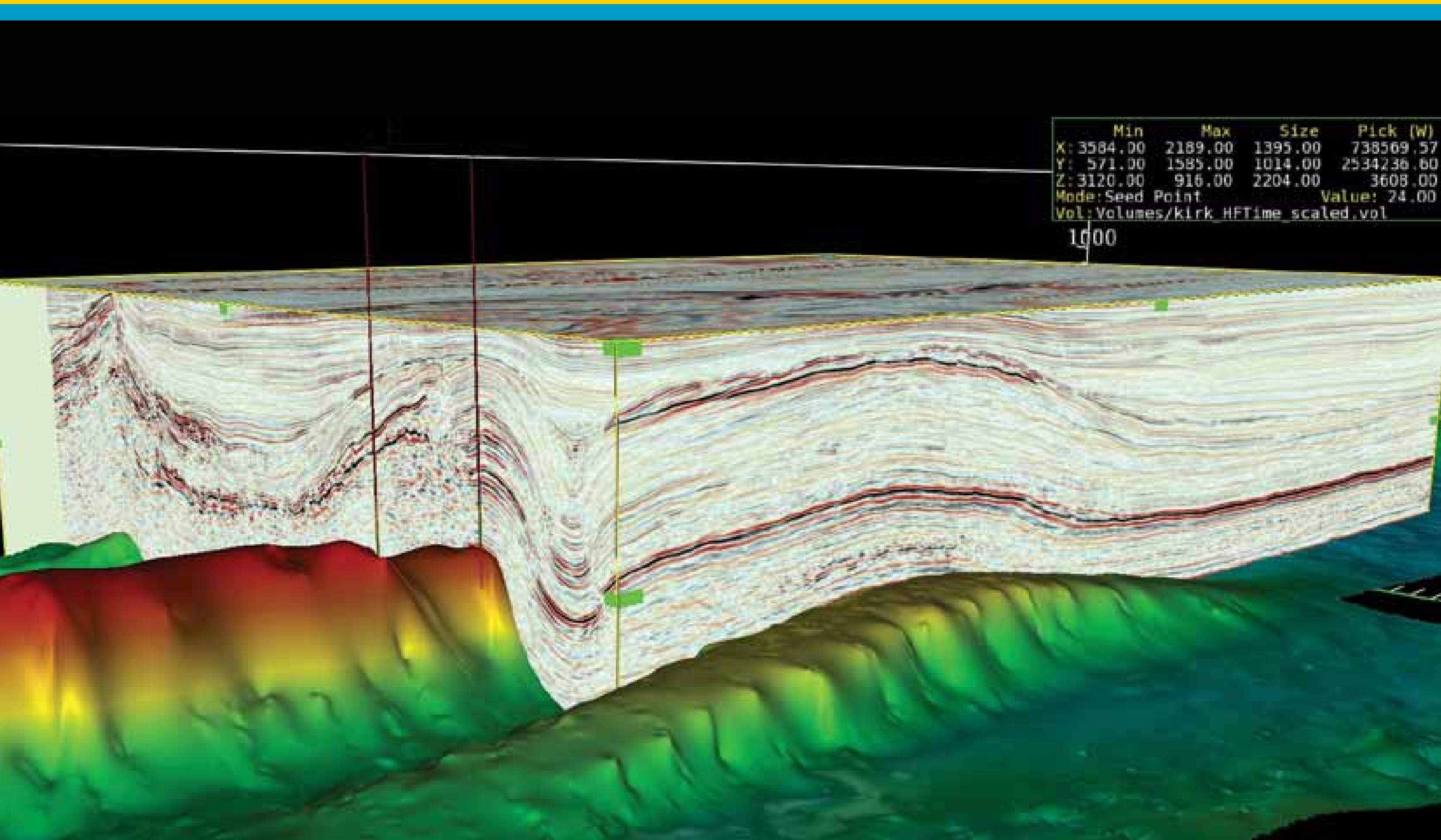
BAHAMAS PETROLEUM COMPANY PLC.

FORGING RELATIONSHIPS READY TECHNICALLY SUSTAINABLE PRACTICES

Annual Report & Accounts, year ended 31 December 2011



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www.bpcplc.com

Bahamas Petroleum Company is an oil and gas exploration company with 100% owned offshore licences exclusively focused on the Commonwealth of The Bahamas. We are intent on demonstrating a dramatic reduction in technical risk through the acquisition and interpretation of modern data and committed to maintaining environmentally responsible exploration.

→ FORGING RELATIONSHIPS

Read more → P06/07

→ READY TECHNICALLY

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→ SUSTAINABLE PRACTICES

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2011 Highlights

- Successfully raised £45.6m through an equity placing;
- Seeking listing on the Bahamas International Stock Exchange in the form of Bahamian Depositary Receipts (BDR);
- Appointment of Simon Potter as Chief Executive Officer;
- 1,120km line 2D seismic survey and competent persons report completed, concluding:
  - Multiple structures over the southern licences with unrisked recoverable prospective resources (EUR) in excess of 500 million barrels at a number of different reservoir horizons;
  - Several individual structures with an EUR in excess of 1 billion barrels of oil;
- High resolution seabed survey undertaken by Fugro N.V.
- 3,075km² state-of-the-art 3D seismic survey conducted by CGG Veritas; initial processing has been completed and detailed interpretation underway.

£45.6m
Successfully raised

1,120km
Line 2D seismic survey and competent persons report completed

3,075km²
Pearl 3D seismic survey conducted

At a Glance

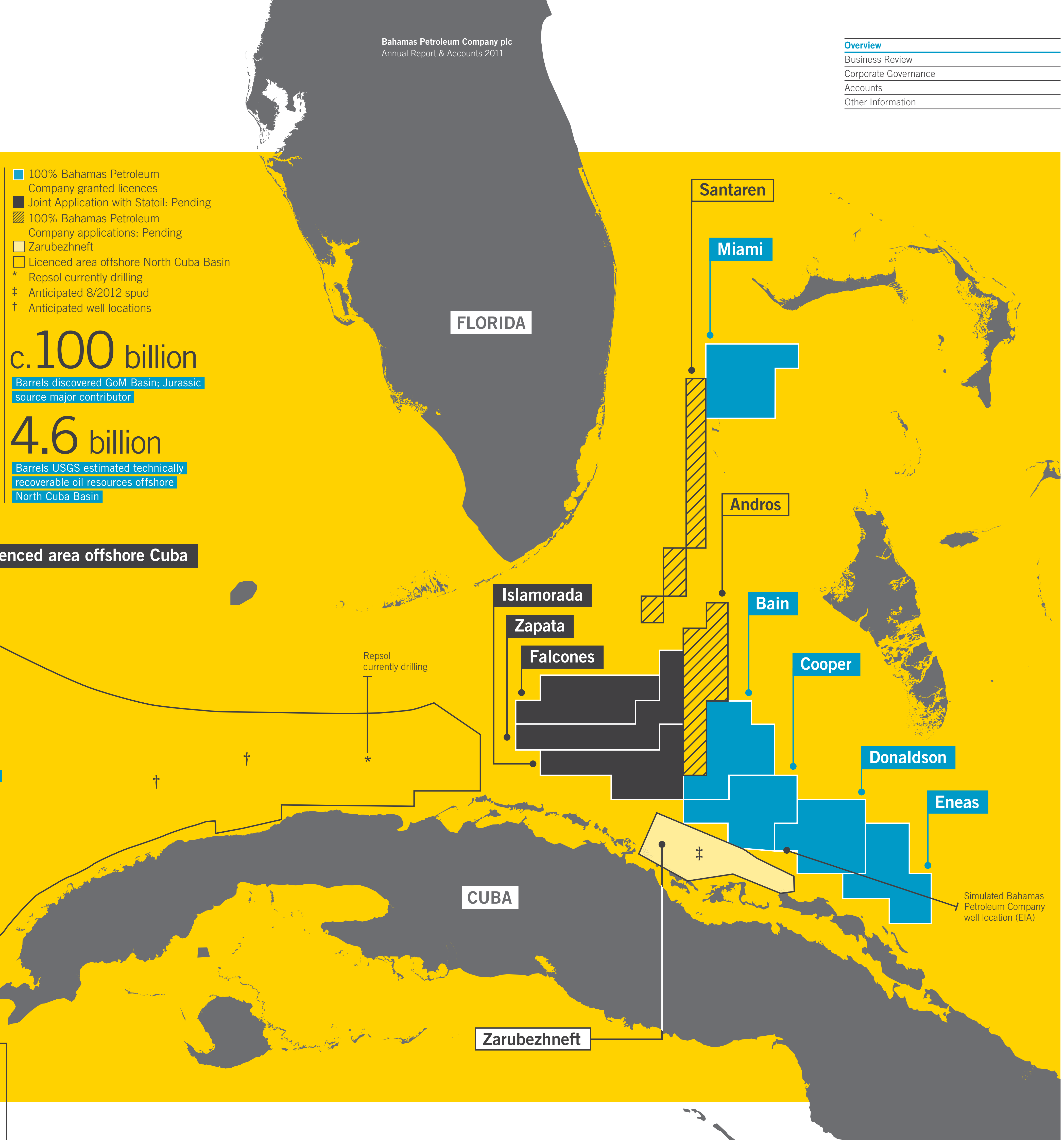
Carbonate reservoirs are estimated to contain 60% of the world's oil reserves. Most of the world's giant and super-giant fields produce from carbonate reservoirs.

Bahamas Petroleum Company is focused on evaluating and realising the potential of a wide range of carbonate reservoir systems contained in operated leases in Bahamian waters.

