

Bahamas Petroleum Company plc
Annual Report and Financial Statements

For the year ended 31 December 2016

Corporate directory

Company Number	Registered in the Isle of Man with registered number 123863C
Directors	William Schrader <i>Non-Executive Chairman</i>
	James Smith <i>Non-Executive Deputy Chairman</i>
	Simon Potter <i>Chief Executive Officer</i>
	Adrian Collins <i>Non-Executive</i>
	Edward Shallcross <i>Non-Executive</i>
	Ross McDonald <i>Non-Executive</i>
Secretary	Benjamin Proffitt
Registered Office and Corporate Headquarters	IOMA House Hope Street Douglas Isle of Man IM1 1AP
Bahamas Headquarters	Building 3 Western Road Western New Providence Commercial Centre Mount Pleasant Village Nassau, Bahamas PO Box SP-64135
Registrar	Capita Registrars (IOM) Limited Clinch's House Lord Street Douglas Isle of Man IM99 1RZ
Auditor	PricewaterhouseCoopers LLC Sixty Circular Road Douglas Isle of Man IM1 1SA

Corporate directory (continued)

Solicitors

Graham Thompson & Co
Sassoon House
Shirley Street & Victoria Avenue
PO Box N-272, Nassau
Bahamas

Delaney Partners
Commercial Lawyers
Lyford Manor, (West Blog)
Western Road
Lyford Cay
PO Box CB-13007
Nassau, Bahamas

Nominated Advisor

Strand Hanson Limited
26 Mount Row
London
W1K 3SQ
United Kingdom

Brokers

Shore Capital Stockbrokers Limited
Bond Street House
14 Clifford Street
London

Canaccord Genuity
88 Wood Street
London
EC2V 7QR
United Kingdom

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Chairman's Report

Dear Shareholder,

Since my last report, there have been a number of developments relating to the Company's project that I would wish to briefly draw to shareholders' attention.

As I reported last year, the Company's Southern Licences were formally renewed by the Bahamian Government in June 2015 for a further three year period, in anticipation of the imminent passage of the long-awaited modernised and strengthened new Petroleum Act and associated Regulations. However, it then took a further 13 months until July 2016 for the Bahamian Ministry of Environment and Housing to finally sign into force the updated Petroleum Regulations. The full enactment of the new Petroleum Act and associated Regulations process thus ultimately took nearly four years, during which time the regulatory landscape for the industry going forward could not be clearly portrayed to potential investors, thus providing a considerable overhang to any discussions.

Recognising this considerable additional interregnum, in March 2017, the Government of The Bahamas granted a further 12 month extension to the licences and all obligations therein. The Company's well obligation is thus deferred, to commence the first exploration well during 2018.

In the same period of time (that is, while the Government was considering the final form of the new petroleum legislation and associated regulation) the price of crude oil fell sharply, and general oil industry sentiment weakened considerably. Of specific impact to the Company, industry capacity for frontier exploration investment risk (both above ground and below ground) contracted, and access to investment capital dried up. Notwithstanding this period of significant industry disruption, discussions with potential investors, as previously reported, continued uninterrupted, and are ongoing at the time of writing of this report, indeed, BPC is confident of being able to conclude a farm-out and several parties are presently engaged in late-stage commercial negotiations. This continuing interest reflects, we believe, the high technical quality, global scale and advantaged location of the Company's assets. However, the factors mentioned above have meant we have been unable as yet to progress those discussions to a finally concluded farm-out. It is no doubt disappointing to shareholders that these discussions have not yet produced a result, as it is to the Board.

Pending a successful outcome to the farm-out process, a number of further cost saving measures were implemented over the past year, such that the Company is now leaner than ever. As part of that the Board of the Company agreed to defer 50% of its fees, and the executive of the Company agreed to defer 90% of total remuneration, until such time as a farm-in or other financing sufficient for an initial exploration well is secured. In June 2017 the Board also took the decision to supplement the Company's available funds via a placing to raise approximately \$3.25m. These funds will bolster the Company's balance sheet, as well as strengthen the negotiating position with potential partners. The Board and I are interested in participating in the placing and will advise on any such decision once permitted to do so by the close period trading rules.

More recently, the industry outlook has become more positive. We have started to see a stabilization of global oil prices. The implementation of production restrictions by OPEC and Russia, along with modest economic growth driving a steady increase in demand, appears to have rebased the oil price around the \$50 per barrel mark. That said, oil services companies continue to operate at low rates of asset utilisation, with record levels of rigs globally remaining stacked, and global exploration activity remains considerably curtailed.

In The Bahamas, a general election in May 2017 resulted in a change in government. The Board and I look forward to working with the new government in furthering our project, which we believe presents so much potential for the nation of The Bahamas as a whole.

In summary, despite the frustratingly slow progress in the core task of securing a farm-in partner, BPC's project continues to be of interest to oil majors and large independents alike. Given the sheer scale of the project's potential prize, coupled with technical ease of well execution and proximity to the world's largest hydrocarbon market, and now with the benefit of our licences extended, new legislation in place, and generally improving industry sentiment, we remain confident that we will eventually succeed in our objective, and I look forward to being able to report back to shareholders with more positive news in the coming year.

Yours sincerely,
Bill Schrader
Chairman
14 June 2017

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Chief Executive Officer's Report

For the past 18 months, the Company's primary activity has been undertaking extensive efforts to secure the investment necessary to drill an initial exploration well on the company licences.

It is the Company's strategy to secure such investment via a "farm-in", whereby another entity (ideally, but not necessarily a major international oil and gas company) will acquire an interest in all or some of the licences, and in exchange will pay for all or a substantial part of the cost of drilling, whilst also reimbursing the Company some of the past costs incurred on those licences. This is a fairly typical structure for financing in the oil and gas industry.

Over the past 18 months, a considerable number of suitable partners have engaged with the Company on the farm-in process, including undertaking technical and commercial due diligence and entering into negotiations. On this basis, the Company had expected to have secured an acceptable farm-in with a suitable partner by this stage.

