Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2016

Chairman and Chief Executive's Review

Since the last financial report to shareholders there have been a number of developments, both Company specific and more generally, that have continued to shape efforts to reduce expenditures whilst moving the project forward, as well as further defining the business environment in which the Company operates.

So what has changed?

Most importantly, on the project front, the first six months of 2016 saw the final passage of the new Bahamian Petroleum Act which was formally enacted as at 31 March 2016. Subsequently, the attendant Petroleum Regulations were gazetted and implemented, thus fully completing the process of updating the legal and regulatory environment of The Bahamas in anticipation of future exploration activities.

Given the significant future investment in the Bahamian economy that a successful project would entail, a number of potential partners regarded the resolution of perceived "above ground" issues as a necessary precursor to the progress of discussions. The passage of the revised legislative package, following on from renewal of the Company's exploration licences in 2015, has thus provided impetus for partnership discussions to progress in earnest.

Another significant change in relation to the project is that estimates of the entry level capital requirement have continued to be revised downward as rigs are warm or cold stacked. This has resulted in substantial reductions in global rig-rates which are now at roughly one quarter the original estimates received by the Company in 2012.

In relation to "below ground" issues, additional work has been undertaken to further de-risk various technical aspects of the prospects. This has largely been targeted work in response to multiple assessments by various external parties in the course of ongoing discussions, each of whom bring their own particular area of enquiry and focus to the technical evaluation process and commercial discussions.

As a result of this additional work, the already strong technical case for the world class nature of the Company's assets has been enhanced. Recently published independent analysis from a leading international petroleum consultant (Wood Mackenzie) has reinforced that view, in that it identified the anticipated BPC well as being ranked in the top 10 "Drilling and Future Wells by Prospect Size" (as measured by their estimate of pre-drill volumes - mmboe). In combination, the reduced estimated drilling cost, along with the potential scale of the project resources, further underpins the upper quartile nature of the finding and development (F&D) costs (measured in $/barrel) the industry typically uses as a key benchmark in determining the relative merits of its 'frontier' exploration plays.

On the global front, there has been a modest recovery in the price of petroleum from the lows of $30 per barrel at the beginning of the year to circa $45-$50 per barrel at present. The price has also been relatively stable of late, providing some respite from the extreme volatility experienced by the markets over the last two years. This increased price and sustained stability is beginning to have an impact in respect of the capital markets, where occasional "green shoots" of exploration appetite seem to be appearing, as evidenced by a number of successful farm-outs and fundraisings which have been reported in recent months.

Thus whilst overall conditions remain difficult, the indications are that the industry is now beginning to emerge from the most challenging phase of the commodity cycle (as it has done on many previous occasions), and this trend is expected to continue in the coming 12-18 months.

Nonetheless, the recent volatility in oil prices, coupled with weaker long-term predicted fundamentals for the industry, is resulting in constrained availability of exploration capital particularly for opportunities perceived as “frontier” exploration. Thus we are observing that the industry participants, prioritise those frontier plays that not only have considerable scale, but are also demonstrably executable (modest water depths, existing technology, close to infrastructure, in established regimes etc.). More so than ever, the ability to fully realise a project is a key determinant in attracting investment for frontier exploration prospects. In this context, the relative importance of the discharge of many of the perceived “above ground” issues relating to our project, as referred to recently, cannot be understated.

The other major impact of recent industry conditions has been on timing of investment decisions. In response to recent market conditions, many of the larger industry players have become increasingly risk-averse with stringent cutbacks on spending and huge turnover in or reshuffling of personnel. Assurance, governance and approval processes in relation to new investments have become considerably more onerous and time-consuming. These factors, combined with the unprecedented range of options available in a “buyer” dominated market, have adversely impacted the pace of progress towards the Company goal of securing an industry partner for its project although most importantly, not its ultimate achievement.

The Company’s strategy remains intact: to secure exploration funding from an industry partner, thus enabling the timely discharge of licence obligations. In support of this strategy meaningful discussions with a number of suitably qualified potential partners are ongoing. The positive attributes of our project means we have continued to attract the attention of both major and independent operators, notwithstanding the overall subdued industry environment, although mainly due to the external market factors previously mentioned, the pace of progress has been less that we would desire.

Financial Review

The total operating loss for the period was $2.159 million, down 8% on the comparative 6-month period and 11% on the 2015 full year result on an annualised basis.

Moreover, on a true cash basis, considerably greater savings have been achieved as a result of measures implemented over the last few years and, in particular, over the 6-month period to June 2016. In particular, as previously announced, the Board elected to increase its fee deferral from 1 April 2016 to 50% of contracted entitlements (up from the 20% deferral implemented in the fourth quarter of 2014). Additionally, Simon Potter took the decision to increase the deferral of his contracted salary to 90%, also effective 1 April 2016, and similar deferrals were agreed to by other executive employees of the Company. These deferrals are only repayable once a successful farm-out or other financing arrangement has been concluded such that the Company’s forward programme is secured. A considerable portion of these deferrals are repayable in shares (and therefore will represent a non-cash cost to the Company), further aligning Board, Management and shareholders alike.