Over US$50 million has been spent on acquisition of a modern 2D and 3D database. Further de-risking activities, including core retrieval, well logs re-evaluation and re-examination of original seismic data have already been conducted.

4 terabytes of data:
Processed volume of data comprising the 2011 3D survey

16,000km²
Equivalent to 4 million acres or 672 OCS lease blocks: area of current BPC licences in Bahamian waters



Our Strategy

Maximise value growth from oil/gas potential in Bahamian licences:

- **Technical:** Maximise reserves declaration, exploit carbonate expertise regionally;
- **Costs:** Leverage equity position to minimise future demands on shareholders;
- **Commercial:** Maintain maximum access to upside whilst retaining adequate control of licences. Ensure wealth and opportunity creation for Bahamian people and nation.

Chairman's Statement

Adrian Collins Non-Executive Chairman

With significant increases in the capital spending profile of the Company met by a successful major fundraising, changes to personnel, material additions to the prevailing policy and governance framework, the Company has made considerable improvements to internal controls, compliance standards and corporate governance practices during 2011.

Dear Shareholder,
This is my first report to you as the Non-Executive Chairman of Bahamas Petroleum Company following my appointment in October 2011. Sadly, as many will already know, Alan Burns, from whom I took over the Chairmanship, died on 28 December 2011 after a gruelling and cruel illness. He was the inspiration behind the formation of this Company and his DNA is embedded in it.

It is therefore incumbent upon the Board and management to see that his vision and inspiration becomes a reality and a commercial success. In this regard I have every confidence in Simon Potter, who succeeded Paul Crevello as the Chief Executive Officer (CEO) on 17 October 2011.

I am very pleased to welcome Simon to the Company at this stage in its development, his technical and commercial skills mix are the perfect combination to lead the business. Simon enjoyed a successful 20 year career at BP where he held operational and executive positions in the North Sea, Alaska, Australia, Indonesia and Russia. He left BP to become CEO of Hardman Resources plc, an AIM listed Company founded by Alan Burns, which was acquired by Tullow in 2007.

During Simon's tenure at Hardman, licences in Mauritania came into oil production, a brand new hydrocarbon province was discovered under Hardman's operatorship in Uganda and a seismic exploration programme commenced that led to recent discoveries in French Guyane. While working alongside Alan and the previous Bahamas Petroleum Company management team, Simon became familiar with the current licences and the technical and commercial environment of The Bahamas.

It is this experience and familiarity that has assured myself and the Board of a level of seamless continuity and expertise that will benefit shareholders going forward. We are also very fortunate to welcome Paul Gucwa as Chief Operating Officer. Similarly to Simon, Paul has a wealth of experience across a wide breath of the oil industry that will be of significant benefit to the Company going forward.

Much has happened over the last twelve months; most notably we have completed shooting the 3D seismic survey over 3,075km^2 of our Southern licence areas and these data are currently being interpreted. Whilst we are very pleased with the results so far, we are focused on maturing the licence area in preparation for an exploration well, which will be critical to ascertaining the full extent of our resource base.

With a major fundraising in 2011 through the placement of additional equity, significant increases in the capital spending profile of the Company, changes to personnel and material additions to the prevailing legislative framework in the UK, it has been incumbent on the Company to make a significant effort in the latter half of 2011 to establish considerable improvements in compliance standards with best practices of corporate governance.

To that end, significant changes are being made to the operating of internal controls, inclusion of new policies, and compliance monitoring. Further, additional activities during the course of 2012 will mean a continual improvement and derisking to the risk profile of the Company.

One of the key risks for the Company to manage effectively in the run up to drilling is the maintenance of its 'licence-to-operate' and in this regard the Company must ensure that activities and planned operations are in compliance with internationally recognised standards pending the Bahamian Government establishing an appropriate regulatory environment for drilling.

We, as a Company, are more than aware of the environmental risks which need to be adequately managed during the exploration for and subsequent production of oil in the environmentally sensitive Bahamian waters and will ensure defined standards are met or exceeded.

The scale of exploration activities that is currently being undertaken in adjacent Cuban waters clearly demonstrates that others share our conviction about the region being highly prospective for oil and we note with interest the recent announcement in January 2012 by Zarubezhneft of Russia that it will be looking to drill in Cuban waters, abutting our acreage, during 2012.

In parallel with all this activity, we are aware that a Bahamian Government election is imminent. We greatly look forward to working with which ever government is elected, to help set down formal oil and gas regulatory framework; satisfy the concerns of all parties; and overcome the numerous challenges ahead.

We must not lose sight of the fact that should we discover what Alan Burns referred to as the 'best prospect' he had seen in 40 years in the oil business, it has the potential to transform the Bahamian economy, bringing untold benefits to future generations of Bahamians and significant gains to our shareholders.

A number of changes have taken place at Board level and I would like to take this opportunity to thank the departing directors for their contribution over the previous years. I should also like to thank our staff, both in the Isle of Man and The Bahamas, for their hard work and diligence over the last year in some trying circumstances. Finally, I would of course like to thank our shareholders for remaining supportive and the Board continues to look to the future with confidence.

Yours sincerely,

Adrian Collins
Non-Executive Chairman
29 March 2012

Further Enhanced Governance

During the latter half of 2011 there has been established a restructured approach to corporate governance, revised and additional company policies and new processes and systems to ensure compliance and enhanced performance management.

A further scaling-up of activities in compliance with the licence obligations to the Government will lead to the letting of additional contracts and recruitment of new staff during the course of 2012 and will require maintenance of a continual improvement programme to ensure effective and adequate management of the risk profile of the Company.

To this end the Company commits to produce a Corporate Social Responsibility (CSR) Report in the coming year to supplement its non-financial reporting and to assess and maintain the sustainability of its operations. The Company expects to be able to benefit significantly from increased transparency and more clearly demonstrating its interest and involvement in the environment, employees, communities and wider stakeholders as well as complying with greater scrutiny from various investor groups, partners and governments.

Successful value and wealth creation, especially within the industry we operate could be compromised without an effective shared value model that reinforces the 'licence-to-operate'. But equally, operating in a socially responsible way should not compromise the purpose and nature of the business – to successfully find and develop commercial volumes of hydrocarbons – as this is the value upon which the enterprise is founded.

New Executive and Board Composition
Adrian Collins Non-Executive Chairman
Simon Potter Chief Executive Officer
Edward Shallcross Non-Executive Director
Ross McDonald Non-Executive Director
Steven Weyel Non-Executive Director
Paul Gucwa Chief Operating Officer (Non-Board)

Full Board of Directors & Senior Management
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Q&A with Ashli Munnings

We are:

Forging Relationships

As the Company has matured, the focus of its operations has moved significantly towards The Bahamas with a clear commitment to a future embedded within the communities surrounding our resource base.

Ashli Munnings Business Manager

The Company has resolved to seek a listing on the Bahamas International Stock Exchange in the form of Bahamian Depositary Receipts (BDR) to ensure options for Bahamians to share in the anticipated capital growth of the Company.

To further assure shareholders that the Company is forging appropriate relations across all aspects of business dealings with local contractors, regional authorities and Government and truly extending our licence-to-operate the Board will appoint new directors permanently residing in The Bahamas. The Company is also committing to complete a CSR Report anticipating benefits from increased transparency and more clearly demonstrating its interest in the environment, employees, communities and with wider stakeholders.

Q Why is Bahamas Petroleum Company seeking a Bahamas International Stock Exchange (BISX) Listing?

The Board of Bahamas Petroleum Company wishes for all Bahamians to be able to invest in the future anticipated capital growth of the Company and is therefore seeking a separate listing on BISX. Currently, the Bahamian Exchange Control Regulations essentially preclude Bahamian nationals from investing in and thus trading in securities of a company whose shares are listed overseas, denominated in a foreign currency and therefore attract significant regulatory fees. The listing will be completed in the form of a Bahamian Depository Receipt (BDR) in which Bahamian residents can invest without these charges.

Q Why did Bahamas Petroleum Company choose to list on the London Stock Exchange in the first place?

Energy exploration carries with it geological risk. Thus investment in exploration companies carries with it an additional technical risk over and above those risks already inherent in the investment of other Company shares. For energy exploration start-up companies, as Bahamas Petroleum Company used to be, this requires a further specific understanding of and appetite for these unique types of stocks. In addition, the volume of capital Bahamas Petroleum Company requires to undertake expensive and risky exploration activity is large and therefore requires the kind of deep, liquid pool of capital available from somewhere like the London Stock Exchange. To date, Bahamas Petroleum Company has raised in excess of $80 million to conduct its operations.

Q What is a BDR?

The Central Bank of The Bahamas and The Securities Commission of The Bahamas have approved the creation of a type of security called a Bahamian Depositary Receipt (BDR), denominated in Bahamian dollars. A BDR permits Bahamian investors to acquire interests in non-Bahamian securities without additional expenses.

Bahamas Petroleum Company deposits a number of its securities (shares) with a Bahamian financial institution. That bank will then issue Depository Receipts which entitle the holder to all of the benefits of those shares deposited with the bank.

The BDRs are priced based on the value of the underlying shares on their home exchange (i.e. for Bahamas Petroleum Company the London Stock Exchange AIM Registry), however, it is not necessary for the BDRs to have a one-to-one correspondence with their underlying security.

Q Why a BDR and how will it trade?

Given the anticipated size of the potential market and appetite for Bahamas Petroleum Company stock, rather than issue new shares it is cheaper, more flexible and faster to deal in BDRs, which cause no dilution to existing shareholders of Bahamas Petroleum Company, with the volume of securities created varied directly based upon demand.