However, the process of securing a farm-in partner has been hampered by a number of factors, often referred to as "above ground" issues, and has thus taken much longer than anticipated. These "above ground" factors have included the substantial reduction in the oil price during 2016, which resulted in a freeze on consideration of new business opportunities in many large oil companies, particularly for opportunities perceived as "frontier" exploration. Additional delays were presented by the substantial time that it took to secure renewal of the Company's licences, and the time it took for The Government of The Bahamas to fully enact the new Bahamian Petroleum Act and attendant Petroleum Regulations – these were only fully enacted in July 2016 – the governing legislative regime and its implementation being a key consideration for potential investors. Most recently The Bahamas has entered its latest election cycle with a significant regime change and an entirely new administration.

The fact remains that despite the best efforts of the Company and its executive, the process of securing a farm-in partner has not yet concluded, which is no doubt disappointing to shareholders.

That said, discussions remain ongoing with a number of parties, with several having completed extensive technical evaluations and presently engaged in late stage commercial negotiations. The Company expects these discussions to be assisted by the early signs of a recovery in industry risk appetite, coming on the back of a stabilisation of global oil prices, which is seeing operators re-engaging with exploration opportunities.

Throughout the past 18 month period, at the same time as doing everything possible to progress the farm-in, the Company has also sought to maintain the integrity of its licences, reduce expenditures, and sustain the business pending a successful farm-in.

Specifically, in this regard, the Company secured an agreed 12 month extension with The Government of The Bahamas to its key licence obligation, such that the Company only need commence activity in respect of an initial exploration well by April 2018. Also of note, the Board of the Company agreed to defer 50% of its fees, and the executive of the Company agreed to defer 90% of total remuneration, until such time as a farm-in or other financing sufficient for an initial exploration well is secured. These deferrals have both maintained cash and better aligned the interests of Board and management with shareholders.

Notwithstanding the measures taken on 14 June 2017, the Company announced it had undertaken a placement of new shares to raise a total of approximately \$3.25m. A part of this placement remains conditional on shareholder approval, for which an Extraordinary General Meeting of Shareholders will be held on 14 July 2017.

With the funds received from this placement, the Company's funding will allow additional time to complete the farm-in process on the best terms possible. Indeed, a stronger balance sheet makes for an improved negotiating position, as we are able to demonstrate the ability to maintain discussions with multiple parties for an extended period, should that prove necessary.

The majority of the funds raised via the placing - approx. 70%, - will go towards the various costs of holding the Company and its licences in good order pending a successful farm-in. This includes licence payments, in country operations, local professional staff and other essential expenses. It is worth noting that less than 8% of the funds raised is allocated to Executive and Board remuneration, with the Board and myself continuing to defer and commute the bulk of our compensation until, and only until, a successful farm-in or other financing sufficient for the drilling of an initial well is concluded.

Financial Review

The Company's total operating loss for the period was \$3.8 million, down 20% on the prior year and 10% on the 6 month period to June 2016 when compared on an annualised basis. These results reflect the efforts to constrain costs over the last few years to those only strictly necessary. The operating loss also includes \$0.9m in "IFRS 2" charges relating to deferrals of directors fees, charges which are non-cash but are required to reflect the value of deferrals under the accounting standard.

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Broadly speaking then, the total loss for the year is made up of approximately 15% executive and Board compensation (on a cash basis, this item projected to fall to below 10% for 2017 as a whole), 25% in country operations costs, 25% non-cash items and 35% corporate and business running costs. 'Running' costs relate to those primary capital market facing activities to maintain the Company (AIM/corporate related, audit, Isle of Man office), expenditure pertaining to managing the farmout process or transactional costs (travel, accommodation, legal and advisors) and other business sustaining costs (IT, communications, insurances etc).

Outlook

Going forward, the Company and Board believes it has a world-class asset. Published independent analysis from a leading international petroleum consultant (Wood Mackenzie) identified the Company's anticipated exploration 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).

On the global front, there has been a general improvement in oil market sentiment, and the Company has noticed a distinct upturn in the level of interest, and pace of progress, with potential partners. In The Bahamas there is a new Government in place keen to grow the economy, the new Petroleum Act and associated Regulations have been fully enacted, and the Company's licences have been renewed and the work obligation and timing clarified.

I and the Board continue to be committed to the task in hand. This is self-evident given our continued undertaking to defer and commute our salaries and fees to stock, ultimately only to be remunerated if we are successful in achieving the drilling of an exploration well, and our expressed interest in participating personally in the announced placing once permitted to do so by close period trading rules.

Farm-in discussions remain ongoing with a number of parties, and with a recently strengthened balance sheet the Company remains confident that it will succeed in securing the required investment for drilling of an initial exploration well, on acceptable terms and within the required timeframe.

The Board would like to thank all shareholders for their continued support and perseverance.

Yours sincerely,
Simon Potter
Chief Executive Officer
14 June 2017

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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 four board meetings of the parent entity of the Group during the financial year.

<u>Director</u>	<u>Number of board meetings attended</u>	<u>Number of board meetings eligible to attend</u>
Simon Potter	4	4
William Schrader	4	4
James Smith	3	4
Adrian Collins	4	4
Edward Shallcross	4	4
Ross McDonald	4	4

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.

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Corporate Governance (continued)

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.

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 for the next 12 months from existing liquid cash resources and the proceeds of the share placement announced on 14 June 2017. 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.

Bahamas Petroleum Company plc

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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 2016.

Directors

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

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.

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 16 and show a loss for the year ended 31 December 2016 of \$3,826,660 (2015: loss of \$4,774,445). The total comprehensive loss for the year of \$3,826,660 (2015: loss of \$4,774,445) has been transferred to reserves.

The Directors do not recommend payment of a dividend (2015 \$nil).

