contingent on the expiry and/or termination of all previous options issued – a further announcement will be made in this regard shortly.

In aggregate, we consider that these measures, whilst necessary and prudent, also shift the focus on remuneration towards an entitlement to Company stock, rather than cash. We believe this demonstrates the confidence that your Board and the executive feels in the Company and its world class prospects, and creates an even further alignment with the interests of shareholders.

In summary, the Board and I remain confident of the Company's prospects. Our assets are world class in scale, and are economically robust. This provides competitive advantage in the current depressed oil price environment, and positively differentiates our assets over other globally competitive projects seeking exploration capital. Partnership discussions have been progressing well, and with the recent licence renewals, regulatory changes, and cash savings measures implemented, we have the time and tenure needed to pursue these to a successful conclusion.

I would like to thank my fellow Directors and our staff for their continued support and tireless efforts over the past year to advance our project to the next stage. I would also like to thank our shareholders for their continued perseverance and belief in the value of this exciting opportunity. All of us at Bahamas Petroleum look forward to seeing this support rewarded through our future success.

Yours sincerely,

**Bill Schrader**  
**Chairman**

18 March 2016

# Chief Executive Officer's Report

Over the last few years, as we have managed a constant flow of major international companies and their personnel through the Company's comprehensive data room, there have been two consistent themes to the dialogue and feedback arising from those companies' evaluation of our licences as a potential investment opportunity.

The first is that 'below ground' factors are clearly laid out, are well understood and are viewed as well managed by engaged parties given the strong technical case and the progressive risk reduction demonstrated to-date.

The second, however, is that those issues representing 'above ground' factors have been considered less clear, demonstrated less progress, and have been classed as being outside the control of the Company and thus seen as representing a greater relative risk to successful project execution.

It has therefore been rewarding to see a number of key milestones pertaining to 'above ground' matters achieved during the course of 2015. Specifically:

- (i) In the first half of 2015 the Bahamian Ministry of the Environment and Housing renewed the Company's four core southern licences into a second exploration term. As part of this renewal, the Company's work programme commitments, and associated timelines for the second exploration period were established, along with a schedule for the commencement of well operations; and
- (ii) In the second half of 2015 The Bahamian House of Assembly passed a new Petroleum Bill and associated Regulations, and a Sovereign Wealth Bill. The commitment from the Government to modernise the legislation had been in place from 2012 and had hitherto been seen as a precondition for exploration drilling to commence.

Both of these important developments required a considerable and sustained effort from the Company's personnel, over a long period of time. Achieving these milestones, however, has proven to be critical in maintaining interest in the Company's programme to attract a strategic and funding partner. Especially in the current period of turmoil within the petroleum sector, which has seen a considerable contraction in the availability of exploration capital. In discussions with potential partners we continue to highlight our assets' solid fundamentals – scale, materiality and cost advantage. We believe that it is these fundamentals that underpin the relative attractiveness of our exploration play, especially when compared to other projects competing for the same capital from an ever more restricted pool, and explain the substantial continued interest in our project by prospective industry partners.

Having completed essential technical risk reduction work, and now having achieved the 'above ground' milestones mentioned – licence renewal and passage of the new legislation – there is a very clear mandate for the Company going forward. The Government of The Bahamas has acted decisively to reinforce responsible and safe hydrocarbon exploration as an integral part of the National Energy Policy of The Bahamas, and we now have clarity on the extended tenure, timings, terms and extent of our licences. We believe this provides the level of regulatory certainty that industry participants typically require before commencing new country operations, and we are seeing considerable renewed and new interest in the opportunity.

Our singular focus remains to commence responsible and safe drilling operations as soon as possible, as a first step towards realising the potential resource contained in our licence areas.

## Licensing and Regulatory Highlights New Petroleum Legislation

- The original regulatory framework pertaining to oil and gas exploration in The Bahamas dates back to the 1970s. Subsequent technology advances, knowledge gained from operations and incidents elsewhere in the world, and the changing attitudes of societies meant there was a clear need to bring this framework up-to-date. The Government, and in particular the Minister of the Environment and Housing, clearly communicated that completion and passage of a modernised and strengthened legislative package covering petroleum operations, particularly health, safety and environmental regulations, would be a precursor to much of the activity that the Company wishes to undertake in The Bahamas.
- In late 2014 a new Petroleum Bill and suite of associated regulations were placed before the Parliament of The Bahamas, for a First Reading. This initial draft legislative package was amended to include clarifying language, and was resubmitted for a revised First Reading in May 2015. In mid-December 2015, following the Second Reading and associated debate, the House of Assembly moved to an immediate Third Reading and vote in support of the legislation. Subsequently, the Bill and associated Regulations were placed before the Senate, the upper house of the Bahamian legislature, for further ratification. This was voted on and passed by the Senate in early February 2016, following the year-end close, and has now been signed by the Governor General to become the Petroleum Act 2014.
- Overall, this new legislative package contains regulations that endorse the use of appropriate and up-to-date risk management techniques, safety case methodologies, obligations for environmental management and pollution control systems, emergency procedures and effective safety management.

# Chief Executive Officer's Report

(continued)

- In addition to the package of petroleum legislation, a Sovereign Wealth Bill was also proposed and passed, to provide the legislative framework to ensure that the accrued wealth from any successful exploration and subsequent filed development would be optimally invested, managed and conserved for the benefit of this and future generations of Bahamians.
- Notwithstanding the above, the Company's licences are grandfathered under the existing Petroleum Legislation (based upon the Savings Provisions in the new Bill) such that there is no legislative impediment to the commencement of an exploration well. Fiscal terms in The Bahamas are specified in each of the individual licence agreements, and are therefore not altered by this new legislation.

## Licence Renewals

- In May 2015, the statutory term for four of the five licences held at 100% by the Company (being the four conjoined licences in the southern territorial waters of The Bahamas, and which contain the Company's key prospect inventory) were extended by way of a Licence Renewal Addendum. This document was executed by both the Minister and the Company, and was subsequently signed by the Governor General of The Bahamas on 8 June 2015.
- The renewed licences provide for an extension of the current exploration period for three years to mid-2018, with a requirement to commence an exploration well by April 2017.
- As a part of this renewal the southern boundaries of the four southern licences have been adjusted to conform to the maritime boundary between The Bahamas and Cuba, thus providing clear tenure over the full extent of the existing mapped structures.
- Also as part of this renewal, the Company was acknowledged as having satisfied all obligations in respect of the first exploration period, via its extensive programme of technical work including acquisition and processing of modern 2D and 3D seismic data, and it has been confirmed that these southern licences will be grandfathered under the existing Petroleum Legislation, thus providing clarity as to the operating legal regime.

## Other Licences & Licence Applications

- In relation to the Miami Licence, the Company's single asset in the Northern territorial waters of The Bahamas, the Board has decided that entry into the second exploration period is not justified without a deferral of certain work obligations. Further updates in this regard will be provided in due course.
- The Company had previously submitted applications for five new licences in The Bahamas. Following discussion with the Government, these new licence applications were amended such that the total number of new licences now applied for has been high-graded to three. The new licence applications are in respect of an adjusted area that seeks to exclude the area of the proposed Cay Sal National Marine Reserve, whilst at the same time retaining a strategic and practical focus on trend from plays identified in the existing southern licences, and thus seeking to fully capture technically accessible upside potential.

## Operational Highlights

### Work Programme

- As part of the licence renewal process, and in anticipation of the strengthened, modernised and more stringent standards of the new Petroleum Act and associated regulations, the Company and the Government of The Bahamas agreed on 30 April 2017 as the date required for the commencement of activities for the initial exploration well. Whilst we remain committed to delivering a well result as soon as is practicable, this timeframe balances between the shareholders' desire for a well to commence as soon as possible, whilst at the same time maintaining an operationally realistic, safe and responsible planning period for the first exploration well, and subsequent commencement of operations.
- In support of this activity, the Company completed various work items focussed on further technical de-risking of the project and preparation for the now defined drilling campaign timetable. Many of these technical and engineering works were commenced in 2014 but were finally completed during 2015, as further detailed below.

### Anticipated Well Cost

- The Company has completed a programme of work to substantially re-engineer its planned first exploration well, based on 3D seismic data, comparison of historic drilling performance in The Bahamas and for similar carbonate lithology wells drilled elsewhere in the world, in order to establish deliverable 'technical limits' against which to benchmark well costs.
- Additional work conducted jointly with third party companies was commenced and remains on-going, to ensure modern technologies are embedded in the well equipment design so as to maximise rate of penetration (ROP), a key component in reducing drilling times and thus keeping costs lower. At the same time, it is imperative the well design incorporates the capacity to maximise data gathering whilst maintaining a high ROP, and work is being undertaken in parallel to ensure this objective is not compromised.

- As a combined result of these initiatives, third party reviews and market information, it is anticipated that the cost of the initial exploration well (inclusive of appropriate contingencies and ensuring appropriate safety and environmental procedures as well as data integrity) is now in the order of US\$50 million – US\$60 million (a substantial reduction on previous estimates).

### **Economic Analysis**

- The Company has updated its prospect inventory derived from a rigorous statistical modelling exercise. These figures have been input into revised economic models, updated to reflect current global oil prices, the reduced well cost estimates (as noted above), and other relevant factors to an eventual field development, such as the project's proximity to existing infrastructure, contractors and service suppliers etc.
- Based on this work, the Company believes that the minimum field size for an economic development is less than 200 million barrels (versus current resource estimates measured in billions of barrels) with an estimate break even oil price of \$30 – \$40 per barrel. The Company thus considers that the project offers robust profitability even in a lower oil price environment.