The offer and issuance of Bahamas Petroleum Company BDRs is dependent on permission from The Securities Commission and BISX. Once listed, BDRs trade through local brokers just like the shares in other listed local companies. Authorised Bahamian brokers-dealers may decide to make a market for BDRs on BISX with the intention to enhance liquidity.

Q What are the rights of BDR holders?

Holders of BDRs have substantially the same rights and benefits as persons holding the underlying securities. For instance, if the underlying securities carry voting rights, the holders of the BDRs will retain the same voting rights.

Q Why now come to Bahamians to raise money and how much will be raised in the process?

Bahamas Petroleum Company is currently fully-funded for its forward work programme, is not raising new capital from Bahamian investors and therefore there is no capital target. The pursuit of this listing is simply to afford Bahamians the opportunity to invest in and financially benefit from any future value growth in Bahamas Petroleum Company securities whilst sharing in the ownership of the Company. All necessary capital to conduct planned operations was raised through shareholders in London who supplied the original seed and risk capital. Any Bahamian investors who choose to buy into the Company BDR programme will benefit from all past use of this risk capital.

Chief Executive Officer's Review

Simon Potter Chief Executive Officer

The next 12 months will continue to be a busy time for the Company as we do all that is necessary to ensure we are able to meet our obligation to commence our first exploration well and seek to further imbed the business in The Bahamas with the appointment of Bahamian directors and to pursue a listing on The Bahamas International Stock Exchange (BISX).

This last year, 2011, has been a transformational year for Bahamas Petroleum Company. Additional funding has ensured the Company is financially robust, has enabled the unique acquisition of data that will more fully delineate prospectivity and ensures we are READY TECHNICALLY to execute the first exploratory well in Bahamian petroleum exploration licences in 25 years.

As the Company has matured and expanded, accordingly we have upgraded our processes and systems to ensure we are able to build SUSTAINABLE PRACTICES that will allow us to comply with international standards and ensure we are able to maintain and extend our licence-to-operate in all the wider communities in which we participate. The Company has assembled a quality team of experienced individuals to ensure we are FORGING RELATIONSHIPS across all aspects of our business in dealings with contractors, industry partners, local authorities and Government to establish ourselves as a partner of choice.

In total, in establishing the Company, the people and its systems, in accumulating a unique and comprehensive database of geology and geophysics, over US$50 million has been committed to ensure the future success of this endeavour.

Bahamas Context

There are many reasons why exploring for energy in the territorial waters of The Bahamas is attractive to The Bahamas Petroleum Company, some of which are generic to the industry, but others are very specific to The Bahamas.

Oil prices
They are approaching their all-time highs again and this always acts as an incentive that drives activity.

Costs
The proximity to the industrial base of the US Gulf of Mexico offers unique access to contractors and suppliers with significant cost advantages.

Technology
Historically, the acquisition of seismic data has been difficult and therefore constrained in Bahamian waters. Because of the near surface carbonate geology, once 'noise' is filtered out there is little data left to interpret. Whilst 3D seismic data acquisition is not a new technology, the opportunity and the choice by Bahamas Petroleum Company to invest in an extensive survey utilising modern technology provides a database that offers a significant competitive edge in the pursuit of success.

Prospectivity
The potential of the local geology to contain commercial quantities of oil, often expressed in aggregate as the 'chance of success' – beauty is in the eye of the beholder, but with a global quality source rock, extended reservoir sequences over thousands of feet, huge traps defined using 3D seismic data, these key components that define a working petroleum system are all present locally in The Bahamas.

Technical risk, however, always has to be balanced with reward to promote interest and given there has been no significant activity in Bahamian water for more than 25 years, it is only The Bahamas Petroleum Company that has seen fit to value this prospectivity sufficiently to commit significant investment in-country.

Fiscal and legislative regime
The Bahamas offers political stability having been a Parliamentary democracy for over 275 years with a reputation for financial integrity, an established regime for the conduct of commerce, beneficial fiscal terms to incentivise successful exploration and a legal framework based upon the English rule of law. This consistency of law is extremely important to all sectors of the economy, not just the petroleum industry, and any compromise of this principle could have severe knock-on consequences for many major investors with multiple options for their capital.

Whilst many might believe that the risks associated with oil are new to this region and will manifest in a similar way to other areas, a number of points should be taken into consideration.

First of all, in addition to the volumes of oil discovered in Cuba to date, there is a planned six well exploration programme in offshore Cuban waters currently operating, with the first well already nearing completion. So, in many ways, The Bahamas has much of the 'risk' associated with oil exploration but with none of the benefits.

Secondly, The Bahamas has for a long time been engaged in the transportation and transhipment of oil involving the major storage terminals of Grand Bahama. Historically, these kinds of activities have been the major source of pollution risk associated with the oil industry and could manifest locally.

Commercial and accounting staff at Isle of Man office

Thirdly, varied bottom-hole conditions (geology and pressures etc.) represent very different technical situations to be managed and therefore very different risk profiles. The 'normal' pressures anticipated in the carbonate rocks of The Bahamas would represent half that of the 'over-pressured' reservoirs experienced in the drilling of the Macondo in the US Gulf of Mexico.

However, it is fundamental to the ultimate success of any exploration programme that a legislative environment with clear enabling regulations is established for the prevailing conditions. These regulations must be professionally implemented by the Company and then monitored as such to ensure no harm.

Given the expertise and experience of the employees of Bahamas Petroleum Company, the Company is anxious, ready and willing to contribute to the resolution of many of these issues, whereby a modern exploration programme can be commenced.

All the lessons learned from the Gulf of Mexico can be applied, with international standards adhered to and actively monitored to ensure that a full evaluation of the exploration potential of Bahamian waters can be carried out safely and, in the event of success, contribute significantly to future economic development, growth and prosperity.

The election process of 2012 will yield a new government with a refreshed mandate. Diversification of the economy will be fundamental to future and sustained growth. A vibrant and successful energy exploration sector could contribute much to the economy and Bahamas Petroleum Company is anxious to play its role in contributing to that growth agenda.

Chief Executive Officer's Review (continued)

Staff at Nassau office

Business Fundamentals

Following a raising of US$73.9 million in an oversubscribed equity placing in February 2011, the Company executed a 1,120 line kilometre 2D seismic survey and subsequent 3,075km² 3D seismic survey. The 2D seismic survey underpinned a Competent Persons Report (CPR) conducted by Ryder Scott out of Houston, which concluded:

Multiple structures over the southern licences with unrisked recoverable prospective resources (EUR) in excess of 500 million barrels at a number of different reservoir horizons; several individual structures with an EUR in excess of 1 billion barrels of oil; assessment was restricted to the Cretaceous interval only which leaves the shallower Tertiary strata and the deeper Jurassic strata still to be evaluated; The average Chance of Success (CoS) was assessed at 25%.

Based upon the excellent data quality of the 2D survey, the desire to minimise identified risks pertaining to source maturity, migration pathways and seal and the need to design the safest and best placed well possible, the Company decided to shoot the Pearl 3D seismic survey using the most up-to-date CGG BroadSeis™ technology. Significantly, results to date seem to mitigate some of those key remaining risks.

Structurally, the previously identified features are shown to retain integrity at depth and appear continuous over several tens of kilometres. This offers huge encouragement for there being multiple targets at individual potential well locations and reinforcing the belief that there should be substantial commercial oil deposits in the territorial waters of The Bahamas.

Business fundamentals are sound; the Company is well funded; a CPR has highlighted a substantial resource base; data from a new 3D seismic survey has further reinforced the potential for giant oil fields; the Company has sufficient confidence to seek a listing on BISX; and, the risk profile of future activities of the business has been highlighted to the Government through the submission of an EIA along with actions for mitigation.

As the Company has matured, the focus of its operations has moved significantly towards The Bahamas. To that end, the Board has decided to appoint two new directors based permanently in The Bahamas. This further demonstrates our clear commitment to a future embedded within the communities surrounding our resource base. Furthermore, the Company has resolved to seek a listing on The Bahamas International Stock Exchange in the form of Bahamian Depositary Receipts (BDR).

These instruments represent tradable, listed securities which will provide Bahamians, effectively precluded from purchasing shares via the existing London Stock Exchange AIM listing, due to excessive costs, with access to any capital growth in the stock of the Company that would result from exploration success.

During the latter half of 2011 there have been significant changes to management personnel, however these have now been completed, bringing with them a restructured approach to corporate governance; revised and additional Company policies; and new processes and systems to ensure compliance and enhanced performance management.

In support of future exploration activity the Company has submitted to the Government, in the form of The Bahamas Environment, Science and Technology Commission ('BEST'), an Environmental Impact Assessment ('EIA'). This report determines the most likely impacts any exploration activities may have on the environment and seeks to illustrate mitigating actions the Company could undertake.

Significantly, this report includes a very sophisticated, long-term simulation study designed to assess the transport of oil away from any potential spill site, undertaken as part of the Company's oil spill contingency planning. The key conclusion from this study is that regardless of the spill size, ocean current, wind direction or sea state pertaining over the last seven years, Mother Nature is looking out for The Bahamas as an insignificant fraction of the likely spilled oil, even in the worst possible event, will ever make it to shore in Bahamian territorial waters, although cooperation with neighbouring territories would be a clear priority. This work will be progressed through the coming year up to and during the course of the drilling of our first exploration well.

Outlook 2012

During 2012 there are a number of major catalysts that will underpin and sustain future growth. The Company will potentially benefit during the course of the coming months from the results of drilling activity currently taking place in Cuban waters. In January, the Scarabeo-9 drilling rig commenced activities under contract to Repsol, with a minimum of five wells anticipated to be drilled by the rig through 2012/3.