Review of operations

During the year the Minister for Environment and Housing signed into full effect the new Petroleum Regulations designed to regulate and instruct exploration activity in the Commonwealth of the Bahamas. The legal implementation of these regulations removed the final impediment to the Company progressing its first exploration well and so represents a substantial milestone for the project.

Following the year end, the Government of the Bahamas provided the Company with a 12 month extension to its licences and all attendant obligations. This extension was provided in recognition of the delays imposed on the Company by the time taken to implement the new Petroleum Regulations and to provide sufficient time to design the first exploration well in compliance with the standards set out in these new regulations. As a consequence, the Company's licence obligation is now to commence an exploration well by April 2018.

During the year the Company has continued to progress partnership discussions with third party operators. Legal implementation of the Petroleum Regulations during the year, coupled with the extension to the Company's licences and obligations by 12 months received post year end, have acted to provide the clarity required for progression of partnership discussions towards the commencement of the Company's first exploration well.

On 14 June 2017 the Company announced the placing of 260,000,000 new shares in the Company raising a total of \$3,250,000 in proceeds. The placing is taking the form of a Firm Placing of 110,000,000 shares and Conditional Placing of 150,000,000 shares which is conditional on shareholder approval at an Extraordinary General Meeting to be held on 14 July 2017. These funds are intended to meet the Company's working capital needs for at least 12 months whilst efforts to conclude a partnership to finance the first exploration well continue.

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Directors' report (continued)

Substantial shareholdings

The following table represents shareholdings of 3% or more notified to the Company as at 31 December 2016:

<u>Name</u>	<u>Number of shares</u>	<u>% of shareholding</u>
Hargreaves Landsdown	163,561,400	13.29%
TD Waterhouse	148,571,109	12.07%
HSDL Stockbrokers	110,957,585	9.02%
Barclays Stockbrokers	96,832,090	7.87%
Interactive Investor	56,897,913	4.62%
Equinity	41,168,447	3.35%

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

<u>Name</u>	<u>Number of Shares</u>	<u>Number of Share</u>	<u>Number of Shares</u>	<u>Number of Share</u>
	<u>31 December 2016</u>	<u>Options</u>	<u>31 December 2015</u>	<u>Options</u>
Simon Potter	2,000,000	39,000,000	2,000,000	39,000,000
William Schrader	250,000	2,000,000	250,000	2,000,000
James Smith	-	1,000,000	-	1,000,000
Edward Shallcross	320,000	1,000,000	320,000	1,500,000
Ross McDonald	250,000	1,000,000	250,000	1,000,000
Adrian Collins	200,000	1,000,000	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
14 June 2017

Bahamas Petroleum Company plc

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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
14 June 2017

Independent auditor's report to the members of Bahamas Petroleum Company plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- Bahamas Petroleum Company plc's consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;
- Bahamas Petroleum Company plc's company financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2016 and 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 provision of the Isle of Man Companies Act 1982; and
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

What we have audited

Bahamas Petroleum Company plc's consolidated and company financial statements (the "financial statements") comprise:

- the consolidated and company balance sheets as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

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

Independence

We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Going concern

At 31 December 2016 the Group had cash and cash equivalents of \$1m. Based on the Group's cash flow forecasts additional new funding was necessary in order for the Group to continue operations for the next 12 months.

In the event that additional funding was not raised the going concern basis of accounting may not have been appropriate.

Subsequent to the year end, the Company announced the placing of 260m new shares raising a total of \$3.25m in proceeds. The placing took the form of a Firm Placing of 110m shares and Conditional Placing of 150m shares, the latter conditional on shareholder approval. We have assessed management's cash flow model following the Firm Placing and concur with management that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditor's report (continued)

Key audit matter

How our audit addressed the key audit matter

Recoverability of intangible exploration and evaluation assets

At 31 December 2016 the carrying value of Intangible exploration and evaluation assets was \$48.1m (2015: \$47.9m), as disclosed in note 13. As the carrying value of these Intangible exploration and evaluation assets represents a significant asset of the Group, we consider it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. As a result, the asset was required to be assessed for impairment indicators in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources.

For Intangible exploration and evaluation assets we have critically evaluated management's assessment of each impairment trigger per IFRS 6 Exploration for and Evaluation of Mineral Resources, including but not limited to:

- We assessed that the Group had the rights to explore in the relevant exploration area which included obtaining supporting documentation such as licence agreements.
- We enquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration areas. We also assessed management's cash-flow forecast models to assess the level of the budgeted expenditure on these areas.
- We critically assessed whether any data exists to suggest that the carrying value of these exploration and evaluation assets is unlikely to be recovered through development or sale.

Having completed our work in this area, we did not identify any material misstatements regarding the carrying value of the intangible exploration and evaluation assets.

Other information

The directors are responsible for the other information. The other information comprises the information in the Annual Report for the year ended 31 December 2016 (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Report on other legal and regulatory requirements

Adequacy of accounting records and information and explanations received

Under the Isle of Man Companies Acts 1931 to 2004 we are required to report to you by exception if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper books of account have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the books of account and returns; and
- certain disclosures of directors' loans and remuneration specified by law have not been complied with.

We have no exceptions to report arising from this responsibility.