### **Environmental Planning**

- The Company's Environmental Impact Assessment (EIA) had been prepared and accepted in 2012. During 2015 the Company continued its detailed preparation of the required Environmental Management Plan (EMP), which includes preparation of the Oil Spill Contingency Plan (OSCP), the Emergency Response Plan (both plans based upon a simulated worst-case discharge calculation) and a series of environmental sensitivity index maps. These maps are used to effectively prioritise response plans in the unlikely event of an incident.

### **Community Engagement**

- The Company continued to engage with those local communities that have an interest in the project, regardless of their level of support. These engagements included meetings with various environmental and academic groups, political parties, unions, churches, colleges, schools, community groups, administrators and councillors.
- Preparation of the Environmental Sensitivity and the Index maps required extensive and wide public consultation including numerous visits to various constituencies across The Bahamas to consult with fishing, environmental and community groups.

The large volume of technical and commercial work completed to-date by Bahamas Petroleum continues to encourage us in our view that we have access to what is potentially a multi-billion barrel petroleum resource, world-class in terms of its scale, economic potential, advantaged location, and operating environment.

### **Financial Highlights**

As in prior years, the Company has continued to focus on cost effective operations, so as to maintain cash reserves whilst ensuring essential value accretive work continues to be undertaken. To this end, the overhead reduction program initiated several years ago has continued through 2015 and into 2016, with a number of new initiatives being implemented.

- The single biggest expense of the Company, after licencing fees, is the cost of personnel. The decision taken by the Board in late 2014 to defer 20% of its fees, to be repaid in shares – but only in the event of a partnership transaction being successfully concluded – has, on a cash basis, had a substantial impact on total employee/personnel costs in 2015 which have decreased by approx. 10% year on year. This decrease, whilst substantial, will be all the greater going forward as the Board has elected, effective 1 April 2016, to increase this deferral to 50% of fees. At the same time, I and certain other executives of the Company have agreed to defer 90% of our salaries, to be repaid contingent on a farm-out transaction being successfully completed. Following this decision and a number of additional corporate cost reduction measures being taken, we anticipate a reduction of our monthly operating cash burn rate, before the payment of annual licence fees of \$1 million per annum, to approximately \$125,000 to \$150,000. It must be noted however that the treatment of deferred fees under IFRS 2 requires recognition of these non cash 'costs' in the consolidated statement of comprehensive income, which shows a paradoxical increase in 'employee benefit expense' in the year.
- As regards the non-employment/personnel related costs of the Company, savings in 'operating lease payments' and 'other' costs of 26% and 20% respectively have been achieved when compared with the prior year. On the converse, the expansion of partnership discussions in the year, following the renewal and extension of our licences, has resulted in a greater level of travel and professional fees incurred. The net result of these two opposing effects is a 3% increase in 'other expenses' for the year.
- In aggregate, we achieved a decrease in operating cash outflows during 2015 of 8%, whilst at the same time not compromising essential technical work or the ongoing process to secure a partner. Total cash outflows in the year, after accounting for investing activities, were also 8% lower, once the reclassification of a \$500,000 performance bond into restricted cash is taken into consideration. This bond was issued during the year to The Bahamian Government, and was a requirement of the licence renewal.

# Chief Executive Officer's Report

(continued)

- At year end 2015 the Company had liquid cash of \$5.049m and restricted cash of \$545k giving rise to a total closing cash balance of \$5.6m as detailed in note 14 in the financial statements. This, coupled with the further cash savings measures to take effect in 2016, means that it is anticipated that the Company's existing funds remain sufficient to see us through the current partnership discussions phase. Completion of a partnership is expected to result in additional cash funding such that the Company does not anticipate any fundraising requirements in the immediate near term.

## 2015 Summary

In conclusion, 2015 has been a difficult year for the industry, but within that context the Company has seen real progress in resolving those 'above ground' issues that had previously characterised the project. Our project has relevance and materiality to large industry players.

The Company has continued to maintain a solid focus on cost effective operations, so as to maintain cash reserves whilst ensuring value accretive work continues to be undertaken. Technically we have de-risked the project substantially, and all indications are of a multi-billion barrel economically robust project. In a commercial and regulatory sense, we now have clarity on the extended tenure, timings as well as terms and area of our licences. When combined with the recently demonstrated commitment of the Bahamian Government to our industry, we believe this now provides the level of certainty needed to attract high quality industry partners. Paradoxically the troubles of the industry have, to some extent, positively discriminated our project. Given the world-class scale and robust economics of the Company's defined geological structures we continue to attract the interest of many industry participants in the expectation that 'big-ticket discoveries will reward when prices recover'.

Our employees have continued to work diligently towards achieving these milestones whilst closely managing costs and preparing for the future. I would like to thank them all for their efforts.

## 2016 Outlook

The Company remains singularly focussed on commencing drilling activities, in accordance with licence obligations, by April 2017. In support of this objective, it has always been the intention of the Company to introduce an industry partner to the project, so as to share in both the technical execution and funding. The Company is engaged in ongoing partnering discussions with a variety of parties, including majors and large independent oil companies.

I would like to thank all our shareholders for their ongoing support and look forward to reporting further progress on our core activities throughout 2016.

Yours sincerely,

**Simon Potter**  
**Chief Executive Officer**

18 March 2016



# Corporate Governance

## The UK Corporate Governance Code

Bahamas Petroleum Company plc's shares are traded on the Alternative Investment Market of the London Stock Exchange and as such the Company is not subject to the requirements of the UK Corporate Governance Code, nor is it required to disclose its specific policies in relation to corporate governance. The Quoted Companies' Alliance has issued a guidance booklet setting out a code of best practice and via the framework described below, the Board of Directors of Bahamas Petroleum Company plc seeks to apply the principles within that code and within the UK Corporate Governance Code in so far as it is practicable for a company of its size and complexity.

## The workings of the Board and its Committees

### The Board of Directors

The Board meets regularly to discuss and consider all aspects of the Company's activities. A Charter of the Board has been approved and adopted which sets out the membership, roles and responsibilities of the Board. The Board is primarily responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions.

The Board currently consists of the Chairman, the Chief Executive Officer, and four Non-executive Directors. All Directors have access to the Company Secretary and the Company's professional advisors.

### Record of board meetings

There were five board meetings of the parent entity of the Group during the financial year.

Director	Number of board meetings attended	Number of board meetings eligible to attend
Simon Potter	5	5
William Schrader	5	5
James Smith	4	5
Adrian Collins	4	5
Edward Shallcross	5	5
Ross McDonald	2	5

### Audit Committee

The Audit Committee comprises Edward Shallcross (Chairman), James Smith and Ross McDonald. The Audit Committee is primarily responsible for ensuring that the financial performance of the Company is properly reported on and monitored, for reviewing the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. The Audit Committee has oversight responsibility for public reporting and the internal controls of the Company. A Charter of the Audit Committee has been approved and adopted which formally sets out the membership, roles and responsibilities of the Audit Committee.

### Remuneration Committee

The Remuneration Committee comprises Adrian Collins (Chairman), William Schrader and Edward Shallcross. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding executive remuneration packages, including bonus awards and share options.

### Nomination Committee

The Nomination Committee comprises Adrian Collins, William Schrader, Simon Potter and Edward Shallcross, and is chaired by Adrian Collins. The role of the Nomination Committee is to assist the Board in fulfilling its responsibilities in the search for and evaluation of potential new Directors and ensuring that the size, composition and performance of the Board is appropriate for the scope of the Company's activities. It is recognised that shareholders of the Company have the ultimate responsibility for determining who should represent them on the Board.

# Corporate Governance

(continued)

## **Health, Safety, Environmental and Security Committee**

The Company has a Health, Safety, Environmental and Security Committee which comprised during the year William Schrader, Simon Potter and the Group Environmental Scientist (Non-Board). The committee purpose is to assist the Directors in reviewing, reporting and managing the Company's performance, to assess compliance with applicable regulations, internal policies and goals and to contribute to the Company's risk management processes.

## **Internal Control**

The Directors acknowledge their responsibility for the Company's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage the risk of failure to achieve the Company's strategic objectives. It cannot totally eliminate the risk of failure but will provide reasonable, although not absolute, assurance against material misstatement or loss.

## **Going Concern**

The Directors consider that the Company has adequate financial resources to enable it to meet its financial obligations through to the second half of 2017 from existing liquid cash resources. For this reason they continue to adopt the going concern basis of preparing the Financial Statements. Further information regarding the appropriateness of the use of the going concern assumption in the basis of preparation can be found in note 4 to the Financial Statements.

# Directors' Report

Your Directors present their report and audited Financial Statements of the Company and the consolidated Group (referred to hereafter as the Group) consisting of Bahamas Petroleum Company plc (the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2015.

## Directors

The following persons were Directors of the Company during the financial year:

Simon Potter  
 William Schrader  
 James Smith  
 Adrian Collins  
 Edward Shallcross  
 Ross McDonald

Further details of the above Directors can be found on the Company's website: [www.bpcplc.com](http://www.bpcplc.com).

## Principal Activity

The principal activity of the Group and the Company consists of oil & gas exploration in The Commonwealth of The Bahamas.