In addition, Zarubezhneft, the operator of the Cuban licence immediately adjacent to our Southern blocks, has indicated that they will commence drilling in August following their recent 3D seismic survey.

Bahamas Petroleum Company continues to seek third-party farminees to share the costs of future exploration activities and remains in active negotiations with a number of companies. As these negotiations remain commercial-in-confidence, no update or announcement is anticipated until a successful outcome has been achieved, nominally expected in the summer of 2012.

Completion of the Bahamian elections ahead of their May 2012 deadline and timely progress towards implementation of revised laws, statutes and enabling regulations covering hydrocarbon exploration will promote and accelerate activity.

Provision is being put in place for Bahamians to benefit from the potential wealth creation of the Company's capital growth, thus allowing them to enjoy the benefits of successful energy exploration in their native waters. All indications suggest the presence of potentially giant fields within the licence area, however all exploration activities must be conducted with due regard to minimising any environmental impact and with a view to future sustainability.

The Company is committed to moving forward with this objective during 2012 and growing substantially shareholder value.

Simon Potter
Chief Executive Officer

Alan Burns 1940-2011

Founder of Bahamas Petroleum Company

It was during 2005 that Alan Burns began the project that would lead to the first real oil and gas exploration activities in Bahamian waters for the best part of two decades and the creation of The Bahamas Petroleum Company. Bahamas Petroleum Company was formed to concentrate on the exploration of the waters of the Commonwealth of The Bahamas where Alan believed the enormous sedimentary thicknesses of rocks contains sound indications of the presence of hydrocarbon accumulations and the potential for substantial commercial oil and gas deposits.

In so many ways Alan was a true pioneer. Whilst self-taught, he initiated successful resources enterprises in such far-flung places as Mauritania, Uganda, the Falkland Islands and French Guyane, specialising in seeking licences to explore for hydrocarbons where few had been before and certainly where no one else had previously had success or was currently prepared to invest risk capital. Today, recent oil discoveries are being developed or appraised in each of these countries, representing an enviable track record of commercial success, which Alan was hoping to replicate in The Bahamas.

Sadly Alan passed away peacefully on the evening of Tuesday 28 December 2011 following a year-long fight against illness.

Those who have worked with or been associated with Alan over the years cannot have helped but be affected by his dry humour, generosity and imagination. The directors and staff of Bahamas Petroleum Company would like to pay tribute to Alan, for without the application of the full wealth of his experience and personality we would not be where we are today. However, the job is far from complete and whilst great progress has been made in the collection of vast amounts of both historic and modern technical data that support Alan's original assertions of prospectivity, it now beholds us to deliver on the project commenced by his commitment, insight and persistence.

Q&A with Paul Gucwa

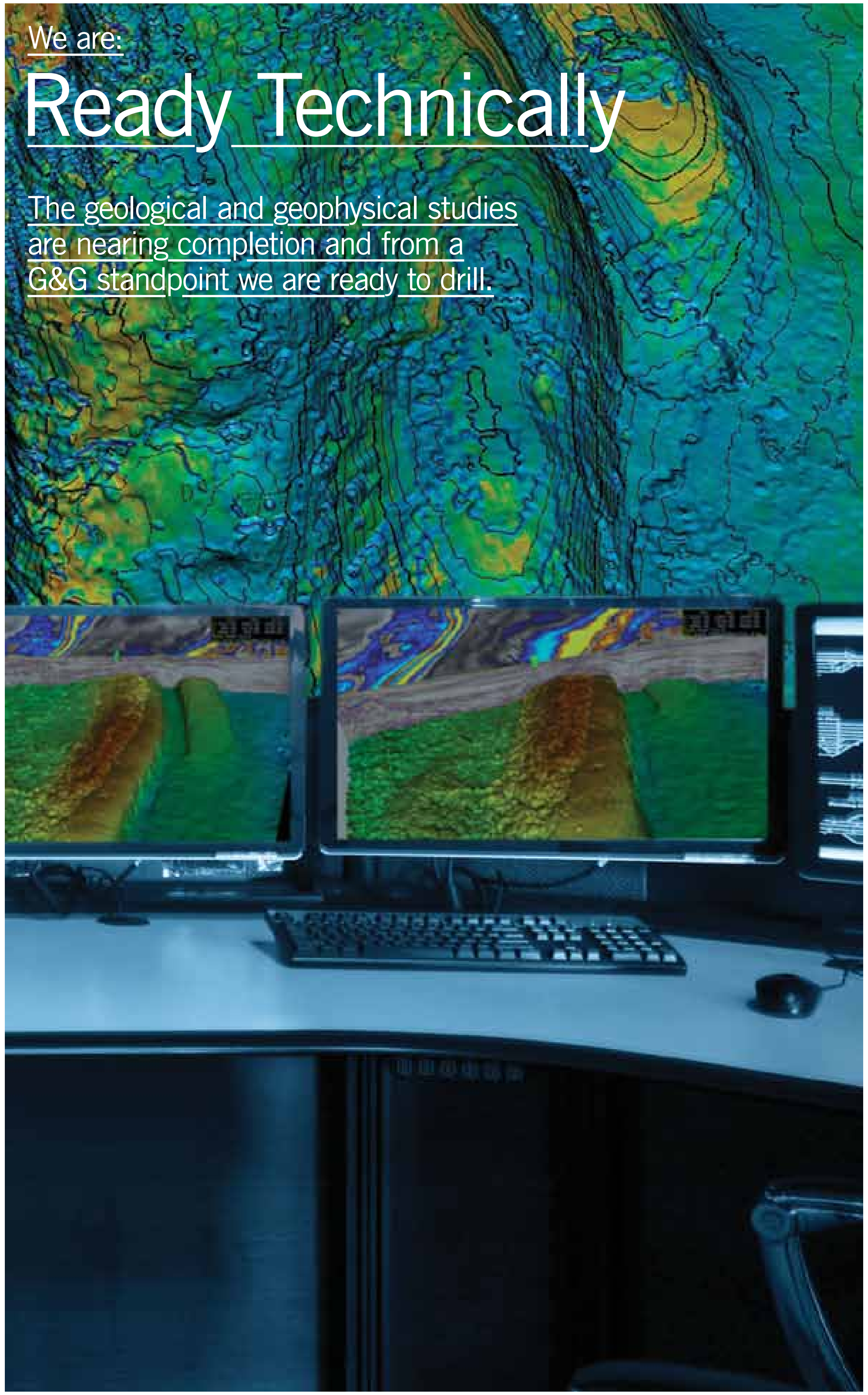
Paul Gucwa Chief Operating Officer

As we move into 2012, our focus has shifted to completing the work required to finalise well locations and more importantly to completing the studies necessary to plan and to safely execute the drilling of our initial obligation well.

The acquisition of 3D confirms and better defines the prospective structures mapped on the 2D. Significantly the data also provides additional encouragement regarding source potential and fetch area.

3,075km²
of 3D Seismic acquired

400km²
Fold B closure



Bahamas Petroleum Company plc
Annual Report & Accounts 2011

Q What do you mean by 'we are ready technically' to drill?

Our licences were awarded in 2007, since that time we have worked diligently to collect all available historic geological and geophysical data and where possible re-examine using modern technologies and interpretative techniques. At todays prices the data would have cost millions of dollars to acquire. This information, especially that from the previously drilled wells, afforded us sufficient excitement and encouragement to go ahead and invest in the acquisition of new information, particularly seismic data to better understand the detail of the petroleum systems and ultimate scale potential of our licences.

Subsequently, all of the new data we have collected and interpreted confirms The Bahamas has 'World Class' petroleum potential, with multiple, very large traps identified. Well data confirms the reservoir potential; seismic and well information provide encouragement for sealing intervals; and, the regional geology provides evidence of the likelihood of rich source rocks in the Upper Jurassic. The geological and geophysical (G&G) studies are nearing completion and from a G&G standpoint we are ready to drill. With the acquisition of the recent 3D seismic survey we also have all the data necessary to be able to design a well with the best chance of success and optimised from a safety perspective.

Q What work remains to be done?

Much work needs to be done before we spud our first well. The Government is working to put regulations in place to oversee oil and gas activity. We expect these regulations to be in place prior to our drilling. As we move forward in our plans we are aligning ourselves, with the best practices of Norway, the UK and the US. We have completed and submitted an Environmental Impact Assessment (EIA) to the Authorities.

We have completed extensive oil spill modelling to understand where we need to be ready to intercede in the unlikely event of an incident. We have completed our worst case discharge calculation and a drilling hazard study of our acquired multibeam data.

We have initiated our oil spill response plan and our Environmental Management Plan (EMP), we are in the process of joining the Clean Caribbean Americas, an association that can provide additional 'clean-up' equipment should it be necessary and plan to ensure close co-operation with the Cuban authorities in the near future to evaluate how emergency response capabilities can best be integrated.

Much of our focus has shifted to well planning and we contracted with ADTI to start front end engineering design and well planning. This will include a careful review of the previously drilled wells and careful integration of our 3D data into our drilling plan.

Q Has the 3D materially changed the conclusions reached by the Ryder Scott 'Competent Persons Report'?

It is our opinion that the 3D has enhanced the original 2D generated conclusions. However, there are some changes to our interpretation and perception of risk. Ryder Scott estimated the risked potential to be greater than 1 billion barrels from the Aptian through Top Cretaceous section, with an average risk of about 1 in 4 from three gross reservoir intervals on each of four structures. Three of the structures were each assessed to have unrisked potential in excess of 1 billion barrels of oil.