Nicholas Halsall, Responsible Individual
for and on behalf of PricewaterhouseCoopers LLC
Chartered Accountants, Isle of Man

14 June 2017

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	2016 Group \$	2015 Group \$
Continuing operations			
Employee benefit expense	7	(2,214,490)	(2,127,143)
Depreciation expense	12	(31,722)	(48,896)
Other expenses	8	<u>(1,632,405)</u>	<u>(2,669,100)</u>
Operating loss		(3,878,617)	(4,845,139)
Other income		48,122	57,000
Finance income	6	<u>3,835</u>	<u>13,694</u>
Loss before tax		(3,826,660)	(4,774,445)
Taxation	9	<u>-</u>	<u>-</u>
Loss for the year		<u>(3,826,660)</u>	<u>(4,774,445)</u>
Total comprehensive loss for the year		<u>(3,826,660)</u>	<u>(4,774,445)</u>
 Loss per share for loss attributable to owners of the Company:			
Basic and diluted loss per share (expressed in cents per share)	10	<u>(0.31)</u>	<u>(0.39)</u>

The notes on pages 20 to 38 form part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2016

	Note	2016 Group \$	2015 Group \$
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	13	48,052,657	47,859,256
Property, plant and equipment	12	44,545	63,732
Restricted cash	11	<u>36,972</u>	<u>544,529</u>
Total non-current assets		<u>48,134,174</u>	<u>48,467,517</u>
Current assets			
Other receivables	15	675,624	685,172
Restricted Cash	11	500,000	-
Cash and cash equivalents	14	<u>970,021</u>	<u>5,048,800</u>
Total assets		<u>50,279,819</u>	<u>54,201,489</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	<u>618,460</u>	<u>1,283,881</u>
Total liabilities		<u>618,460</u>	<u>1,283,881</u>
EQUITY			
Share capital	17	37,253	37,253
Share premium reserve	17	78,185,102	78,185,102
Merger reserve	17	77,130,684	77,130,684
Reverse acquisition reserve	17	(53,846,526)	(53,846,526)
Share based payment reserve	18	2,694,171	2,123,760
Retained earnings		<u>(54,539,325)</u>	<u>(50,712,665)</u>
Total equity		<u>49,661,359</u>	<u>52,917,608</u>
Total equity and liabilities		<u>50,279,819</u>	<u>54,201,489</u>

The financial statements on pages 16 to 38 were approved and authorised for issue by the Board of Directors on 14 June 2017 and signed on its behalf by:

William Schrader
Director

Simon Potter
Director

Consolidated statement of changes in equity for the year ended 31 December 2016

	Note	Share capital \$	Share premium reserve \$	Merger reserve \$	Reverse acquisition reserve \$	Share based payment reserve \$	Retained earnings \$	Total equity \$
Balance 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								
Total comprehensive loss for the year		-	-	-	-	-	(4,774,445)	(4,774,445)
Total Comprehensive expense		-	-	-	-	-	(4,774,445)	(4,774,445)
Transactions with owners								
Share options – value of services	18	-	-	-	-	273,287	-	273,287
Total transactions with owners		-	-	-	-	273,287	-	273,287
Balance at 31 December 2015		37,253	78,185,102	77,130,684	(53,846,526)	2,123,760	(50,712,665)	52,917,608
Balance 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								
Total comprehensive loss for the year		-	-	-	-	-	(3,826,660)	(3,826,660)
Total Comprehensive expense		-	-	-	-	-	(3,826,660)	(3,826,660)
Transactions with owners								
Share options – value of services	18	-	-	-	-	570,411	-	570,411
Total transactions with owners		-	-	-	-	570,411	-	570,411
Balance at 31 December 2016		37,253	78,185,102	77,130,684	(53,846,526)	2,694,171	(54,539,325)	49,661,359

The notes on pages 20 to 38 form part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016

	Note	2016 Group \$	2015 Group \$
Cash flows from operating activities			
Cash used in operations	19	<u>(3,100,458)</u>	<u>(4,198,241)</u>
Net cash used in operating activities		<u>(3,100,458)</u>	<u>(4,198,241)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(12,535)	(5,226)
Proceeds from disposal of property, plant and equipment		-	5,500
Payments for exploration and evaluation assets	13	(963,401)	(310,328)
(Increase) in restricted cash	11	(16)	(500,000)
Other income received		48,122	57,000
Interest received	6	<u>3,835</u>	<u>13,694</u>
Net cash used in investing activities		<u>(923,995)</u>	<u>(739,360)</u>
Net decrease in cash and cash equivalents		(4,024,453)	(4,937,601)
Cash and cash equivalents at the beginning of the year	14	5,048,800	10,032,127
Effects of exchange rate changes on cash and cash equivalents		<u>(54,326)</u>	<u>(45,726)</u>
Cash and cash equivalents at the end of the year	14	<u>970,021</u>	<u>5,048,800</u>

The notes on pages 20 to 38 form part of these 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 2016, 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.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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 standards, amendments and interpretations adopted

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the Group or Company.

b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group or Company, except the following, set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. 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 and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The impact of IFRS 9 is being assessed by management.

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

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

2 Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

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.

2.4 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 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 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 statement of comprehensive income.

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

2 Summary of significant accounting policies (continued)

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 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.

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 2016 and 2015 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 2016 and 2015 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 Summary of significant accounting policies (continued)

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 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 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 Summary of significant accounting policies (continued)

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.

(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 2016 the Group held \$195,404 of cash in UK Sterling (31 December 2015: \$352,807) and had an immaterial amount of trade and other payables denominated in UK Sterling.

At 31 December 2016, 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 \$20,000 (31 December 2015: reduced/increased by \$35,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling denominated bank balances.

3 Financial risk management in respect of financial instruments (continued)

3.1 Financial risk factors (continued)

(ii) Market risk (continued)

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 2016 and 2015 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, following the recently announced placing of new shares in the Company, the Group has adequate financial resources following the initial firm placement to meet its working capital needs for at least the next 12 months based on cash flow forecasts and management's ability to take action to reduce costs in the event that the conditional placement does not receive shareholder approval.

The Group's ability to meet its obligations beyond 2018 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 \$48,052,657 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2016 (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.

4 Critical accounting estimates and assumptions (continued)

(b) Carrying value of exploration expenditure (continued)

On 21 March 2017 the Government of The Bahamas extended the Group's four southern exploration licences in Bahamian waters and all their attendant obligations for a period of 12 months in recognition of delays imposed on the project by the time taken for new regulations to guide and govern industry operations to be legally implemented. As a consequence the licence now requires the Group to commence an exploration well within the licence area by April 2018.