As a direct result of the above, the Company has saved a total of $678k in cash fees / salary outgoings since the deferrals commenced in 4Q 2014, with about half of these cash savings in the current 6-month period alone.

Finally, as part of the recent agreement to increase ongoing deferrals, Simon Potter has also agreed to waive all of his accumulated deferred salary from the period 1 October 2014 to 31 March 2016, an amount of approximately $300k, in support of the project. However, the provisions of IFRS 2 require that the Company continues to recognise all of these foregone costs under Employee Benefit Expenses, despite the non-cash and contingent nature of the deferrals. Thus the waiver of his accrued entitlements (as at 31 March 2016) did not result in a write back of these amounts, which had already been recognised in the Statement of Comprehensive Income as an expense to the Company. Similarly, the increased salary deferrals, which became effective form 1 April 2016, do not result in any decrease to ongoing Employee Benefit Expense recognised under IFRS 2.

In simple terms what this means is that the reported figure for Employee Benefit Expense for the period includes $335k of non-cash items, and also excludes previously recognised deferred fees "written off" in this period. As a result, the true nature of the 'cash' savings in the period and the Company's ongoing cash "burn" rate, are not entirely transparent in the accounts and therefore detailed comparison of the current period costs with the prior period does not provide for meaningful analysis. By contrast, the cost reductions achieved across "non-employee" categories of expenditure are more immediately visible, with a 27% reduction in Other Expenses compared with the previous 6-month period, and a 29% reduction on the 2015 full year results on an annualised basis.

Going forward, the effect of ongoing cost reduction efforts in their entirety will have substantially more visibility on a cash basis (albeit noting that the ongoing requirements to recognise deferred fees under IFRS 2 will continue to result in the reported Operating Loss figure being relatively larger).

As at 30 June 2016 the Company had a total cash balance of approx. $2.5m. Given that cash outflows over the remainder of the 2016 calendar year will be substantially lower than during the first half of 2016 (as noted largely due to the various cash savings initiatives implemented to date as well as a reduced opening creditor position), the Company projects a total cash balance of approximately $1.5m as at 31 December 2016.

The reduced corporate cash "burn" rate and our ongoing determination to avoid all non-core cash expenditure in the coming period is such that the Board is satisfied that these remaining funds are sufficient to see the Company into the second half of 2017, without further capital intake, thus providing sufficient time to complete the ongoing process of securing a partner and the funding of future well operations.

Outlook

Overall, efforts to secure the finance required for the Company's initial exploration well via a farm-out or partnership continue to progress encouragingly, but at a slower pace than desired. The low oil price environment means that it is undoubtedly a "buyers" market, with selection criteria and decision making processes for new "frontier" exploration prospects being more onerous and time-consuming than ever. Industry players are focussed on projects of scale with robust economics and which are relatively uncomplicated operationally all of which criteria our project meets: multi-billion barrel potential, competitive metrics, robust profitability even at today's oil price, and advantaged location adjacent to the largest offshore operating environment and energy market in the world. Consequently, we remain confident that we will conclude a partnership agreement within the required timeframes.

The Board would like to thank all of our shareholders for their continued support and perseverance, and looks forward to reporting further progress to you as we bring the Company into the next phase of its exciting project.

Yours sincerely,

Bill Schrader	**Simon Potter**
Chairman	**Chief Executive Officer**

27 September 2016

Consolidated statement of comprehensive income for the six months ended 30 June 2016

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
	$	$	$
Continuing operations:			
Employee benefit expense	(1,193,158)	(1,023,227)	(2,127,143)
Depreciation expense	(17,762)	(26,783)	(48,896)
Other expenses	(948,605)	(1,294,041)	(2,669,100)
Operating loss	(2,159,525)	(2,344,051)	(4,845,139)
Other income	24,000	33,000	57,000
Finance income	2,750	8,395	13,694
Total comprehensive income for the period, net of tax	(2,132,775)	(2,302,656)	(4,774,445)
Basic and diluted loss per share (cents per share)	(0.17)	(0.19)	(0.39)

Consolidated statement of changes in equity for the six months ended 30 June 2016

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2016	37,253	78,185,102	77,130,684	(53,846,526)	2,123,760	(50,712,665)	52,917,608
Comprehensive income							
Loss for the period	-	-	-	-	-	(2,132,775)	(2,132,775)
Total comprehensive income for the period	-	-	-	-	-	(2,132,775)	(2,132,775)
Transactions with owners							
Share options – value of services	-	-	-	-	234,842	-	234,842
Total transactions with owners	-	-	-	-	234,842	-	234,842
Balance at 30 June 2016	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**2,358,602**	**(52,845,440)**	**51,019,675**

Consolidated statement of changes in equity
for the six months ended 30 June 2015