Ryder Scott did not assess the potential in the younger Tertiary section nor the pre-Aptian and Jurassic section. The 3D confirms the overall integrity and size of the mapped structures. On the 3D the mapped structures at Albian and Aptian levels beneath the thrust trend closest to Cuba (designated 'Thrust A, Fold A' in the CPR – see page 15) appear to be velocity artefacts of the Cretaceous carbonate platform.

If confirmed by completion of the 3D interpretation this would likely impact potential estimated by Ryder Scott at this location, however, we believe this is more than compensated for by modifications to the overall risking as well as the pre-Aptian section in the next thrusted structure (designated 'Fold B') as well as the broad Jurassic closure beneath the thrust. More importantly the 3D now shows the section below 'Trend A' to be dipping uniformly to the south west and providing an uninterrupted oil migration pathway from the Cuban foredeep source location.

Q Your licences have a variety of play types, what is your current thinking on the first well?

There are a variety of play types on our acreage; reef margin plays similar to Golden Lane in Mexico, fore reef debris and breccia plays similar to the Canterell complex, very large foreland basin structures comparable in geology and size to many fields in the Middle East and possible deeper rift basin structures.

We believe the best location for our initial well will be to test 'Fold B' into the upper Jurassic. The CPR indicates this feature has the potential for over 2 billion barrels of oil in the Cretaceous section alone. We will plan our initial well to a depth of approximately 22,500 feet which will take it through the thrusted anticline across the thrust fault into a broad structure in the Upper Jurassic. We believe this well will test the largest potential volumes, multiple reservoir sections and will provide definitive information on the anticipated Jurassic source.

Based on previous work we anticipate the well will take about 120 days and will likely be drilled with a semisubmersible rig in water depth of about 1500 feet.

Q It's pretty far down the road but have you thought about development options?

There is still significant geologic risk – the chance that we will drill a dry hole, but if we are successful the final development plan would depend on the type of hydrocarbon found (oil or gas), oil gravity and wax content, and ultimately the absolute volume of hydrocarbons found. At present a phased development using subsea well heads and an FPSO would seem to be the most efficient way of ensuring early production, minimum environmental impact and providing both direct and indirect employment.

Operational Review

Seabird 2D Seismic Acquisition

A major milestone of 2011 was the acquisition and receipt of initial processing of nearly 3,075km² of 3D seismic in the Southern Licence area.

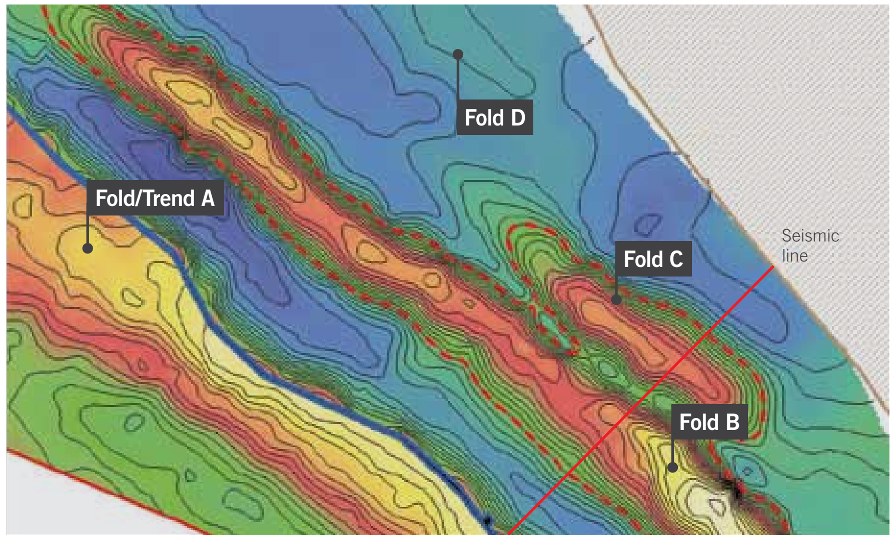
Highlights

During the year Bahamas Petroleum Company has seen significant advances in its exploration programme. The focus during 2011 has been to gather the data and complete the technical studies needed to understand the petroleum system and to further reduce the geologic risk. The Company is now at the point where the only remaining step that will further materially impact risk is to drill a well.

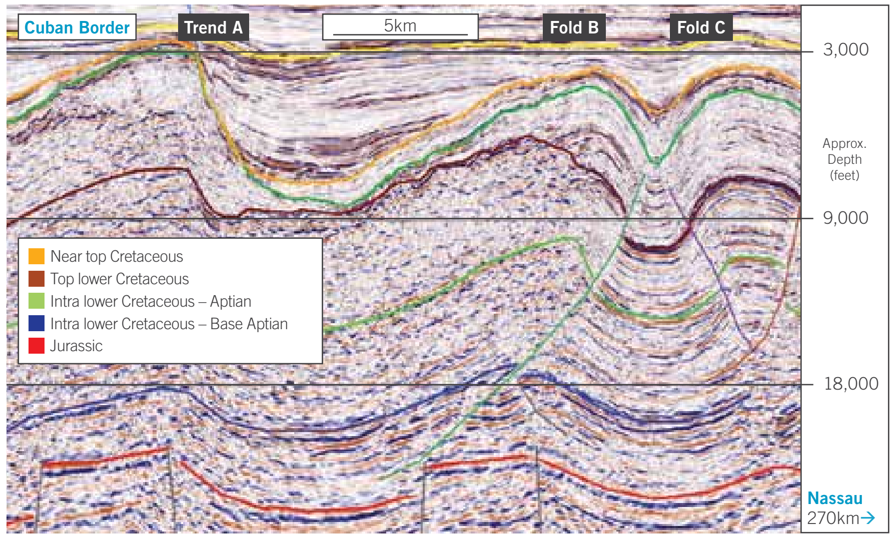
Accordingly, as we move into 2012, our focus has shifted to completing the work required to finalise locations and more importantly to completing the studies necessary to plan and to safely execute the drilling of our initial obligation well.

2D Seismic

In 2010 and 2011 the Company undertook the first modern seismic in the southern Bahamas since 1987. Over 1,120 line kms of 2D data was acquired, processed and interpreted. These data revealed the presence of very large structures with 4-way closure ranging in length from 10 to 75 kilometres. These structures represent the foreland basin province of the Cuban overthrust belt.



Structure Top Cretaceous showing folds: A B C & D PSTM 2D



2D Generated Seismic Cross-section

New Licence Applications

Based on the interpretation of the 2D seismic, the Company applied for two additional licences in the Santaren Channel. Thus in total the Company now has five licence applications currently under review by the Bahamian Government; two 100% Bahamas Petroleum Company and three joint applications with Statoil. In the joint venture with Statoil an Environmental Feasibility Study (EFS) has been submitted and is currently under review by the BEST Commission and their consultants. A decision on these applications is not expected until after the 2012 election.

Competent Persons Report

Based upon the acquired 2D, an independent assessment of the hydrocarbon potential in the Bain, Cooper and Donaldson licences was prepared by Ryder Scott Company and released July 2011. Ryder Scott's evaluation documented that three of the four structures, Folds A, B and C, have an unrisked potential in excess of 1 billion barrels of recoverable oil.

The report also addressed the chance of success for each structure with the COS ranging from 23% to 35% over most intervals. This report validates the vision of our founder, Alan Burns, that The Bahamas have the potential to be a significant oil province. It is important to note that the CPR dealt only with the Aptian through Top Cretaceous interval. The Company believes considerable additional potential also exists in the shallower Tertiary section, in stratigraphic traps off structure and in the deeper Upper Jurassic section.

Biography

Paul Gucwa Chief Operating Officer

Dr Paul Gucwa has 38 years' experience as a Geoscientist as well as in technical and business management roles developing exploration and production projects throughout the United States and Canada. Paul was Chief Geologist for BP America during the 1980's and was accountable for functional and technical elements of the corporation's entire geologic programme.

As Manager of US Exploration for Marathon from 1992 until 2000 Paul was responsible for an annual capital and expense budget in excess of $100MM US. During that time Marathon's domestic exploration programme added in excess of 300 million barrels of oil equivalent net to Marathon, while their Gulf of Mexico production increased 300% to just under 100 MBOE/D.

From 2001 to 2005 Paul was the President of Texas 3 Star Energy Investment LLC who successfully initiated and expanded business area for Nearburg Producing Company enabling them to acquire Gulf Coast onshore exploration projects. Texas 3 Star Energy Investment also jointly participated with two companies to build portfolio of Gulf Coast onshore opportunities for Novus Petroleum (Australia). Novus successfully entered 100,000 acre south Texas play.

Paul then joined Maritech Resources in Texas where he provided geoscience support for Maritech's Inland Waters Team, working Timbalier Bay Field and the Tuscaloosa play. New drill locations were identified at Timbalier Bay Field and 17 new wells have been drilled since 2006, all completed as producing wells. Paul joined Bahamas Petroleum Company in June 2011.

Operational Review (continued)

Veritas Viking 3D Seismic Acquisition

Fugro Sea Bottom Survey

In June and July Fugro Geosciences were contracted to collect nearly 5,000 line kms of high-resolution multibeam, back scatter and sea bottom profile data. These data were used to help plan the 3D acquisition and will be required for completion of an Environmental Management Plan (EMP) in compliance with regulations. The data are currently being interpreted to prepare the drilling hazard evaluation of several potential drill sites on Fold B.

3D Seismic Acquisition

A major milestone of 2011 was the acquisition and receipt of initial processing of nearly 3,075km^2 of 3D seismic in the Southern Licence area. These data were collected by CGG Veritas using their state-of-the-art 'BroadSeis' technology. Initial results indicate the data are of high quality and it is now being used to advance our understanding of the hydrocarbon systems.