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 2016 is \$7,110 (31 December 2015: \$3,854), and the total of such non-current assets located in The Bahamas is \$48,090,092 (31 December 2015: \$47,919,135).

6 Finance income

	2016 Group \$	2015 Group \$
Finance income – interest income on short-term bank deposits	<u>3,835</u>	<u>13,694</u>

7 Employee benefit expense

	2016 Group \$	2015 Group \$
Directors and employees salaries and fees	1,226,012	1,518,494
Social security costs	59,319	72,116
Pension costs – defined contribution	140,573	139,181
Share based payments (see note 18)	570,411	273,287
Other staff costs	<u>218,175</u>	<u>124,065</u>
	<u>2,214,490</u>	<u>2,127,143</u>

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

Effective 1 April 2016, the Directors agreed to increase the above fee deferral to 50% of their remuneration which becomes repayable in shares only once the Company's farmout transaction is successfully completed. In the case of Mr Potter, CEO, this deferral is 90% of salary and is to be repaid in equal proportions of shares and cash on conclusion of a farmout transaction. See note 18 for further details.

8 Other expenses

	2016		2015
	Group		Group
	\$		\$
Travel and accommodation	193,053		334,557
Operating lease payments	250,084		349,090
Legal and professional	844,094		1,499,671
Net foreign exchange loss	39,046		28,912
Gain on disposal of fixed assets	-		(297)
Other	250,139		403,411
Fees payable to the Company's auditor for the audit of the parent company and consolidated Financial Statements	45,582	49,216	
Fees payable to the Company's auditor for other services:			
- Tax advisory services	<u>10,407</u>	<u>4,540</u>	
Total auditor remuneration	<u>55,989</u>		<u>53,756</u>
Total other expenses	<u>1,632,405</u>		<u>2,669,100</u>

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.

	2016		2015
	Group		Group
Loss attributable to equity holders of the Company (US\$)	<u>(3,826,660)</u>		<u>(4,774,445)</u>
Weighted average number of ordinary shares in issue (number)	<u>1,230,479,096</u>		<u>1,230,479,096</u>
Basic loss per share (US Cents per share)	<u>(0.31)</u>		<u>(0.39)</u>

(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:

Basic and diluted loss per share (continued)

(b) Diluted (continued)	2016 Group	2015 Group
Total share options in issue (number) (see note 18)	<u>68,850,000</u>	<u>58,500,000</u>

The effect of the above share options at 31 December 2016 and 2015 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

11 Restricted cash

	2016 Group \$	2015 Group \$
Bank performance bond	500,000	500,000
Bank deposits	<u>36,972</u>	<u>44,529</u>
	<u>536,972</u>	<u>544,529</u>

The Bank performance bond emplaced during the prior year is in favour of the Government of the Bahamas. The bond formed a condition of the 2015 licence renewal and will be released in 2017 given the Company has now satisfied the licence condition to undertake \$750,000 of qualifying expenditure during the licence 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
	\$	\$	\$	\$
At 1 January 2015				
Cost	56,417	238,280	156,185	450,882
Accumulated depreciation	<u>(47,623)</u>	<u>(210,400)</u>	<u>(80,254)</u>	<u>(338,277)</u>
Net book amount	<u>8,794</u>	<u>27,880</u>	<u>75,931</u>	<u>112,605</u>
Year ended 31 December 2015				
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	<u>-</u>	<u>-</u>	<u>53,293</u>	<u>53,293</u>
Closing net book amount	<u>4,736</u>	<u>12,335</u>	<u>46,661</u>	<u>63,732</u>
At 31 December 2015				
Cost	56,417	243,506	97,689	397,612
Accumulated depreciation	<u>(51,681)</u>	<u>(231,171)</u>	<u>(51,028)</u>	<u>(333,880)</u>
Net book amount	<u>4,736</u>	<u>12,335</u>	<u>46,661</u>	<u>63,732</u>
Year ended 31 December 2016				
Opening net book amount	4,736	12,335	46,661	63,732
Additions	-	12,535	-	12,535
Depreciation charge	(4,058)	(12,424)	(15,240)	(31,722)
Closing net book amount	<u>678</u>	<u>12,446</u>	<u>31,421</u>	<u>44,545</u>
At 31 December 2016				
Cost	56,417	256,041	97,689	410,147
Accumulated depreciation	<u>(55,739)</u>	<u>(243,595)</u>	<u>(66,268)</u>	<u>(365,602)</u>
Net book amount	<u>678</u>	<u>12,446</u>	<u>31,421</u>	<u>44,545</u>

13 Intangible exploration and evaluation assets

Group	Licence costs	Geological, Geophysical and Technical Analysis	Total
	\$	\$	\$
Year ended 31 December 2015			
Opening cost / net book amount	2,081,250	44,697,678	46,778,928
Additions (note 20(iii))	<u>770,000</u>	<u>310,328</u>	<u>1,080,328</u>
Closing cost / net book amount	<u>2,851,250</u>	<u>45,008,006</u>	<u>47,859,256</u>
Year ended 31 December 2016			
Opening cost / net book amount	2,851,250	45,008,006	47,859,256
Additions (note 20(iii))	<u>-</u>	<u>193,401</u>	<u>193,401</u>
Closing cost / net book amount	<u>2,851,250</u>	<u>45,201,407</u>	<u>48,052,657</u>

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

	2016 Group \$	2015 Group \$
Cash at bank	<u>970,021</u>	<u>5,048,800</u>

The 2016 balance includes interest bearing accounts at rates between 0% and 1% (2015: 0% to 1%).

	2016 Group \$	2015 Group \$
Reconciliation of total cash balances		
Cash at bank	<u>970,021</u>	<u>5,048,800</u>
Restricted cash (see note 11)	<u>536,972</u>	<u>544,529</u>
Total cash	<u>1,506,993</u>	<u>5,593,329</u>

15 Other receivables

	2016 Group \$	2015 Group \$
Other receivables (note (a))	51,043	65,027
Prepayments (note (b))	<u>624,581</u>	<u>620,145</u>
	<u>675,624</u>	<u>685,172</u>

(a) Other receivables

As at 31 December 2016 and 2015, these amounts predominantly consist of VAT recoverable.