## Results and Dividends

The results of the Group for the year are set out on page 13 and show a loss for the year ended 31 December 2015 of \$4,774,445 (2014: loss of \$4,668,179). The total comprehensive loss for the year of \$4,774,445 (2014: loss of \$4,668,179) has been transferred to reserves.

The Directors do not recommend payment of a dividend (2014 \$nil).

## Review of Operations

During the year the Government of The Bahamas formally renewed the four southern exploration licences of the Company, which took effect on 8 June 2015. The renewed licences run for a further three year period with the next renewal date being 8 June 2018. The licence terms require the commencement of a single exploration well within the four licences by April 2017. The terms of renewal include a rationalisation of the licence boundaries to conform to the recently ratified Cuba/Bahamas maritime border.

During the year the Bahamian House of Assembly voted on the updated Petroleum Bill and attendant regulations, which were passed by a majority. Following the balance sheet date, the Bahamian Senate voted on the legislative package which also passed by a majority.

During the year the Company has continued to progress partnership discussions with third party operators. Formal renewal of the Company licences and passage of the revised Petroleum Bill by The Bahamas legislature have acted to provide the clarity required for progression of partnership discussions towards the commencement of the Company's first exploration well.

## Substantial Shareholdings

The following table represents shareholdings of 3% or more notified to the Company as at 31 December 2015:

Name	Number of shares	% of shareholding
Hargreaves Landsdown	149,973,221	12.19%
TD Waterhouse	144,494,518	11.74%
HSDL Stockbrokers	107,823,995	8.76%
Barclays Stockbrokers	105,652,486	8.59%
Interactive Investor	57,082,499	4.64%
Equinity	46,039,202	3.74%
HSBC Stockbrokers	41,375,022	3.36%

# Directors' Report

(continued)

## Directors' Interests

The interests in the Company at the balance sheet date of all Directors who held office on the Board of the Company at the year-end are stated below.

### Shareholding and options

Name	Number of shares 31 December 2015	Number of share options 31 December 2015	Number of shares 31 December 2014	Number of share options 31 December 2014
Simon Potter	<b>2,000,000</b>	<b>39,000,000</b>	2,000,000	39,000,000
William Schrader	<b>250,000</b>	<b>2,000,000</b>	250,000	2,000,000
James Smith	–	<b>1,000,000</b>	–	1,000,000
Edward Shallcross	<b>320,000</b>	<b>1,500,000</b>	320,000	1,500,000
Ross McDonald	<b>250,000</b>	<b>1,000,000</b>	250,000	1,000,000
Adrian Collins	<b>200,000</b>	<b>1,000,000</b>	200,000	1,000,000

No options were exercised during the year. See note 18 to the consolidated Financial Statements for further details.

## Independent Auditor

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office and will be reappointed without resolution in accordance with section 12(2) of the Companies Act 1982.

By order of the Board

**Benjamin Proffitt**  
**Company Secretary**

18 March 2016

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable Isle of Man law.

Company law requires the Directors to prepare Financial Statements for each financial year. The Directors have elected to prepare the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Financial Statements are required by law to give a true and fair view of the financial position of the Group and Parent Company and the financial performance of the Group and Parent Company for that period.

In preparing these Financial Statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and to enable them to ensure that the Financial Statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Group and Parent 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 Parent Company's website. Legislation in the Isle of Man governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

On behalf of the Board

**Simon Potter**  
**Director**

18 March 2016

# Independent Auditor's Report to the Members of Bahamas Petroleum Company plc

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements (the 'financial statements') of Bahamas Petroleum Company plc and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as at 31 December 2015 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- The consolidated Financial Statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

## Emphasis of Matter

We draw attention to note 4(b) to the consolidated financial statements which describes the uncertainty related to the future recoverability of the Group's intangible assets. Our opinion is not qualified in respect of this matter.

## Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- We have not received all the information and explanations necessary for the purposes of our audit; and
- Certain disclosures of Directors' loans and remuneration specified by law have not been complied with.

## Other Matters

We have reported separately on the parent company financial statements of Bahamas Petroleum Company plc for the year ended 31 December 2015 on page 32. That report includes an emphasis of matter.

## PricewaterhouseCoopers LLC Chartered Accountants

Douglas, Isle of Man  
18 March 2016

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 Group \$	2014 Group \$
<b>Continuing operations</b>			
Employee benefit expense	7	(2,127,143)	(2,118,136)
Depreciation expense	12	(48,896)	(73,494)
Other expenses	8	(2,669,100)	(2,587,249)
<b>Operating loss</b>		<b>(4,845,139)</b>	(4,778,879)
Other income		57,000	96,000
Finance income	6	13,694	14,700
<b>Loss before tax</b>		<b>(4,774,445)</b>	(4,668,179)
Taxation	9	-	-
<b>Loss for the year</b>		<b>(4,774,445)</b>	(4,668,179)
<b>Total comprehensive loss for the year</b>		<b>(4,774,445)</b>	(4,668,179)
<b>Loss per share for loss attributable to owners of the Company:</b>			
Basic and diluted loss per share (expressed in cents per share)	10	(0.39)	(0.38)

The notes on pages 17 to 31 form part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2015

	Note	2015 Group \$	2014 Group \$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	13	<b>47,859,256</b>	46,778,928
Property, plant and equipment	12	<b>63,732</b>	112,605
Restricted cash	11	<b>544,529</b>	46,635
<b>Total non-current assets</b>		<b>48,467,517</b>	46,938,168
<b>Current assets</b>			
Other receivables	15	<b>685,172</b>	879,715
Cash and cash equivalents	14	<b>5,048,800</b>	10,032,127
<b>Total assets</b>		<b>54,201,489</b>	57,850,010
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	<b>1,283,881</b>	431,244
<b>Total liabilities</b>		<b>1,283,881</b>	431,244
<b>EQUITY</b>			
Share capital	17	<b>37,253</b>	37,253
Share premium reserve	17	<b>78,185,102</b>	78,185,102
Merger reserve	17	<b>77,130,684</b>	77,130,684
Reverse acquisition reserve	17	<b>(53,846,526)</b>	(53,846,526)
Share based payment reserve	18	<b>2,123,760</b>	1,850,473
Retained earnings		<b>(50,712,665)</b>	(45,938,220)
<b>Total equity</b>		<b>52,917,608</b>	57,418,766
<b>Total equity and liabilities</b>		<b>54,201,489</b>	57,850,010

The financial statements on pages 13 to 31 were approved and authorised for issue by the Board of Directors on 18 March 2016 and signed on its behalf by:

**Edward Shallcross**  
Director

**Simon Potter**  
Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Share capital \$	Share premium reserve \$	Merger reserve \$	Reverse acquisition reserve \$	Share based payment reserve \$	Retained earnings \$	Total equity \$
<b>Balance at 1 January 2014</b>		37,253	78,185,102	77,130,684	(53,846,526)	1,781,098	(41,270,041)	62,017,570
<b>Comprehensive income</b>								
Total comprehensive loss for the year		-	-	-	-	-	(4,668,179)	(4,668,179)
<b>Total Comprehensive expense</b>		-	-	-	-	-	(4,668,179)	(4,668,179)
<b>Transactions with owners</b>								
Share options – value of services	18	-	-	-	-	69,375	-	69,375
<b>Total transactions with owners</b>		-	-	-	-	69,375	-	69,375
<b>Balance at 31 December 2014</b>		<b>37,253</b>	<b>78,185,102</b>	<b>77,130,684</b>	<b>(53,846,526)</b>	<b>1,850,473</b>	<b>(45,938,220)</b>	<b>57,418,766</b>
<b>Balance at 1 January 2015</b>		37,253	78,185,102	77,130,684	(53,846,526)	1,850,473	(45,938,220)	57,418,766
<b>Comprehensive income</b>								
Total comprehensive loss for the year		-	-	-	-	-	(4,774,445)	(4,774,445)
<b>Total Comprehensive expense</b>		-	-	-	-	-	(4,774,445)	(4,774,445)
<b>Transactions with owners</b>								
Share options – value of services	18	-	-	-	-	273,287	-	273,287
<b>Total transactions with owners</b>		-	-	-	-	273,287	-	273,287
<b>Balance at 31 December 2015</b>		<b>37,253</b>	<b>78,185,102</b>	<b>77,130,684</b>	<b>(53,846,526)</b>	<b>2,123,760</b>	<b>(50,712,665)</b>	<b>52,917,608</b>

The notes on pages 17 to 31 form part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year 31 December 2015

	Note	2015 Group \$	2014 Group \$
<b>Cash flows from operating activities</b>			
Cash used in operations	19	<b>(4,198,241)</b>	(4,560,392)
<b>Net cash used in operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	<b>(5,226)</b>	(76,964)
Proceeds from disposal of property, plant and equipment		<b>5,500</b>	–
Payments for exploration and evaluation assets	13	<b>(310,328)</b>	(408,952)
Decrease in restricted cash	11	<b>(500,000)</b>	112,173
Other income		<b>57,000</b>	96,000
Interest received	6	<b>13,694</b>	14,700
<b>Net cash used in investing activities</b>			
<b>Net decrease in cash and cash equivalents</b>			
<b>Cash and cash equivalents at the beginning of the year</b>	14	<b>10,032,127</b>	14,863,287
Effects of exchange rate changes on cash and cash equivalents		<b>(45,726)</b>	(7,725)
<b>Cash and cash equivalents at the end of the year</b>			
	14	<b>5,048,800</b>	10,032,127

The notes on pages 17 to 31 form part of these consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

## 1 General information

Bahamas Petroleum Company plc ('the Company') and its subsidiaries (together 'the Group') is the holder of several oil & gas exploration licences issued by the Government of the Commonwealth of The Bahamas.