The 3D confirms and better defines the prospective structures mapped on the 2D. Significantly the data also provides additional encouragement regarding source potential and fetch area. The 3D indicates the basement to be deeper than previously mapped implying a thicker, deeper Jurassic (source rock) interval. Further the interpretation indicates a uniform south west dip under the Cretaceous platform (Fold/Trend A) indicating access to a large fetch area toward the Cuban mainland under the North Cuban basin. We are currently engaged in seismic facies and seismic lithology studies, including inversion and expect to have preliminary results from this work during the second quarter.

2012 will be an active year for Bahamas Petroleum Company as we finalise potential well locations. The government will be working to refine the regulatory framework that governs oil and gas activity. The Company is aligning itself with the best practices of Norway, the UK and the US. All parties are committed to sustainable practices and responsible exploration.

Figure 1 Top Cretaceous Structure

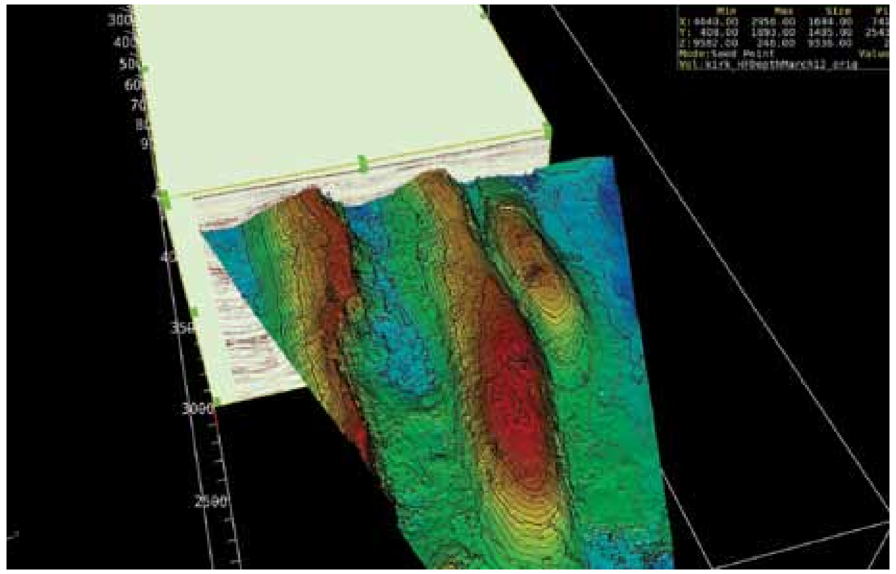
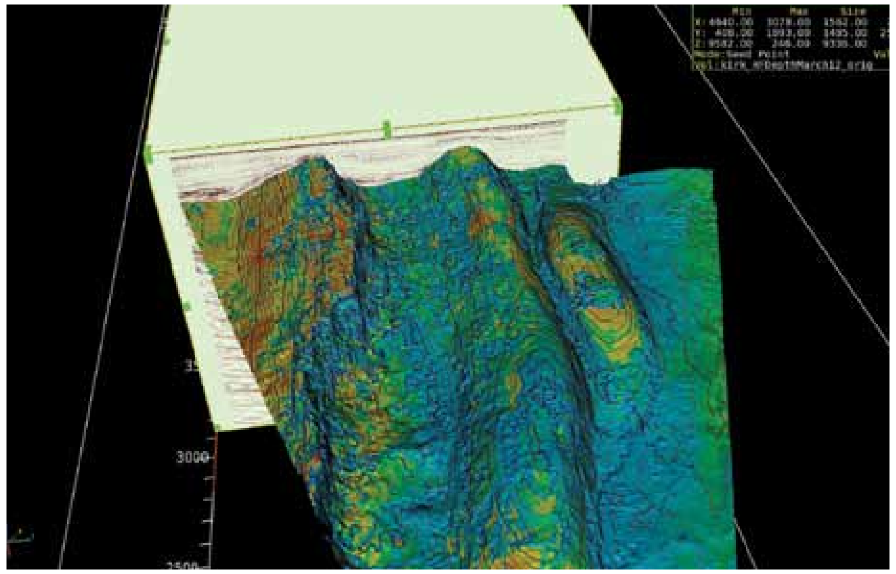


Image from high frequency depth volume illustrating the depth to the 'Top Cretaceous' horizon.
Hotter colours are highs, cooler colours lows. The 3 highs shown are from left to right Trend 'A' the top Cretaceous platform margin, Fold 'B' and Fold 'C' respectively. The crest of Fold 'B' at the Cretaceous level occurs at 700 metres. The contour interval is 50 metres. Note the leftward (southwest) shift of the platform edge about midway in the figure on Trend 'A'. This appears to be the result of collapse of the platform margin suggesting reworked platform sediments and breccia are likely to be present in the forereef environment.

Figure 2 Top Cretaceous Amplitude



Same horizon as shown in Figure 1 only in this illustration the attribute displayed is amplitude.
Hotter colours are higher amplitudes, cooler colours are lower amplitudes. Note the structurally conformable downdip limit to the higher amplitude on Fold 'C'. This amplitude does have an 'AVO' response. We are working to better understand potential direct hydrocarbon indicators in our data volume.

Figure 3 Top Albian Structure

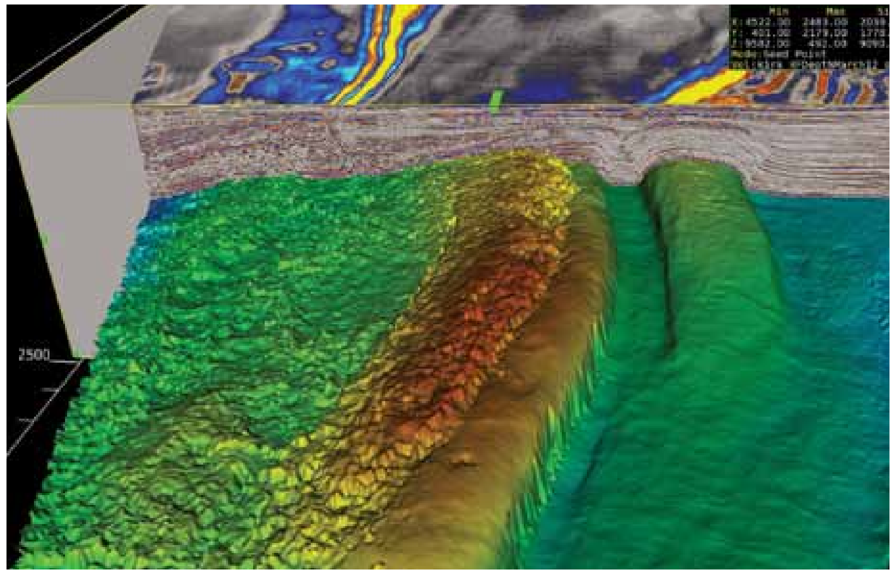


Figure 3 illustrates the structure on the 'Top Albian' surface. Again hotter colours are highs, cooler colours are lows. Trend 'A' is not present at the Albian level and only Folds 'B' and 'C' are seen.
The left (southwest) side of the display represents the Albian platform, the irregular topography interpreted to be the result of karst development on this surface. The boundary between the hummocky appearing surface and the smooth surface is the Albian platform edge, the smoother surface representing sediments deposited in deeper water in front of the Albian margin. The Albian platform covers more of Fold 'B' to the north and steps behind toward the south. Fold 'C' can be seen on the right.

Operational Review (continued)

Figure 4 Top Albian Structure Contoured

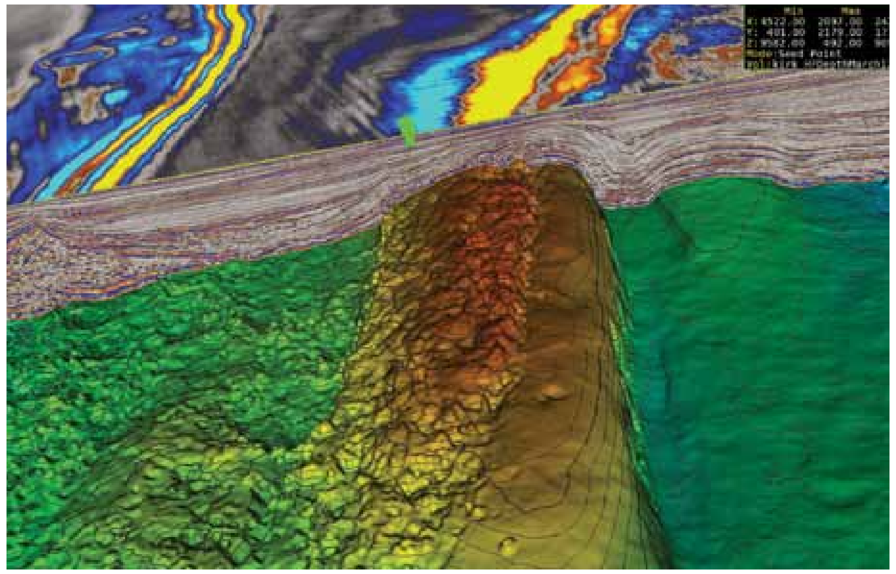


Figure 4 is a close up view of the top Albian surface seen in the previous slide.
The presence of the Albian platform, with its karsted surface, over much of Fold 'B' complicates the interpretation of attributes on Fold 'B'. Note on the left side of the vertical seismic line the younger Cretaceous platform margin can be seen building up from the Albian surface.