(b) Prepayments

As at 31 December 2016 prepayments include \$500,000 (2015: \$500,000) in application fees paid to The Government of the Commonwealth of The Bahamas for five additional exploration licences. During the prior year, two of these licence applications were withdrawn, consequently receipt of \$200,000 against these applications is expected to be credited against future licence rental payments (see note 20(iii)). 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

	2016 Group \$	2015 Group \$
Exploration and evaluation liabilities (note 20 (iii))	-	770,000
Accruals	579,239	390,755
Trade payables	35,849	114,558
Other payables	<u>3,372</u>	<u>8,568</u>
	<u>618,460</u>	<u>1,283,881</u>

The fair value of trade and other payables approximates to their carrying value as at 31 December 2016 and 2015.

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

	Number of shares issued	Issue price \$	Ordinary shares \$	Share premium reserve \$	Merger reserve \$	Reverse acquisition reserve \$
Group						
At 1 January 2015	<u>1,230,479,096</u>	-	37,253	78,185,102	77,130,684	(53,846,526)
At 31 December 2015 and 31 December 2016	<u>1,230,479,096</u>	-	37,253	78,185,102	77,130,684	(53,846,526)

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 2016 and 2015 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:

	2016 Group		2015 Group	
	Average exercise price per share	No. Options	Average exercise price per share	No. Options
At beginning of year	17.39p	58,500,000	17.32p	64,500,000
Relinquished	16.23p	(45,000,000)	14.97p	(6,000,000)
Expired	21.25p	(13,500,000)	-	-
Granted	<u>2.22p</u>	<u>68,850,000</u>	-	-
At end of year	<u>2.22p</u>	<u>68,850,000</u>	<u>17.39p</u>	<u>58,500,000</u>
Exercisable at end of year	-	-	<u>21.25p</u>	<u>6,750,000</u>

The weighted average remaining contractual life of the options in issue at 31 December 2016 is 4.25 years (31 December 2015: 2.1 years). The exercise price of these options are 2.22 pence per share.

On 12 April 2016, all options previously granted on 12 April 2011 expired. On 4 April 2016 all other options previously granted over Company shares were cancelled by mutual election.

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

On 4 April 2016 68,850,000 options were granted all of which carried the following terms:

- The options have an exercise price of 2.22 pence.
- Half of the options become exercisable only once the Company secures a partnership or other arrangement sufficient to finance the Company's first exploration well (Tranche 1).
- Half of the options become exercisable only once the Company's first exploration well is commenced (Tranche 2).
- The options expire after 5 years.
- Options granted to Directors and staff 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 year was estimated using the Black Scholes model. The inputs and assumptions used in calculating the fair value of options granted in the year were as follows:

	Options Granted on 4 April 2016	
	Tranche 1	Tranche 2
Number of options granted	34,425,000	34,425,000
Share price at date of grant	2.02p	2.02p
Exercise price	2.22p	2.22p
Expected volatility	20%	18%
Expected life	0.75 years	1.08 years
Risk free return	0.13%	0.13%
Dividend yield	Nil	Nil
Fair value per option	0.10 cents	0.11 cents

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

18 Share based payments (continued)

- 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.

On 1 April 2016 the Directors entered into a further agreement for the deferral of 50% of their fees and Mr Potter entered into an agreement for the deferral of 90% of his salary on the following terms:

- 50% of all directors' fees and 90% of 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 Directors fees forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- 50% of the value of the CEO's salary forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- 50% of the value of the CEO's salary forgone shall be repayable in cash on settlement of the well financing criteria.
- Receipt of the CEO's forgone salary is conditional on his continued employment by the Group up to the completion of a farmout or other financing arrangement.
- All of the CEO share entitlements accrued under the agreement entered into on 1 October 2014 were forgone.
- 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 April 2016 and, in the case of Simon Potter, supercedes the agreement entered into on 17 December 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 and 1 April 2016 respectively. Instruments granted to Simon Potter vest on the successful conclusion of a farmout, estimated for the purposes of calculating the vesting period over which the fair value of the instrument should be released at 16 months from the date of grant. For all other Directors, individual monthly tranches vest 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:

	2016	2015
	Group	Group
	\$	\$
Expense in relation to share based payment transactions	<u>570,411</u>	<u>273,287</u>

Of the above amount \$502,480 (2015: nil) relates to salary deferrals with the remainder relating to the issue of share options.

19 Cash used in operations

	2016 Group \$	2015 Group \$
Loss after income tax	(3,826,660)	(4,774,445)
Adjustments for:		
- Depreciation (note 12)	31,722	48,896
- Share based payment (note 18)	570,411	273,287
- Finance income (note 6)	(3,835)	(13,694)
- Other income received	(48,122)	(57,000)
- Gain on disposal of fixed assets	-	(297)
- Foreign exchange loss on operating activities (note 8)	39,046	28,912
Changes in working capital:		
- Other receivables	85,945	264,283
- Trade and other payables	51,035	<u>31,817</u>
Cash used in operations	<u>(3,100,458)</u>	<u>(4,198,241)</u>

20 Contingencies and commitments

(i) Contingencies

As at 31 December 2016, the Group had no contingent liabilities that require disclosure in these financial statements.

(ii) Expenditure commitments

The terms of the Groups licences, as extended on 21 March 2017, require the commencement of an exploration well in the licenced area by 30 April 2018. 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.

Under the terms of the Group's licences, a rental fee of \$250,000 per licence per annum is payable, totalling \$1,000,000 annually for all four licences held by the Group. On 21 March 2017 the Government of the Bahamas issued a 12 month deferral for all obligations under the terms of the licence. As such, no licence rentals become payable by the Company until 2018.