The Company is a limited liability company incorporated in the Isle of Man. The address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man. The Company's review of operations and principal activities is set out in the Directors' Report.

Following simplification of the Group structure in previous years to remove legacy holding companies in the Falklands and Jersey, the Company has four directly and eleven indirectly 100% owned subsidiaries as follows:

Name	Country of Incorporation	Holding
BPC (A) Limited	Isle of Man	100% Direct
BPC (B) Limited	Isle of Man	100% Direct
BPC (C) Limited	Isle of Man	100% Direct
BPC (D) Limited	Isle of Man	100% Direct
BPC Limited	Bahamas	100% Indirect
BPC (A) Limited	Bahamas	100% Indirect
BPC (B) Limited	Bahamas	100% Indirect
BPC (C) Limited	Bahamas	100% Indirect
BPC (D) Limited	Bahamas	100% Indirect
Bahamas Offshore Petroleum Ltd	Bahamas	100% Indirect
Island Offshore Petroleum Ltd	Bahamas	100% Indirect
Sargasso Petroleum Ltd	Bahamas	100% Indirect
Privateer Petroleum Ltd	Bahamas	100% Indirect
Columbus Oil & Gas Limited	Bahamas	100% Indirect
Island Petroleum Limited	Bahamas	100% Indirect

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

The consolidated Financial Statements of Bahamas Petroleum Company plc (the 'Financial Statements') reflect the results and financial position of the Group for the year ended 31 December 2015, have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC (International Financial Reporting Interpretations Committee) interpretations as adopted by the European Union ('EU'). These Financial Statements have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 4.

### Going concern

The Directors have, at the time of approving these Financial Statements, determined that the Group has more than adequate financial reserves and therefore these Financial Statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities as and when they fall due. See note 4 for further information.

### Adoption of new and revised Standards

#### a) New and amended standards adopted by the Group

During the year there has been no change to the published effective standards or proposed new standards, amendments and interpretations which have had, or would have, an impact on the Company's financial statements or accounting policies.

# Notes to the Consolidated Financial Statements

(continued)

## **2 Summary of significant accounting policies** continued

### **b) Standards, amendments and interpretations to existing standards that are in issue and relevant to the Group but not yet effective or adopted by the EU and have not been early adopted**

At the date of authorisation of these Financial Statements the following standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective, or in some cases not yet adopted by the EU.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018, subject to endorsement by the EU. The Group is yet to assess IFRS 9's full impact.

IFRS 16, 'Leases', replaces IAS 17 'Leases'. Under the new requirements, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The effective date is 1 January 2019. The standard has not yet been endorsed by the EU. The Group is assessing the impact of IFRS 16.

IAS 1 (amendments), 'Presentation of Financial Statements' Disclosure Initiative clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify: the materiality requirements in IAS 1; that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; that entities have flexibility as to the order in which they present the notes to financial statements; and that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2016.

## **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 is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses (including unrealised gains and losses on transactions between group companies) are eliminated on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

The Financial Statements consolidate the results, cash flows and assets and liabilities of the Company and its wholly owned subsidiary undertakings.

## **2.3 Operating segments**

All of the Group's business activities relate to oil & gas exploration activities in the Commonwealth of The Bahamas. The business is managed as one business segment by the chief operating decision maker ('the CODM'), who has been identified as the Chief Executive Officer ('the CEO'). The CODM receives reports at a consolidated level and uses those reports to assess business performance. It is not possible to assess performance properly using the financial information collected at the subsidiary level.

## 2.4 Foreign currency translation

### (i) Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated Financial Statements and Company Financial Statements are presented in United States Dollars, which is the functional currency of the Company and all of the Group's entities, and the Group's and Company's presentation currency.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denoted in foreign currency are translated into the functional currency at exchange rates ruling at the year end. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

## 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful economic lives, as follows:

- Computer equipment 3 years
- Furniture, fittings and equipment 4 years
- Motor vehicles 5 years
- Leasehold improvements Over the life of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount with any impairment charge being taken to the consolidated statement of comprehensive income.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of comprehensive income.

## 2.6 Intangible assets – exploration and evaluation assets

Exploration and evaluation expenditure incurred which relates to more than one area of interest is allocated across the various areas of interest to which it relates on a proportionate basis. Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. The area of interest adopted by the Group is defined as a petroleum title.

Expenditure in the area of interest comprises direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not linked to a particular area of interest.

As permitted under IFRS 6, exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another entity, is carried forward as an asset at cost provided that one of the following conditions is met:

- The costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- Exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure which fails to meet at least one of the conditions outlined above is taken to the consolidated statement of comprehensive income.

Expenditure is not capitalised in respect of any area of interest unless the Group's right of tenure to that area of interest is current.

Intangible exploration and evaluation assets in relation to each area of interest are not amortised until the existence (or otherwise) of commercial reserves in the area of interest has been determined.

# Notes to the Consolidated Financial Statements

(continued)

## 2 Summary of significant accounting policies continued

### 2.7 Impairment

In accordance with IFRS 6, exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

### 2.8 Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. The classification of financial assets is determined at initial recognition.

At 31 December 2015 and 2014 the Group did not have any financial assets held at fair value through profit or loss or classified as available for sale. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in any active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are stated initially at their fair value and subsequently at amortised cost using the effective interest rate method. The Group's loans and receivables consist of 'cash and cash equivalents' at variable interest rates, 'restricted cash' and 'other receivables' excluding 'prepayments'.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group classifies its financial liabilities in the following categories: at fair value through profit or loss and other liabilities. As at 31 December 2015 and 2014 the Group did not have any financial liabilities at fair value through profit or loss. Other liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. Other liabilities consist of 'trade and other payables'. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### 2.9 Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions with original maturities of three months or less. For the purposes of the cash flow statement, restricted cash is not included within cash and cash equivalents.

### 2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted, net of tax, from the proceeds. Net proceeds are disclosed in the statement of changes in equity.

### 2.11 Employee benefits

#### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii) Share based payments

Where equity settled share options are awarded to employees or Directors, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees or Directors, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

**(iii) Bonuses**

The Group recognises a liability and an expense for bonuses. Bonuses are approved by the Board and a number of factors are taken into consideration when determining the amount of any bonus payable, including the recipient's existing salary, length of service and merit. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(iv) Pension obligations**

For defined contribution plans, the Group pays contributions to privately administered pension plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

**(v) Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination and when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**2.12 Interest Income**

Interest income is recognised on a time proportion basis using the effective interest method.

**2.13 Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

**3 Financial risk management in respect of financial instruments****3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: liquidity, market and credit risk. The Group's overall risk management programme focuses on minimising potential adverse effects on the financial performance of the Group.

Risk management is carried out by the CEO under policies approved by the Board of Directors. The CEO identifies, evaluates and addresses financial risks in close co-operation with the Group's management. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

**(i) Liquidity risk**

The Group monitors its rolling cashflow forecasts and liquidity requirements to ensure it has sufficient cash to meet its operational needs. Surplus cash is invested in interest bearing current accounts and money market deposits.

**No profit to date**

The Group has incurred losses since its inception and it is therefore not possible to evaluate its prospects based on past performance. Since the Group intends to continue investing in the exploration licences it currently holds an interest in, the Directors anticipate making further losses. There can be no certainty that the Group will achieve or sustain profitability or achieve or sustain positive cash flows from its activities.

**Future funding requirements**

The Group intends to raise funding through the placing of ordinary shares and farm-outs of its licences. There is no certainty that the Company will be able to raise funding on the equity markets or that the raising of sufficient funds through future farm outs will be possible at all or achievable on acceptable terms. This could substantially dilute the Group's interest in the licences, however, given the size of the Group's existing holding it would be expected, although there is no guarantee, that the Group will retain a significant equity interest in the licences.

**Financial liabilities**

The Group's financial liabilities comprise entirely its trade and other payables which all fall due within 1 year. The Group's payment policy is to settle amounts in accordance with agreed terms which is typically 30 days.

# Notes to the Consolidated Financial Statements

(continued)

## **3 Financial risk management in respect of financial instruments** continued

### **(ii) Market risk**

#### **Foreign exchange risk**

The Group operates internationally and therefore is exposed to foreign exchange risk arising from currency exposures, primarily with regard to UK Sterling. The exposure to foreign exchange risk is managed by ensuring that the majority of the Group's assets, liabilities and expenditures are held or incurred in US Dollars, the functional currency of all entities in the Group. At 31 December 2015 the Group held \$352,807 of cash in UK Sterling (31 December 2014: \$276,827) and had an immaterial amount of trade and other payables denominated in UK Sterling.

At 31 December 2015, if the US Dollar currency had weakened/strengthened by 10% against UK Sterling with all other variables held constant, post-tax losses for the year and total equity would have been reduced/increased by approximately \$35,000 (31 December 2014: reduced/increased by \$28,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling denominated bank balances.

The Group also has operations denominated in the Bahamian dollar. As the Bahamian dollar is pegged to the US dollar on a one for one basis these operations do not give rise to any currency exchange exposures.