Figure 5 Top Aptian Structure

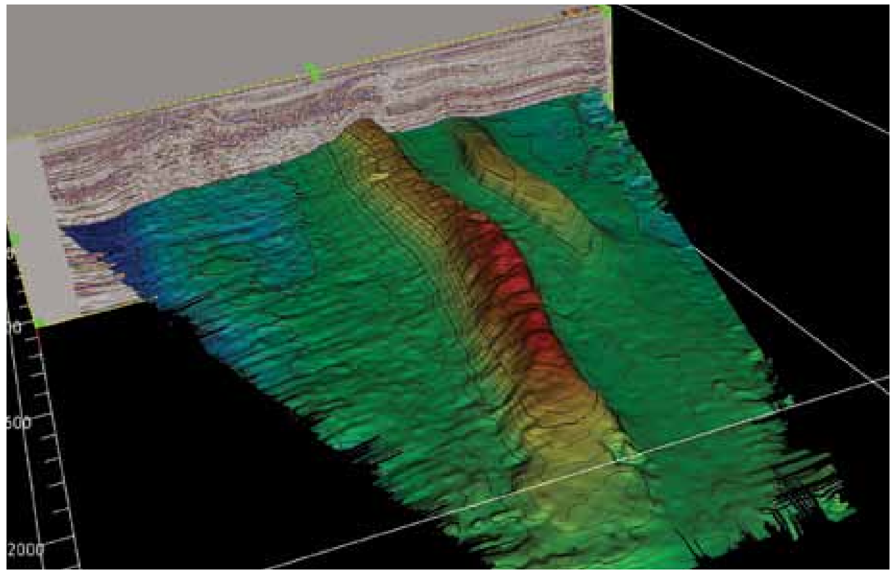


Figure 5 illustrates the structure on the top Aptian horizon. Fold 'B' is in the centre of the image and has a structural crest at 2500 metres.
The image shows the Aptian surface dipping to the southwest (left) toward the Cuban foredeep. Hydrocarbons generated in the North Cuban Basin appear to have an uninterrupted migration pathway toward our structures, significantly increasing the potential fetch area beyond what was understood from the 2D. The length of Fold 'B' shown in the 3D view is approximately 50 kilometres; it extends an additional 25kms northward.

Figure 6 Top Aptian Amplitude

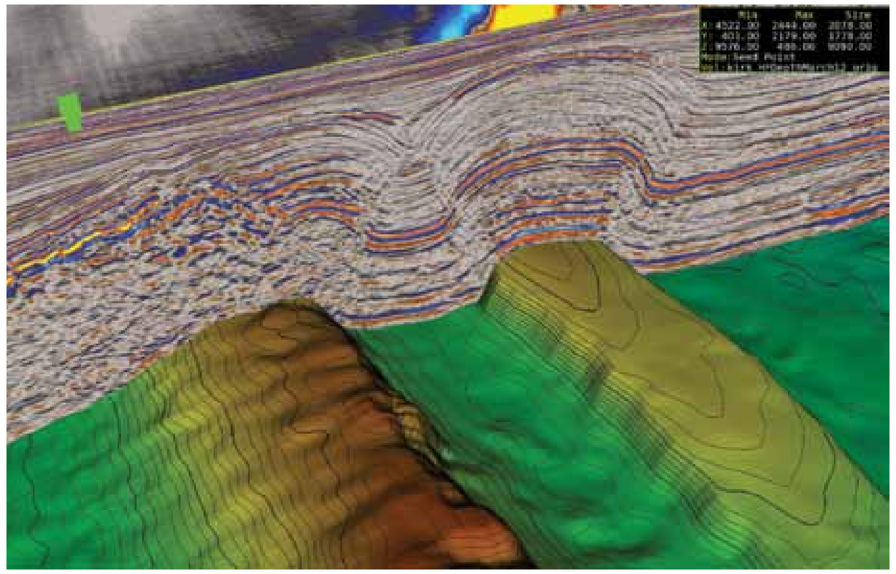


Figure 6 is zoomed in to show the nature of the seismic events more clearly on the vertical seismic line.
Note the strong increase in amplitude on Fold 'C' just above the rendered surface. This amplitude increase occurs only on structure and is conformable to structure. Although we are constrained by lack of carefully calibrated well control, our work programme is geared toward understanding to what extent these changes might be hydrocarbon indicators. Note additional 'on structure' amplitude changes above the Aptian surface. This view also illustrates the effect of the shallower Albian platform on our imaging of deeper events on Fold 'B'. We are also working on this issue as we continue to reprocess the data.

Preparing to Drill

Bahamas Petroleum Company have engaged a drilling service Company to act as project manager to plan and, as applicable, execute the drilling of our first exploration well. This activity will be divided into three main phases; Front End Engineering and Design (FEED); Procurement; and, Project Execution. Applied Drilling Technology Inc (ADTI) has been awarded the contract and has already commenced work on the first phase.

The main deliverable from this work will be a Drill Plan including a plan for operations, logistics and support as well as an executable plan with safety and environmental components consistent with international waste and emissions standards a well as response plans for envisaged emergency situations. The plan will identify long lead time items for well implementation to ensure the schedule stays on track to discharge the programme with licence obligations.

Data Room

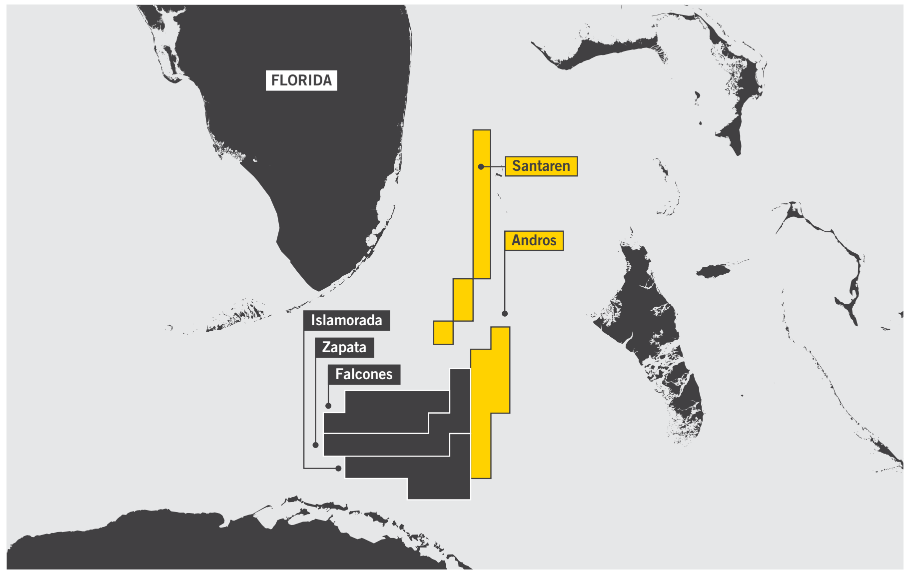
We continue to host potential partners in our data room. Most recently we have begun allowing parties who have demonstrated serious interest the opportunity to review aspects of the 3D. There continues to be high interest and we are committed to securing a partner prior to drilling. Negotiations have taken longer than initially anticipated; possibly due to potential partners waiting to see election results or the results of drilling currently underway in Cuba. As we move forward with these negotiations we remain mindful of getting appropriate value for our shareholders and for staying on track to meet our licence requirements regarding drilling.

Competitor Activity

In the coming months the Company will have potentially benefited from the results of extensive drilling activity being undertaken in Cuban waters. The Scarebeo 9 drilling rig commenced activities in late January with a minimum of 5 wells anticipated to be drilled through 2012/3. The first well is being operated by Repsol with an anticipated completion date during May. In addition, Zarubezhneft, the operator of the Cuban licence immediately adjacent to The Bahamas Petroleum Company southern licence blocks has indicated that they will commence drilling in August following their recent 3D seismic survey.

2012 will be an active year for Bahamas Petroleum Company as we finalise potential well locations and begin moving in earnest toward drilling. Bahamas Petroleum Company and the Government are working on parallel paths. The Government is working to put the regulations in place to govern oil and gas activity. We are aligning ourselves with the best practices of Norway, the UK and the US as we prepare to drill. Both parties are committed to responsible exploration and preserving the environment for future generations.

New Licence Applications



The licence applications are being held by The Bahamas Government pending development of appropriate regulations. In support of the Joint Applications, Statoil have completed an Environmental Feasibility Study (EFS) which has been submitted to the Authorities.

Joint Applications

Application (1)	Holder	Licence Area
Islamorada Licence	Bahamas Petroleum Company/Statoil	777,900 acres/3,148km^2
Zapata Licence	Bahamas Petroleum Company/Statoil	776,200 acres/3,141km^2
Falcones Licence	Bahamas Petroleum Company/Statoil	774,600 acres/3,135km^2

Bahamas Petroleum Company 100% Applications

Application (2)	Holder	Licence Area
Santaren Licence	Bahamas Petroleum Company	760,100 acres/3,076km^2
Andros Licence	Bahamas Petroleum Company	774,500 acres/3,134km^2

Q&A with Jobeth Coleby

Jobeth Coleby In-house Counsel

Q How many licences does Bahamas Petroleum Company have? And, does Bahamas Petroleum Company have any pending applications?

Bahamas Petroleum Company currently owns 100% equity in five exploration licences, Bain, Cooper, Donaldson and Eneas in Southern Bahamas and Miami in Northern Bahamas.

Bahamas Petroleum Company has made two, 100% equity applications named Santaren and Andros by the Government; additionally the Company has joined with Statoil/Hydro for three split equity applications in the Cay Sal area, given the names Zapata, Falcones and Islamorada by the Government.