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:

	2016 Group \$	2015 Group \$
No later than 1 year	61,950	243,300
Later than 1 year and no later than 5 years	<u>-</u>	<u>60,450</u>
	<u>61,950</u>	<u>303,750</u>

20 Contingencies and commitments (continued)

(iii) Annual rental commitments (continued)

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.

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
Edward Shallcross	Non-Executive Director

Key Management Compensation

	2016 Group \$	2015 Group \$
Short term employee benefits	711,312	1,206,545
Share based payments (see note 18)	<u>546,879</u>	<u>273,287</u>
	<u>1,258,191</u>	<u>1,479,832</u>

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 31 March 2018. 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. All amounts accruing to Mr Potter under this arrangement from 1 October 2014 to 31 March 2016 were forgone during the year as part of the agreement entered into effective 1 April 2016, see below.
- Effective 1 April 2016, Mr Potter agreed to defer 90% of his salary, equating to \$900,000 annually, to be received 50% in Company shares and 50% in cash contingent on the successful conclusion of a farm out or other arrangement sufficient to finance the Company's first exploration well.

21 Related party transactions (continued)

Key Management Compensation (continued)

Directors' remuneration

	2016 Group \$	2015 Group \$
Simon Potter;		
- Salary (80% of contractual entitlement to 31 March 2016)	200,000	800,000
- Salary (10% of contractual entitlement 1 April 2016 to 31 December 2016)	75,000	-
- Accrued Pension liability (non-cash)	100,000	100,000
- Contractual Entitlements	<u>141,667</u>	<u>-</u>
Total	516,667	900,000
William Schrader	50,877	80,235
James Smith	33,271	52,468
Adrian Collins	37,761	60,759
Ross McDonald	33,271	51,963
Edward Shallcross	<u>39,465</u>	<u>61,120</u>
Total	<u>711,312</u>	<u>1,206,545</u>

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. Effective 1 April 2016 the Directors agreed to increase this fee deferral to 50% for Board members and 90% for the CEO. See note 18 for further details.

Accumulated unpaid Contractual Entitlements totalling \$141,667 relating to prior years were paid to Simon Potter at the start of the year. No further contractual benefits are payable to Simon Potter until a farmout or other arrangement sufficient to finance the first exploration well is completed.

Cash payments totalling \$158,333 were made in the current year related to Simon Potter's pension benefits entitlement which had accrued in prior years. The remaining entitled amounts have accrued in the year and are included in accruals on the balance sheet as at 31 December 2016.

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

	Number of options granted	Exercise price per Ordinary Share	Date of Grant
William Schrader	2,000,000	2.22p	4 April 2016
Simon Potter	39,000,000	2.22p	4 April 2016
James Smith	1,000,000	2.22p	4 April 2016
Adrian Collins	1,000,000	2.22p	4 April 2016
Edward Shallcross	1,000,000	2.22p	4 April 2016
Ross McDonald	1,000,000	2.22p	4 April 2016

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 2016, \$78,184 was held on deposit with RBC Royal Bank (Bahamas) Limited (31 December 2015: \$605,245).

22 Events After the Balance Sheet Date

In March 2017, the Government of the Bahamas provided the Company with a 12 month extension to its licences and all attendant obligations. This extension was provided in recognition of the delays imposed on the Company by the time taken to implement the new Petroleum Regulations and to provide sufficient time to design the first exploration well in compliance with the standards set out in these new regulations. As a consequence, the Company's licence obligation is now to commence an exploration well by April 2018.

On 14 June 2017 the Company announced the placing of 260,000,000 new shares in the Company raising a total of \$3,250,000 in proceeds. The placing is taking the form of a Firm Placing of 110,000,000 shares and Conditional Placing of 150,000,000 shares which is conditional on shareholder approval at an Extraordinary General Meeting to be held on 14 July 2017. These funds are intended to meet the Company's working capital needs whilst efforts to conclude a partnership continue.

Parent company balance sheet as at 31 December 2016

	Note	2016 Company \$	2015 Company \$
ASSETS			
Non-current assets			
Investment in subsidiaries	7	29,560,465	29,560,465
Other receivables	8	60,397,394	57,941,951
Property, plant and equipment	6	7,110	3,849
Restricted cash	5	<u>36,972</u>	<u>544,529</u>
		<u>90,001,941</u>	<u>88,050,794</u>
Current assets			
Other receivables	8	119,599	116,599
Restricted cash	5	500,000	-
Cash and cash equivalents	9	<u>891,207</u>	<u>4,442,965</u>
		<u>1,510,806</u>	<u>4,559,564</u>
Total assets		<u>91,512,747</u>	<u>92,610,358</u>
LIABILITIES			
Current liabilities			
Trade and other payables	10	<u>542,709</u>	<u>390,803</u>
Total liabilities		<u>542,709</u>	<u>390,803</u>
EQUITY			
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	2,324,127	1,753,716
Retained earnings		<u>(19,111,603)</u>	<u>(17,291,675)</u>
Total equity		<u>90,970,038</u>	<u>92,219,555</u>
Total equity and liabilities		<u>91,512,747</u>	<u>92,610,358</u>

The financial statements on pages 39 to 45 were approved and authorised for issue by the Board of Directors on 14 June 2017 and signed on its behalf by:

William Schrader
Director

Simon Potter
Director

Bahamas Petroleum Company plc
Parent company financial statements
For the year ended 31 December 2016

Parent company statement of changes in equity for the year ended 31 December 2016