#### **Interest rate risk**

The Group's exposure to interest rate risk relates to the Group's cash deposits which are linked to short term deposit rates and therefore affected by changes in bank base rates. At 31 December 2015 and 2014 short term deposit rates were in the range of 0% to 1% and therefore the interest rate risk is not considered significant to the Group. An increase in interest rate of 0.25% in the year would have had an immaterial effect of the Group's loss for the year.

### **(iii) Credit risk**

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and restricted cash. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. In order to mitigate credit risk arising from cash balances the Group holds cash reserves with more than one counterparty.

## **3.2 Capital risk management**

Capital is defined by the Group as all equity reserves, including share capital and share premium. 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 capital structure to support the Group's business operations and maximise shareholder value. The Group is not subject to any externally imposed capital requirements.

## **4 Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **(a) Going concern**

These Financial Statements have been prepared on a going concern basis, which assumes that the Group will continue in operation for the foreseeable future.

The Directors are of the opinion that the Group has adequate financial resources to meet its working capital needs through to the second half of 2017 based on cash flow forecasts and the Group's existing liquid cash resources.

The Group's ability to meet its obligations beyond 2017 is dependent on the level of exploration and appraisal activities undertaken. The next step in the Group's asset development programme requires the drilling of an exploration well on its prospects. The ability of the Group to discharge this obligation is contingent on the successful completion of a farm in arrangement or equity raise.



**(b) Carrying value of exploration expenditure**

Expenditure of \$47,859,256 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2015 (2014: \$46,778,928).

Ultimate recoupment of exploration and evaluation assets capitalised is dependent on successful development and commercial exploitation, or alternatively, sale of the respective licence areas. The carrying value of the Group's exploration and evaluation expenditure is reviewed at each balance sheet date and, if there is any indication that it is impaired, its recoverable amount is estimated. Estimates of impairment are limited to an assessment by the Directors of any events or changes in circumstances that would indicate that the carrying value of the asset may not be fully recoverable. Any impairment loss arising is charged to the statement of comprehensive income.

On 10 March 2013, the Government of The Bahamas announced its intentions to proceed with oil and gas exploration drilling in Bahamian waters. Additionally, the Government clarified its intentions for a public consultation on the creation of an oil and gas extraction and production industry, noting that any such consultation process would only take place in the event that commercial reserves of hydrocarbons are discovered in Bahamian waters. Following this decision, the future recoverability of the Group's intangible assets are contingent upon the discovery of commercial reserves and the presentation of all relevant data before the Government and thus the people of The Bahamas.

On 8 June 2015 the Government of The Bahamas formally renewed and extended the Group's four southern exploration licences in Bahamian waters for at least a further three years to 8 June 2018. As part of this renewal, the southern boundaries of the four southern licences were adjusted to conform to the maritime boundary between The Bahamas and Cuba, providing tenure over the full extent of the existing mapped structures. Under the terms of the renewed licences, the Group is obliged to commence drilling activities by 30 April 2017.

Renewal of the Miami licence remains under review as at the balance sheet date.

**5 Segment information**

The Company is incorporated in the Isle of Man. The total of non-current assets other than financial instruments located in the Isle of Man as at 31 December 2015 is \$3,854 (31 December 2014: \$2,431), and the total of such non-current assets located in The Bahamas is \$47,919,135 (31 December 2014: \$46,889,101).

**6 Finance income**

	2015 Group \$	2014 Group \$
Finance income – interest income on short-term bank deposits	<b>13,694</b>	14,700

**7 Employee benefit expense**

	2015 Group \$	2014 Group \$
Directors and employees salaries and fees	<b>1,518,494</b>	1,702,822
Social security costs	<b>72,116</b>	71,743
Pension costs – defined contribution*	<b>139,181</b>	120,974
Share based payments (see note 18)	<b>273,287</b>	69,375
Other staff costs	<b>124,065</b>	153,222
	<b>2,127,143</b>	2,118,136

Effective 1 October 2014, the Directors agreed to forgo 20% of their remuneration which becomes repayable in shares only once the Company's farmout transaction is successfully completed. See note 18 for further details.

\* Note that the increase in pension costs during the year has arisen from timing differences in the provision of this benefit to staff in The Bahamas and the Isle of Man.

# Notes to the Consolidated Financial Statements

(continued)

## 8 Other expenses

	2015 Group \$	2014 Group \$
Travel and accommodation	334,557	311,553
Operating lease payments	349,090	469,073
Legal and professional	1,499,671	1,234,627
Net foreign exchange loss/(gain)	28,912	(23,886)
Gain on disposal of fixed assets	(297)	–
Other	403,411	505,650
Fees payable to the Company's auditor for the audit of the parent company and consolidated Financial Statements	49,216	71,673
Fees payable to the Company's auditor for other services:		
– Audit related assurance services	–	12,465
– Tax advisory services	4,540	6,095
Total auditor remuneration	53,756	90,233
<b>Total other expenses</b>	<b>2,669,100</b>	<b>2,587,249</b>

## 9 Taxation

The Company is incorporated and resident in the Isle of Man and subject to Isle of Man income tax at a rate of zero per cent.

All other group companies are within the tax free jurisdiction of the Commonwealth of The Bahamas. Under current Bahamian law, the Bahamian group companies are not required to pay taxes in The Bahamas on income or capital gains.

## 10 Basic and diluted loss per share

### (a) Basic

Basic loss per share is calculated by dividing the loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2015 Group	2014 Group
Loss attributable to equity holders of the Company (US\$)	(4,774,445)	(4,668,179)
Weighted average number of ordinary shares in issue (number)	1,230,479,096	1,230,479,096
Basic loss per share (US Cents per share)	(0.39)	(0.38)

### (b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had one category of dilutive potential ordinary shares: share options. For these share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. Share options outstanding at the reporting date were as follows:

	2015 Group	2014 Group
Total share options in issue (number) (see note 18)	58,500,000	64,500,000

The effect of the above share options at 31 December 2015 and 2014 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

## 11 Restricted cash

	2015 Group \$	2014 Group \$
<b>Non-current assets</b>		
Bank performance bond	<b>500,000</b>	–
Bank deposits	<b>44,529</b>	46,635
	<b>544,529</b>	46,635

The Bank performance bond emplaced during the year is in favour of the Government of The Bahamas. The bond forms a condition of the 2015 licence renewal and will be released on satisfaction of the licence conditions, which relates to the expenditure obligations requiring a minimum spend of \$750,000 over the 3 year renewal period.

Non-current bank deposits consist of funds held as security for Company credit card facilities.

## 12 Property, plant & equipment

Group	Leasehold improvements \$	Furniture, fittings and equipment \$	Motor vehicles \$	Total \$
<b>At 1 January 2014</b>				
Cost	56,417	230,561	86,940	373,918
Accumulated depreciation	(43,565)	(168,476)	(52,742)	(264,783)
<b>Net book amount</b>	<b>12,852</b>	<b>62,085</b>	<b>34,198</b>	<b>109,135</b>
<b>Year ended 31 December 2014</b>				
Opening net book amount	12,852	62,085	34,198	109,135
Additions	–	7,719	69,245	76,964
Depreciation charge	(4,058)	(41,924)	(27,512)	(73,494)
<b>Closing net book amount</b>	<b>8,794</b>	<b>27,880</b>	<b>75,931</b>	<b>112,605</b>
<b>At 31 December 2014</b>				
Cost	56,417	238,280	156,185	450,882
Accumulated depreciation	(47,623)	(210,400)	(80,254)	(338,277)
<b>Net book amount</b>	<b>8,794</b>	<b>27,880</b>	<b>75,931</b>	<b>112,605</b>
<b>Year ended 31 December 2015</b>				
Opening net book amount	8,794	27,880	75,931	112,605
Additions	–	5,226	–	5,226
Disposals – cost	–	–	(58,496)	(58,496)
Depreciation charge	(4,058)	(20,771)	(24,067)	(48,896)
Disposals – Accumulated depreciation	–	–	53,293	53,293
<b>Closing net book amount</b>	<b>4,736</b>	<b>12,335</b>	<b>46,661</b>	<b>63,732</b>
<b>At 31 December 2015</b>				
Cost	56,417	243,506	97,689	397,612
Accumulated depreciation	(51,681)	(231,171)	(51,028)	(333,880)
<b>Net book amount</b>	<b>4,736</b>	<b>12,335</b>	<b>46,661</b>	<b>63,732</b>

# Notes to the Consolidated Financial Statements

(continued)

## 13 Intangible exploration and evaluation assets

Group	Licence costs \$	Geological, Geophysical and Technical Analysis \$	Total \$
<b>Year ended 31 December 2014</b>			
Opening cost/net book amount	2,081,250	44,288,726	46,369,976
Additions	–	408,952	408,952
<b>Closing cost/net book amount</b>	<b>2,081,250</b>	<b>44,697,678</b>	<b>46,778,928</b>
<b>Year ended 31 December 2014</b>			
Opening cost/net book amount	2,081,250	44,697,678	46,778,928
Additions (note 20(iii))	770,000	310,328	1,080,328
<b>Closing cost/net book amount</b>	<b>2,851,250</b>	<b>45,008,006</b>	<b>47,859,256</b>

Ultimate recoupment of intangible exploration and evaluation assets capitalised is dependent on successful development and commercial exploitation, or alternatively, sale of the respective licence areas (note 4(b)).

These assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At present the Directors do not believe any such impairment indicators are present (note 4(b)).

## 14 Cash and cash equivalents

	2015 Group \$	2014 Group \$
Cash at bank	<b>5,048,800</b>	10,032,127

The 2015 balance includes interest bearing accounts at rates between 0% and 1% (2014: 0% to 1%).