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2015	37,253	78,185,102	77,130,684	(53,846,526)	1,850,473	(45,938,220)	57,418,766
Comprehensive income							
Loss for the period	-	-	-	-	-	(2,302,656)	(2,302,656)
Total comprehensive income for the period	-	-	-	-	-	(2,302,656)	(2,302,656)
Transactions with owners							
Share options – value of services	-	-	-	-	139,388	-	139,388
Total transactions with owners	-	-	-	-	139,388	-	139,388
Balance at 30 June 2015	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,989,861**	**(48,240,876)**	**55,255,498**

Consolidated statement of changes in equity
for the year ended 31 December 2015

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2015	37,253	78,185,102	77,130,684	(53,846,526)	1,850,473	(45,938,220)	57,418,766
Comprehensive income							
Loss for the year	-	-	-	-	-	(4,774,445)	(4,774,445)
Total comprehensive income for the year	-	-	-	-	-	(4,774,445)	(4,774,445)
Transactions with owners							
Share options – value of services	-	-	-	-	273,287	-	273,287
Total transactions with owners	-	-	-	-	273,287	-	273,287
Balance at 31 December 2014	37,253	78,185,102	77,130,684	(53,846,526)	2,123,760	(50,712,665)	52,917,608

Consolidated balance sheet
at 30 June 2016

		30 June 2016 (Unaudited)	30 June 2015 (Unaudited)	31 December 2015 (Audited)
Assets	***Note***	**$**	**$**	**$**
Non-current assets				
Intangible exploration and evaluation assets	*1*	47,966,507	47,521,009	47,859,256
Property, plant and equipment		58,505	83,641	63,732
Restricted cash		540,251	47,205	544,529
		48,565,263	47,651,855	48,467,517
Current assets				
Other Receivables		762,710	693,162	685,172
Cash and cash equivalents		1,983,760	7,712,425	5,048,800
		2,746,470	8,405,587	5,733,972
Total assets		51,311,733	56,057,442	54,201,489
Liabilities				
Current liabilities				
Trade and other payables		292,058	801,944	1,283,881
Total liabilities		292,058	801,944	1,283,881
Equity				
Ordinary shares		37,253	37,253	37,253
Share premium reserve		78,185,102	78,185,102	78,185,102
Merger reserve		77,130,684	77,130,684	77,130,684
Reverse acquisition reserve		(53,846,526)	(53,846,526)	(53,846,526)
Share-based payments reserve		2,358,602	1,989,861	2,123,760
Retained earnings		(52,845,440)	(48,240,876)	(50,712,665)
Total equity		51,019,675	55,255,498	52,917,608
Total equity and liabilities		51,311,733	56,057,442	54,201,489

These interim financial statements were approved by the Directors and authorised for issue on 27 September 2016

Simon Potter, Chief Executive Officer   Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2016

	30 June 2016 (Unaudited) $	30 June 2015 (Unaudited) $	31 December 2015 (Audited) $
Cash flows from operating activities			
Payments to suppliers and employees	(2,177,678)	(2,342,671)	(4,198,241)
Net cash used in operating activities	(2,177,678)	(2,342,671)	(4,198,241)
Cash flows from investing activities			
Purchase of property, plant and equipment	(12,534)	-	(5,226)
Proceeds from disposal of property plant and equipment	-	4,000	5,500
Payments for exploration and evaluation assets	(877,251)	(29,581)	(310,328)
Decrease in restricted cash	-	-	(500,000)
Other income	24,000	33,000	57,000
Interest received	2,750	8,395	13,694
Net cash used in investing activities	(863,035)	15,814	(739,360)
Net decrease in cash and cash equivalents	(3,040,713)	(2,326,857)	(4,937,601)
Cash and cash equivalents at the beginning of the period	5,048,800	10,032,127	10,032,127
Effects of exchange rate changes on cash and cash equivalents	(24,327)	7,155	(45,726)
Cash and cash equivalents at the end of the period	1,983,760	7,712,425	5,048,800

1. Basis of preparation

The unaudited consolidated interim financial information has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively "EU IFRSs"). The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the Company's financial statements for the year ended 31 December 2015. It is not expected that there will be any changes or additions to these in the annual financial statements for the year ended 31 December 2016.

While the financial information included in this interim consolidated financial information has been prepared in accordance with the recognition and measurement criteria of EU IFRSs, this consolidated interim financial information does not itself contain sufficient information to comply fully with EU IFRSs.

The interim financial information for the six months ended 30 June 2016 and 30 June 2015 is unaudited and does not constitute the Company's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2015 has, however, been derived from the Company's statutory financial statements for that period. The auditor's report on those statutory financial statements was unqualified but included an emphasis of matter relating to uncertainty in respect to the future recoverability of the Group's Intangible Exploration and Evaluation Assets.

In the opinion of the directors, the accompanying interim financial information includes all adjustments considered necessary for fair and consistent presentation of the interim financial statements. The interim financial statements have been prepared on the going concern basis, assuming that the Group will realise its assets and extinguish its liabilities in the normal course of business at the amounts recognised within the interim financial statements.

Carrying Value of Intangible Exploration and Evaluation Assets

Expenditure of $47,966,507 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2016 (30 June 2015: $47,521,009) (31 December 2015: $47,859,256).

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.