	Note	Share capital \$	Share premium \$	Other Reserve \$	Share based payment reserve \$	Retained earnings \$	Total equity \$
Balance at 1 January 2015		37,253	78,185,102	29,535,159	1,480,429	(14,825,575)	94,412,368
Comprehensive income:							
Total comprehensive loss for the year	4	-	-	-	-	(2,466,100)	(2,466,100)
Total Comprehensive Income		-	-	-	-	(2,466,100)	(2,466,100)
Transactions with owners							
Share options – value of service	12	-	-	-	273,287	-	273,287
Total transactions with owners		-	-	-	273,287	-	273,287
Balance at 31 December 2015		37,253	78,185,102	29,535,159	1,753,716	(17,291,675)	92,219,555
Balance at 1 January 2015		37,253	78,185,102	29,535,159	1,753,716	(17,291,675)	92,219,555
Comprehensive income:							
Total comprehensive loss for the year	4	-	-	-	-	(1,819,928)	(1,819,928)
Total Comprehensive Income		-	-	-	-	(1,819,928)	(1,819,928)
Transactions with owners							
Share options – value of service	12	-	-	-	570,411	-	570,411
Total transactions with owners		-	-	-	570,411	-	570,411
Balance at 31 December 2016		37,253	78,185,102	29,535,159	2,324,127	(19,111,603)	90,970,038

The accompanying notes on pages 42 to 45 form part of these financial statements.

Bahamas Petroleum Company plc
Parent company financial statements
For the year ended 31 December 2016

Parent company statement of cash flows for the year ended 31 December 2016

	Note	2016 Company \$	2015 Company \$
Cash flows from operating activities			
Cash used in operations	13	<u>(1,037,668)</u>	<u>(1,996,519)</u>
Net cash used in operating activities		<u>(1,037,668)</u>	<u>(1,996,519)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,140)	(4,765)
Interest received		3,835	13,694
Increase in restricted cash		(16)	(500,000)
Advances to and payments on behalf of group companies		<u>(2,455,443)</u>	<u>(2,987,027)</u>
Net cash used in investing activities		<u>(2,459,764)</u>	<u>(3,478,098)</u>
Net decrease in cash and cash equivalents		<u>(3,497,432)</u>	<u>(5,474,617)</u>
Cash and cash equivalents at the beginning of the year		4,442,965	9,963,308
Effects of exchange rate changes on cash and cash equivalents		<u>(54,326)</u>	<u>(45,726)</u>
Cash and cash equivalents at the end of the year		<u>891,207</u>	<u>4,442,965</u>

The accompanying notes on pages 42 to 45 form part of these 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 2016 stood at \$29,560,465 (2015: \$29,560,465) and \$60,397,394 (2015: \$57,941,951) 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 21 March 2017 the Government of The Bahamas extended the Group’s four southern exploration licences in Bahamian waters and all their attendant obligations for a period of 12 months in recognition of delays imposed on the project by the time taken for new regulations to guide and govern industry operations to be legally implemented. As a consequence the licence now requires the Group to commence an exploration well within the licence area by April 2018.

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 2016 is \$1,819,928 (2015: \$2,466,100). 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
	\$
As at 1 January 2015	
Cost	57,145
Accumulated depreciation	<u>(54,718)</u>
Net book amount	<u>2,427</u>
Year ended 31 December 2015	
Opening net book amount	2,427
Additions	4,765
Depreciation charge	<u>(3,343)</u>
Closing net book amount	<u>3,849</u>
As at 31 December 2015	
Cost	61,910
Accumulated depreciation	<u>(58,061)</u>
Net book amount	<u>3,849</u>
Year ended 31 December 2016	
Opening net book amount	3,849
Additions	8,140
Depreciation charge	<u>(4,879)</u>
Closing net book amount	<u>7,110</u>
As at 31 December 2016	
Cost	70,050
Accumulated depreciation	<u>(62,940)</u>
Net book amount	<u>7,110</u>

7 Investment in subsidiaries

	2016 Company \$	2015 Company \$
BPC (A) Limited	29,560,456	29,560,456
BPC (B) Limited	3	3
BPC (C) Limited	3	3
BPC (D) Limited	<u>3</u>	<u>3</u>
	<u>29,560,465</u>	<u>29,560,465</u>

See note 1 to the consolidated financial statements for details of the Company's subsidiaries.

8 Other receivables

	2016 Company \$	2015 Company \$
<i>Non-current assets</i>		
Amount owing by subsidiary undertakings	<u>60,397,394</u>	<u>57,941,951</u>
<i>Current assets</i>		
Prepayments	70,063	53,068
Other receivables	<u>49,546</u>	<u>63,531</u>
	<u>119,599</u>	<u>116,599</u>

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

	2016 Company \$	2015 Company \$
Cash at bank	<u>891,207</u>	<u>4,442,965</u>

The 2016 and 2015 balances include interest bearing accounts at rates between 0% and 1%.

10 Trade and other payables

	2016 Company \$	2015 Company \$
Accruals	503,480	267,700
Trade payables	35,849	114,558
Other payables	<u>3,373</u>	<u>8,545</u>
	<u>542,702</u>	<u>390,803</u>

The fair value of trade and other payables approximates their carrying value as at 31 December 2016 and 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 2015	1,230,479,096	37,253	78,185,102	29,535,159	107,757,514
At 31 December 2015 and 2016	1,230,479,096	37,253	78,185,102	29,535,159	107,757,514

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

	2016 Company \$	2015 Company \$
Loss before income tax	(1,819,928)	(2,466,100)
Adjustments for:		
- Depreciation (note 6)	4,879	3,343
- Finance income	(3,835)	(13,694)
- Foreign exchange loss on operating activities	39,046	28,912
- Share based payment (consolidated Financial Statements note 18)	570,411	273,287
Changes in working capital:		
- Other receivables	73,397	205,023
- Trade and other payables	98,362	(27,290)
Cash used in operations	<u>(1,037,668)</u>	<u>(1,996,519)</u>

14 Related party transactions

During the year, goods and services totalling \$2,455,443 (2015: \$2,987,027) 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.

15 Events After the Balance Sheet Date

Events after the balance sheet date of the Company are the same as those for the Group. For further details see note 22 to the consolidated Financial Statements.