	2015 Group \$	2014 Group \$
Cash at bank	<b>5,048,800</b>	10,032,127
Non current restricted cash (see note 11)	<b>544,529</b>	46,635
<b>Total cash</b>	<b>5,593,329</b>	10,078,762

## 15 Other receivables

	2015 Group \$	2014 Group \$
Other receivables (note (a))	<b>65,027</b>	141,272
Prepayments (note (b))	<b>620,145</b>	738,443
	<b>685,172</b>	879,715

### (a) Other receivables

As at 31 December 2015 and 2014, these amounts predominantly consist of VAT recoverable.

### (b) Prepayments

As at 31 December 2015 prepayments include \$500,000 (2014: \$500,000) in application fees paid to The Government of the Commonwealth of The Bahamas for five additional exploration licences. During the year, two of these licence applications were withdrawn, consequently receipt of \$200,000 against these applications is expected in 2016. The three retained applications remain pending award, in the event that the Group's applications are unsuccessful, 50% of the remaining \$300,000 in application fees is refundable to the Group. No provision has been made in the consolidated Financial Statements to write down the carrying value of these prepayments.

## 16 Trade and other payables

	2015 Group \$	2014 Group \$
Exploration and evaluation liabilities (note 20 (iii))	<b>770,000</b>	–
Accruals	<b>390,755</b>	210,265
Trade payables	<b>114,558</b>	208,979
Other payables	<b>8,568</b>	12,000
	<b>1,283,881</b>	431,244

The fair value of trade and other payables approximates to their carrying value as at 31 December 2015.

## 17 Share capital, share premium, merger reserve and reverse acquisition reserve

Group	Number of shares issued	Issue price \$	Ordinary shares \$	Share premium reserve \$	Merger reserve \$	Reverse acquisition reserve \$
At 1 January 2014	1,230,479,096	–	37,253	78,185,102	77,130,684	(53,846,526)
<b>At 31 December 2014 and 31 December 2015</b>	<b>1,230,479,096</b>	<b>–</b>	<b>37,253</b>	<b>78,185,102</b>	<b>77,130,684</b>	<b>(53,846,526)</b>

In 2008, BPC Jersey Limited acquired Falkland Gold and Minerals Limited ('FGML') via a reverse acquisition, giving rise to the reverse acquisition reserve. BPC Jersey Limited was the acquirer of FGML although FGML became the legal parent of the Group on the acquisition date. FGML subsequently changed its name to BPC Limited.

The merger reserve arose in 2010 as a result of the Group undergoing a Scheme of Arrangement which saw the shares in the then parent company BPC Limited replaced with shares in Bahamas Petroleum Company plc.

The total authorised number of ordinary shares at 31 December 2015 and 2014 was 5,000,000,000 shares with a par value of 0.002p per share.

All issued shares of 0.002 pence are fully paid.

## 18 Share based payments

Share options have been granted to Directors, selected employees and consultants to the Company.

The Group had no legal or constructive obligation to repurchase or settle any options in cash. Movements in the number of share options outstanding during the year are as follows:

	2015 Group		2014 Group	
	Average exercise price per share	Number Options	Average exercise price per share	Number Options
At beginning of year	<b>17.32p</b>	<b>64,500,000</b>	17.64p	61,500,000
Relinquished	<b>14.97p</b>	<b>(6,000,000)</b>	–	–
Granted	–	–	7.40p	3,000,000
At end of year	<b>17.39p</b>	<b>58,500,000</b>	17.32p	64,500,000
Exercisable at end of year	<b>21.25p</b>	<b>6,750,000</b>	21.25p	6,750,000

The weighted average remaining contractual life of the options in issue at 31 December 2015 is 2.1 years (31 December 2014: 3.1 years). The exercise price of these options range from 7.4 pence per share to 21.25 pence per share.

On 31 May 2015, 2 million options granted on 27 October 2011 and 4 million options granted on 2 April 2012 were forfeited as follows:

- 2 million share options with a strike price of 7.4 pence becoming exercisable on the Company share price reaching 18.75 pence.
- 4 million share options with a strike price of 18.75 pence becoming exercisable on the successful commencement of an exploration well by the Company.

No adjustment was made to the share based payments reserve or charge for the year following the above forfeitures.

# Notes to the Consolidated Financial Statements

(continued)

## 18 Share based payments continued

On 25 September 2014 2 million options were granted and on 17 December 2014 1 million options were granted, all of which carried the following terms:

- The options have an exercise price of 7.4 pence.
- The options become exercisable only once the Company share price reaches 18.75 pence.
- The options expire after 5 years.
- The options require the option holder to remain in office, with the provision of this service requirement to be waived at the discretion of the Company.

The fair value of the options granted in the prior year was estimated using the Black Scholes model or, where there are market based vesting conditions, the Black Scholes Barrier model. The inputs and assumptions used in calculating the fair value of options granted in the prior year were as follows:

	Date of grant	
	25 September 2014	17 December 2014
Number of options granted	2,000,000	1,000,000
Share price at date of grant	2.65p	1.98p
Exercise price	7.4p	7.4p
Expected volatility	29%	29%
Expected life	1.25 years	1.00 years
Risk free return	0.35%	0.35%
Dividend yield	Nil	Nil
Hurdle rate	18.75p	18.75p
Fair value per option	nil	nil

On 17 December 2014, the Directors entered into an agreement for the deferral of 20% of their salary and fees on the following terms:

- 20% of all directors' fees and the CEO's salary are to be forgone until a farmout or other arrangement sufficient to finance the first exploration well is completed.
- The value of fees/salary forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- The number of ordinary shares accruing shall be calculated as the value of fees/salary forgone divided by the volume weighted average closing price of the Company shares over each month.
- The 'accrued shares' shall only be issued to the directors on completion of a farmout or other arrangement sufficient to finance the first exploration well.
- The agreement is effective for all parties from 1 October 2014.

Under IFRS 2, the above agreement constitutes the issuance of equity settled share based payment instruments with the following terms:

- All instruments granted on 1 October 2014 with individual tranches vesting at the end of each month based on the monthly volume weighted average share price.
- Total number of instruments granted estimated based on forecast fee deferral quantum and average Company share price over the preceding 15 months.
- Instruments shall only be issued on conclusion of financing for the Group's first exploration well.
- Estimated issue date of 31 December 2015 and consequent 15 month life of instruments.
- Estimated fair value of instruments being the share price on the date of grant.

The value of the instruments has been estimated and shall be charged to the Statement of Total Comprehensive Income in monthly tranches over the estimated life of the instruments.

### Expense arising from share based payment transactions

Total expense arising from equity-settled share based payment transactions:

	2015 Group \$	2014 Group \$
Expense in relation to share based payment transactions	<b>273,287</b>	69,375

## 19 Cash used in operations

	2015 Group \$	2014 Group \$
Loss after income tax	<b>(4,774,445)</b>	(4,668,179)
Adjustments for:		
– Depreciation (note 12)	<b>48,896</b>	73,494
– Share based payment (note 18)	<b>273,287</b>	69,375
– Finance income (note 6)	<b>(13,694)</b>	(14,700)
– Other income received	<b>(57,000)</b>	(96,000)
– Loss on disposal of fixed assets	<b>(297)</b>	–
– Foreign exchange (gain)/loss on operating activities (note 8)	<b>28,912</b>	(23,886)
Changes in working capital:		
– Other receivables	<b>264,283</b>	(20,881)
– Trade and other payables	<b>31,817</b>	120,385
Cash used in operations	<b>(4,198,241)</b>	(4,560,392)

## 20 Contingencies and commitments

### (i) Contingencies

As at 31 December 2015, the Group had no contingent liabilities that require disclosure in these financial statements.

### (ii) Expenditure commitments

The terms of the Groups licence renewal, effected on 8 June 2015, require the commencement of an exploration well in the licenced area by 30 April 2017. As the Company does not have sufficient cash resources to discharge this commitment, an industry partnership or other financing arrangement will be required in order to meet this licence obligation.

### (iii) Annual rental commitments

The Group is required under the exploration licences to remit annual rentals in advance to the Government of the Commonwealth of The Bahamas in respect of the licenced areas.

On 8 June 2015, the Group's four southern exploration licences were renewed for a further three years to 2018. Under the renewed terms, the licences attract a rental fee of \$250,000 per licence per annum, totalling \$1,000,000 annually for all four licences held by the Group. Prepaid rentals submitted to the Bahamian Government in 2012 totalling \$230,000 have been agreed as offsettable against the above rental obligation, giving rise to a net cash payable for the licence year to 8 June 2016 of \$770,000 which was paid after the balance sheet date.

Renewal of the Group's Miami licence remains under review pending negotiations with the Bahamian Government regarding the terms of renewal.

The Group leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015 Group \$	2014 Group \$
No later than 1 year	<b>243,300</b>	343,300
Later than 1 year and no later than 5 years	<b>60,450</b>	302,250
	<b>303,750</b>	645,550

On 1 January 2014 the Group entered into a four year lease to sublet a portion of unutilised office space in Nassau, Bahamas for \$48,000 per annum. The above minimum lease payment obligations are shown gross of this income source which is recognised as Other Income received in the Consolidated Statement of Comprehensive Income for the year.

# Notes to the Consolidated Financial Statements

(continued)

## 21 Related party transactions

### Key Management Personnel

Details of key management personnel during the current and prior year are as follows:

William Schrader	Non-executive Chairman
James Smith	Non-executive Deputy Chairman
Simon Potter	Director and Chief Executive Officer
Adrian Collins	Non-executive Director
Ross McDonald	Non-executive Director
Steven Weyel	Non-executive Director – Resigned during the prior year
Edward Shallcross	Non-executive Director

### Key Management Compensation

	2015 Group \$	2014 Group \$
Short term employee benefits	<b>1,206,545</b>	1,419,826
Share based payments (see note 18)	<b>273,287</b>	69,375
	<b>1,479,832</b>	1,489,201

Simon Potter's key remunerative terms as Chief Executive Officer of the Company are as follows:

- Annual salary of \$1,000,000 with minimum CPI indexation.
- Mr Potter is entitled to receive pension contributions from the Company equal to 10% of his contracted annual salary.
- The term of the contract expires on 16 October 2017. Benefits arising from termination during the term range from nil to payment of salary over the full term, depending on the circumstances surrounding termination.
- Effective 1 October 2014, Mr Potter agreed to defer 20% of his salary, equating to \$200,000 annually, to be received in Company shares contingent on the successful conclusion of a farm out or other arrangement sufficient to finance the Company's first exploration well.

During the year, all housing contracts entered into by the Company were terminated. Up until that time, Simon Potter had been provided with housing in Nassau, Bahamas for his exclusive use at a cost to the Company of \$80,000 (2014: \$194,133). These amounts have been recognised in the Financial Statements as premises expenses under the categorisation 'other costs'.

### Directors' remuneration

	2015 Group \$	2014 Group \$
Simon Potter;		
– Salary	<b>800,000</b>	950,000
– Pension liability	<b>100,000</b>	98,792
Total	<b>900,000</b>	1,048,792
William Schrader	<b>80,235</b>	62,574
James Smith	<b>52,468</b>	48,210
Adrian Collins	<b>60,759</b>	85,729
Ross McDonald	<b>51,963</b>	66,549
Edward Shallcross	<b>61,120</b>	78,532
Steven Weyel	–	29,440
<b>Total</b>	<b>1,206,545</b>	1,419,826

Effective 1 October 2014, the Directors agreed to forgo 20% of their remuneration which becomes repayable in shares only once the Company's first exploration well has been successfully financed. See note 18 for further details.

No cash payments were made in the current year related to Simon Potter's pension benefits entitlement. The entitled amounts have accrued in the year and are included in accruals on the balance sheet as at 31 December 2015.



Share options granted to Directors during the prior year were as follows:

	Number of options granted	Exercise price per Ordinary Share	Date of grant
William Schrader	2,000,000	7.40p	25 September 2014
James Smith	1,000,000	7.40p	17 December 2014

Details of share options granted are disclosed in note 18 to these Financial Statements.

### Other related party transactions

During the year the Company operated banking facilities with RBC Royal Bank (Bahamas) Limited in Nassau, The Bahamas. Ross McDonald, a director of the Company, is also a director of RBC Royal Bank (Bahamas) Limited. As at 31 December 2015, \$605,245 was held on deposit with RBC Royal Bank (Bahamas) Limited (31 December 2014: \$68,230).

### 22 Events After the Balance Sheet Date

On 4 February 2016, the Bahamain Senate debated and passed the new Petroleum Bill and attendant legislation, which had previously been passed by the House of Assembly during 2015. On 1 March 2016 the Bill was subsequently signed by the Governor General, thus becoming the Petroleum Act.

# Independent Auditor's Report to the Members of Bahamas Petroleum Company plc

## Report on the Financial Statements

We have audited the parent company financial statements ('the financial statements') of Bahamas Petroleum Company plc which comprise the balance sheet as at 31 December 2015 and the parent company statement of changes in equity and parent company cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion:

- The parent company financial statements give a true and fair view of the financial position of the parent company as at 31 December 2015, and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and
- The parent company Financial Statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

## Emphasis of Matter

We draw attention to note 3 to the parent company financial statements which describes the uncertainty related to the future recoverability of the parent company's investment in subsidiaries and loans to Group undertakings. Our opinion is not qualified in respect of this matter.

## Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- Proper books of account have not been kept by the parent company or, proper returns adequate for our audit have not been received from branches not visited by us; or
- The parent company's balance sheet is not in agreement with the books of account and returns; or
- We have not received all the information and explanations necessary for the purposes of our audit; and
- Certain disclosures of Directors' loans and remuneration specified by law have not been complied with.

## Other Matters

We have reported separately on the consolidated financial statements of Bahamas Petroleum Company plc for the year ended 31 December 2015 on page 12. That report includes an emphasis of matter.

## PricewaterhouseCoopers LLC Chartered Accountants

Douglas, Isle of Man  
18 March 2016

# Parent Company Balance Sheet

As at 31 December 2015

	Note	2015 Company \$	2014 Company \$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	7	29,560,465	29,560,465
Other receivables	8	57,941,951	54,954,924
Property, plant and equipment	6	3,849	2,427
Restricted cash	5	544,529	46,635
		<b>88,050,794</b>	84,564,451
<b>Current assets</b>			
Other receivables	8	116,599	251,882
Cash and cash equivalents	9	4,442,965	9,963,308
		<b>4,559,564</b>	10,215,190
<b>Total assets</b>		<b>92,610,358</b>	94,779,641
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	390,803	367,273
<b>Total liabilities</b>		<b>390,803</b>	367,273
<b>EQUITY</b>			
Share capital	11	37,253	37,253
Share premium reserve	11	78,185,102	78,185,102
Other reserve	11	29,535,159	29,535,159
Share based payments reserve	12	1,753,716	1,480,429
Retained earnings		(17,291,675)	(14,825,575)
<b>Total equity</b>		<b>92,219,555</b>	94,412,368
<b>Total equity and liabilities</b>		<b>92,610,358</b>	94,779,641

The financial statements on pages 33 to 39 were approved and authorised for issue by the Board of Directors on 18 March 2016 and signed on its behalf by:

**Edward Shallcross**  
Director

**Simon Potter**  
Director

# Parent Company Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Share capital \$	Share premium \$	Other Reserve \$	Share based payment reserve \$	Retained earnings \$	Total equity \$
<b>Balance at 1 January 2014</b>		<b>37,253</b>	<b>78,185,102</b>	<b>29,535,159</b>	<b>1,411,054</b>	<b>(12,649,998)</b>	<b>96,518,570</b>
<b>Comprehensive income:</b>							
Total comprehensive loss for the year	4	-	-	-	-	(2,175,577)	(2,175,577)
<b>Total comprehensive income</b>		-	-	-	-	(2,175,577)	(2,175,577)
<b>Transactions with owners</b>							
Share options - value of service	12	-	-	-	69,375	-	69,375
<b>Total transactions with owners</b>		-	-	-	69,375	-	69,375
Balance at 31 December 2014		<b>37,253</b>	<b>78,185,102</b>	<b>29,535,159</b>	<b>1,480,429</b>	<b>(14,825,575)</b>	<b>94,412,368</b>
<b>Balance at 1 January 2015</b>		<b>37,253</b>	<b>78,185,102</b>	<b>29,535,159</b>	<b>1,480,429</b>	<b>(14,825,575)</b>	<b>94,412,368</b>
<b>Comprehensive income:</b>							
Total comprehensive loss for the year	4	-	-	-	-	(2,466,100)	(2,466,100)
<b>Total comprehensive income</b>		-	-	-	-	(2,466,100)	(2,466,100)
<b>Transactions with owners</b>							
Share options - value of service	12	-	-	-	273,287	-	273,287
<b>Total transactions with owners</b>		-	-	-	273,287	-	273,287
<b>Balance at 31 December 2015</b>		<b>37,253</b>	<b>78,185,102</b>	<b>29,535,159</b>	<b>1,753,716</b>	<b>(17,291,675)</b>	<b>92,219,555</b>

The accompanying notes on pages 36 to 39 form part of these financial statements.

# Parent Company Cash Flow Statement

For the year ended December 2015

	Note	2015 Company \$	2014 Company \$
<b>Cash flows from operating activities</b>			
Cash used in operations	13	<b>(1,996,519)</b>	(2,070,690)
<b>Net cash used in operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(4,765)</b>	(1,802)
Interest received		<b>13,694</b>	14,700
Decrease in restricted cash		<b>(500,000)</b>	112,173
Advances to and payments on behalf of group companies		<b>(2,987,027)</b>	(2,895,951)
<b>Net cash used in investing activities</b>			
<b>Net decrease in cash and cash equivalents</b>			
<b>Cash and cash equivalents at the beginning of the year</b>			
Effects of exchange rate changes on cash and cash equivalents		<b>(45,726)</b>	(7,722)
<b>Cash and cash equivalents at the end of the year</b>			

The accompanying notes on pages 36 to 39 form part of these financial statements.

# Notes to the Parent Company Financial Statements

## 1 General information

Bahamas Petroleum Company plc ('the Company') and its subsidiaries (together 'the Group') are the holders of several oil & gas exploration licences issued by the Government of the Commonwealth of The Bahamas.

The Company is a limited liability company incorporated and domiciled in the Isle of Man. The address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man. The Company's review of operations and principal activities is set out in the Directors' Report. See note 1 to the consolidated financial statements for details of the Company's principal subsidiaries.

The accounting reference date of the Company is 31 December.

## 2 Accounting policies

### 2.1 Basis of preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC (International Financial Reporting Interpretations Committee) interpretations as adopted by the European Union ('EU'). The Financial Statements have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

The Company's accounting policies and information regarding changes in accounting policies and disclosures are in line with those of the Group, as detailed in note 2 of the consolidated Financial Statements, in addition to those set out below.

### Going concern

The Directors have, at the time of approving the Financial Statements, determined that the Company has more than adequate financial resources and therefore these Financial Statements have been prepared on a going concern basis, which assumes that the Company will continue in operations for the foreseeable future. See note 4 in the consolidated Financial Statements for further details.

### 2.2 Investment in subsidiaries

Investments in subsidiaries are included in the Company balance sheet at cost less any provision for impairment.

## 3 Critical accounting estimates and assumptions

### Investment in subsidiary and loans to Group undertakings

The investment in the Company's direct subsidiaries and loans to Group undertakings at 31 December 2015 stood at \$29,560,465 (2014: \$29,560,465) and \$57,941,951 (2014: \$54,954,924) respectively.

Ultimate recoverability of investments in subsidiaries and loans to Group undertakings is dependent on successful development and commercial exploitation, or alternatively, sale of the respective licence areas. The carrying values of the Company's investments in subsidiaries and loans to Group undertakings are reviewed at each balance sheet date and, if there is any indication that they are impaired, their recoverable amount is estimated. Estimates of impairments are limited to an assessment by the Directors of any events or changes in circumstances that would indicate that the carrying values of the assets may not be fully recoverable. Any impairment losses arising are charged to the statement of comprehensive income.

On 10 March 2013, the Government of The Bahamas announced its intentions to proceed with oil and gas exploration drilling in Bahamian waters. Additionally, the Government clarified its intentions for a public consultation on the creation of an oil and gas extraction and production industry, noting that any such consultation process would only take place in the event that commercial reserves of hydrocarbons are discovered in Bahamian waters. Following this decision, the future recoverability of the Group's intangible assets are contingent upon the discovery of commercial reserves and the presentation of all relevant data before the Government and thus the people of The Bahamas.

On 8 June 2015 the Government of The Bahamas formally renewed and extended the Group's four southern exploration licences in Bahamian waters for at least a further three years to 2018. As part of this renewal, the southern boundaries of the four southern licences were adjusted to conform to the maritime boundary between The Bahamas and Cuba, providing tenure over the full extent of the existing mapped structures. Under the terms of the renewed licences, the Group is obliged to commence drilling activities by 30 April 2017.

Renewal of the Miami licence remains under review as at the balance sheet date.

#### 4 Loss attributable to members of the parent company

The loss dealt with in the Financial Statements of the Company for the year to 31 December 2015 is \$2,466,100 (2014: \$2,175,577). As permitted by part 1 section 3(5) of the Isle of Man Companies Act 1982, the Company has elected not to present its own statement of comprehensive income for the year.

#### 5 Restricted cash

Restricted cash balances for the Company are the same as those for the Group. Please see note 11 to the consolidated Financial Statements for more details.

#### 6 Property, plant and equipment

Company	Furniture, fittings and equipment \$	Total \$
<b>As at 31 December 2014</b>		
Cost	55,343	55,343
Accumulated depreciation	(46,768)	(46,768)
<b>Net book amount</b>	<b>8,575</b>	<b>8,575</b>
<b>Year ended 31 December 2014</b>		
Opening net book amount	8,575	8,575
Additions	1,802	1,802
Depreciation charge	(7,950)	(7,950)
<b>Closing net book amount</b>	<b>2,427</b>	<b>2,427</b>
<b>As at 31 December 2014</b>		
Cost	57,145	57,145
Accumulated depreciation	(54,718)	(54,718)
<b>Net book amount</b>	<b>2,427</b>	<b>2,427</b>
<b>Year ended 31 December 2015</b>		
Opening net book amount	2,427	2,427
Additions	4,765	4,765
Depreciation charge	(3,343)	(3,343)
<b>Closing net book amount</b>	<b>3,849</b>	<b>3,849</b>
<b>As at 31 December 2015</b>		
Cost	61,910	61,910
Accumulated depreciation	(58,061)	(58,061)
<b>Net book amount</b>	<b>3,849</b>	<b>3,849</b>

#### 7 Investment in subsidiaries

	2015 Company \$	2014 Company \$
BPC (A) Limited	<b>29,560,456</b>	29,560,456
BPC (B) Limited	<b>3</b>	3
BPC (C) Limited	<b>3</b>	3
BPC (D) Limited	<b>3</b>	3
	<b>29,560,465</b>	29,560,465

# Notes to the Parent Company Financial Statements

(continued)

## 8 Other receivables

	2015 Company \$	2014 Company \$
<b>Non-current assets</b>		
Amount owing by group undertakings	<b>57,941,951</b>	54,954,924
<b>Current assets</b>		
Prepayments	<b>53,068</b>	112,110
Trade and other receivables	<b>63,531</b>	139,772
	<b>116,599</b>	251,882

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand. The Directors have agreed that repayment of these amounts will not be called on within 12 months of the reporting date.

Other receivables predominantly consist of VAT recoverable.

## 9 Cash and cash equivalents

	2015 Company \$	2014 Company \$
Cash at bank	<b>4,442,965</b>	9,963,308

The 2015 and 2014 balances include interest bearing accounts at rates between 0% and 1%.

## 10 Trade and other payables

	2015 Company \$	2014 Company \$
Accruals	<b>267,700</b>	150,713
Trade payables	<b>114,558</b>	208,979
Other payables	<b>8,545</b>	7,581
	<b>390,803</b>	367,273

The fair value of trade and other payables approximates their carrying value as at 31 December 2015.

## 11 Share capital, share premium and other reserve

Company	Number of shares issued	Ordinary shares \$	Share premium reserve \$	Other reserve \$	Total \$
At 1 January 2014	1,230,479,096	37,253	78,185,102	29,535,159	107,757,514
<b>At 31 December 2014 and 2015</b>	<b>1,230,479,096</b>	<b>37,253</b>	<b>78,185,102</b>	<b>29,535,159</b>	<b>107,757,514</b>

All issued shares are fully paid.

The authorised share capital of the Company is 5,000,000,000 ordinary shares of 0.002 pence each.

The Other reserve balance arises from the issue of shares in the Company as part of the Scheme of Arrangement undertaken in 2010, which saw the shares in the then parent company BPC Limited replaced with shares in Bahamas Petroleum Company plc (then BPC plc), which became the new Parent Company of the Group.



## 12 Share based payments

Share based payments for the Company are the same as those for the Group. For further details please see note 18 to the consolidated Financial Statements.

## 13 Cash used in operations

	2015 Company \$	2014 Company \$
Loss before income tax	<b>(2,466,100)</b>	(2,175,577)
Adjustments for:		
– Depreciation (note 6)	<b>3,343</b>	7,950
– Finance income	<b>(13,694)</b>	(14,700)
– Foreign exchange (gain)/loss on operating activities	<b>28,912</b>	(23,886)
– Share based payment (consolidated Financial Statements note 18)	<b>273,287</b>	69,375
Changes in working capital:		
– Other receivables	<b>205,023</b>	(46,026)
– Trade and other payables	<b>(27,290)</b>	112,174
<b>Cash used in operations</b>	<b>(1,996,519)</b>	(2,070,690)

## 14 Related party transactions

During the year, goods and services totalling \$2,987,027 (2014: \$2,895,951) were charged by the Company to BPC Limited, the 100% indirectly owned subsidiary of the Company. See note 8 for details of the amounts outstanding at the balance sheet date.

All other related party transactions of the Company are the same as those for the Group. For further details see note 21 to the consolidated Financial Statements.

# Corporate Directory

<b>Company Number</b>	Registered in the Isle of Man with registered number 123863C
<b>Directors</b>	<b>William Schrader</b> Non-executive Chairman <b>James Smith</b> Non-executive Deputy Chairman <b>Simon Potter</b> Chief Executive Officer <b>Adrian Collins</b> Non-executive <b>Edward Shallcross</b> Non-executive <b>Ross McDonald</b> Non-executive
<b>Secretary</b>	<b>Benjamin Proffitt</b>
<b>Registered Office and Corporate Headquarters</b>	IOMA House Hope Street Douglas Isle of Man IM1 1AP
<b>Bahamas Headquarters</b>	Building 3 Western Road Western New Providence Commercial Centre Mount Pleasant Village Nassau, Bahamas PO Box SP-64135
<b>Registrar</b>	<b>Capita Registrars (IOM) Limited</b> Clinch's House Lord Street Douglas Isle of Man IM99 1RZ
<b>Auditor</b>	<b>PricewaterhouseCoopers LLC</b> Sixty Circular Road Douglas Isle of Man IM1 1SA
<b>Solicitors</b>	<b>Graham Thompson &amp; Co</b> Sassoon House Shirley Street & Victoria Avenue PO Box N-272, Nassau Bahamas  <b>Delaney Partners</b> Commercial Lawyers Lyford Manor, (West Blog) Western Road Lyford Cay PO Box CB-13007, Nassau Bahamas
<b>Nominated Advisor</b>	<b>Strand Hanson Limited</b> 26 Mount Row London W1K 3SQ United Kingdom
<b>Broker</b>	<b>Canaccord Genuity</b> 88 Wood Street London EC2V 7QR United Kingdom



Visit us online at  
[www.bpcplc.com](http://www.bpcplc.com)