Q How did the existing licences and the pending applications get their names?

Upon making the licences application, Bahamas Petroleum Company was required to define the applied for area of blocks and to give that area a name; the Government then decides when awarding the licences whether they accept the proposed name(s) or whether they wish for the Company to change them. After the Government confirms and accepts the names they are typed into the actual licence agreement along with all other fiscal terms and obligations.

Q Is there any significance to the names of the licences and applications?

The names of the licences and applications hold no significance. The names of the four Southern licences run alphabetically and reflect 'traditional' Bahamian family names rather than pertaining to any particular person, or persons related to the oil industry or Bahamas Petroleum Company.

Q What are the main components of the Maritime Agreement and how does it affect Bahamas Petroleum Company?

The agreement delimiting the maritime boundaries of The Bahamas and Cuba was signed on 3 October, 2011, by the Deputy Prime Minister and Minister of Foreign Affairs Brent Symonette.

This agreement defines the dividing line between the two countries and the limits of territorial waters. Further, it defines the exclusive economic zones and continental shelves between the two nations which then also allows for cooperation in the management of living and non-living marine resources in the area.

The agreement delivers on the Government assurances to protect not only the Bahamian borders but also the extent of the granted exploration licences. This affords Bahamas Petroleum Company certainty as it relates to the limits and extent of its currently held exploration licences.

Q What are the Act(s) governing petroleum activities in The Bahamas? What do they allow?

The Petroleum Act ('the Act') 1971 Chap 219 governs Petroleum exploration, making provisions for the granting of Permits, Licences and Leases. Additionally, the Act covers the level of Royalties and granting of all rights required by a licensee or lessee in order that petroleum may be searched for, bored for, gotten, stored, treated, converted, or carried away.

The Act is further refined by the Petroleum Regulations 1978 Chap 219; which goes beyond simply defining the term of the licence to actually detailing the procedures and obligations for the licence and/or lease. For instance, where the Act speaks only to Petroleum exploration; the Regulations specifically deal with the Term and Renewal of Licences, Expenditure and Pooling of Expenditure as well as Abandonment, Completion and Suspension of wells; etc.

Q When were the current Licences awarded? And, what are the key terms and obligations?

Bahamas Petroleum Company was awarded five licences in 26 April 2007 for a twelve (12) year term, though the currency of the licence has to be renewed every 3 years – consistent with the existing Act and Regulations. A 2-year extension was granted to the first 3-year period in March 2008 after Bahamas Petroleum Company was requested to hold operations until The Bahamas/Cuba Delimitation agreement was assigned. Bahamas Petroleum Company accordingly deferred commencing seismic surveys in the awarded areas, with the first 2D survey not commencing until June 2010 and the 3D a year later in July 2011.

Thus the renewal of the first '3' year term was extended until 26 April 2012 when the Governor General, under advice from the Minister, *shall* grant Bahamas Petroleum Company a licence renewal.

This, provided Bahamas Petroleum Company is in compliance with its obligations under the Petroleum Act, the Regulations and the Terms and Conditions of its licence agreement. The Company is in compliance given the aggregate expenditure to date of some $50 million exceeds by over 60 times the obligations placed upon it by the licence agreement. There is no room for ambiguity in that compliance shall lead to renewal and each year (to the year of this report) the Company has received from the Ministry of Environment a letter attesting to compliance.

The Company and the Minister of Environment agreed the specific obligations pertaining to the licences before the licences were awarded in 2007. In summary, it is a requirement that Bahamas Petroleum Company pay annual rental fees for each licence, conduct seismic surveys, prepare and submit an Environmental Impact Assessment (submitted in October) and Environmental Management Plan (currently being drafted) ahead of drilling; additionally, there are certain reporting requirements for annual submission, such as a Plan Report showing annual expenditure for each licence; an amount which the Company has exceeded by a considerable amount.

Q How does the 'Moratorium' implemented by the Bahamian Government affect Bahamas Petroleum Company?

In August 2010 the Minister of Environment, Earl Deveaux, announced that as a result of the Deepwater Horizon rig incident in the Gulf of Mexico; the government were to impose a moratorium on the consideration of any new oil exploration licence applications pending the enactment of revised/new environmental regulations covering petroleum operations. This immediately impacted the pending award of the three licence applications Bahamas Petroleum Company made jointly with StatoilHydro, plus the two 100% equity licence applications. However, Bahamas Petroleum Company has never received any documentation, official or otherwise, informing the Company how this refers to existing licences or modifies (if at all) the obligations placed upon it. In the absence of any official or direct advice the Company has continued, and will continue to honour, obligations to the Government, as defined in the terms and conditions of the licences.

Bahamas Petroleum Company is active in supporting the Governments efforts to implement revised environmental regulations compliant with international standards and embodying lessons learnt from the incident in the Gulf of Mexico. The Company will ensure compliance with all and any, existing and new, regulations in all aspects of operations, including drilling.

Exploration Leases and Terms

Chapter 219 Petroleum Act, 1971. As refined by 1978 Petroleum Regulations

Production Level	Royalty Rate
Oil production, up to 75,000 bopd	12.5%
Oil production, up to 75,000 to 150,000 bopd	15.0%
Oil production, up to 150,000 to 250,000 bopd	17.5%
Oil production, up to 250,000 to 350,000 bopd	20.0%
Oil production, in excess of 350,000 bopd	25.0%
Gas production	12.5%

Rentals: US$0.92 per acre per annum charged for the area of a lease, deductible from royalty payments.
Income taxes: Nil in The Bahamas.
Corporation taxes: Nil in The Bahamas.
Capital Gains tax: Nil in The Bahamas.

Exploration Licences and Applications

Asset*	Holder	Licence Area
The Bahamas – Bain Licence (offshore)	Bahamas Petroleum Company	775,468 acres 3,138km^2
The Bahamas – Cooper Licence (offshore)	Bahamas Petroleum Company	777,934 acres 3,148km^2
The Bahamas – Donaldson Licence (offshore)	Bahamas Petroleum Company	778,855 acres 3,152km^2
The Bahamas – Eneas Licence (offshore)	Bahamas Petroleum Company	780,316 acres 3,158km^2
The Bahamas – Miami Licence (offshore)	Bahamas Petroleum Company	760,973 acres 3,080km^2

* Interest for all licences: 100%.

Renewal: Licences granted 26 April 2007 for 12 years with renewal each new 3 year period, first 3 year period granted a two year extension.

Application**	Holder	Licence Area
The Bahamas – Islamorada Licence (offshore)	Bahamas Petroleum Company/Statoil	777,900 acres 3,148km^2
The Bahamas – Zapata Licence (offshore)	Bahamas Petroleum Company/Statoil	776,200 acres 3,141km^2
The Bahamas – Falcones Licence (offshore)	Bahamas Petroleum Company/Statoil	774,600 acres 3,135km^2

** July 2010 applications. Joint Venture Interest for all licences: Statoil – Bahamas Petroleum Company.

Statoil operator with majority interest.

Application***	Holder	Licence Area
The Bahamas – Santaren Licence (offshore)	Bahamas Petroleum Company	760,100 acres 3,076km^2
The Bahamas – Andros Licence (offshore)	Bahamas Petroleum Company	774,500 acres 3,134km^2

*** July 2010 applications with 100% working interest.

Q&A with Roberta Quant

We have:

Sustainable Practices

As the Company has matured and expanded, accordingly we have upgraded our processes and systems to ensure we are able to build sustainable practices that will allow us to comply with international standards and ensure we are able to maintain and extend our licence-to-operate in all the wider communities in which we participate.

Roberta Quant Environmental Scientist

All indications suggest the presence of potentially giant fields within the licence area, however all exploration activities must be conducted with due regard to minimising any environmental impact and with a view to future sustainability.

Q What is an Environmental Impact Assessment?

An Environmental Impact Assessment (EIA) is a systematic process to identify the baseline conditions in a project and surrounding area before it commences, predicts and evaluates the potential environmental impacts, whether positive or negative, of the proposed project actions, in order to aid decision making regarding the significant environmental consequences of the project.

Q What is an Environmental Management Plan?

An Environmental Management Plan (EMP) is a site specific plan outlining agreed performance criteria and all measures that are necessary in order to minimise and mitigate potential impacts to the environment while complying with all aspects of environmental legislation. It defines respective roles and responsibilities and identifies appropriate emergency preparedness and responses. The EMP serves as a measuring tool for the government to assess the environmental performance of the project.

Q What is an Oil Spill Contingency Plan?

An Oil Spill Contingency Plan (OSCP) is a roadmap that outlines the steps that should be taken before, during and after an accidental oil spill to control, contain and clean up the spill from the environment. The OSCP will describe the regional shoreline sensitivities, the local and international support infrastructure such as ports and airports, oil spill risk scenarios and oil spill trajectory modelling, available oil response equipment in the project and surrounding project areas (on-board and onshore), notification procedures, communications systems and the organisational structure. Obviously it is the desire and intention of all parties involved NOT to have a spill of any kind and to ensure containment is assured throughout the project, but it is an obligation for all those involved to ensure an appropriate response should there be an incident – no matter how small or apparently insignificant.

Q What is the difference between a blow out and a kick?

A kick is the entry of formation fluid (i.e. salt water, gas, oil or a mixture) into the well bore while drilling normally controlled by the fluid systems and equipment utilised. A blow out is when the formation fluid from a kick overpowers employed systems and equipment, resulting in surges in well bore pressure. The outcome of which means more fluids will be flowing out from the well than is being pumped into the well to overcome the pressures. At this time normal emergency procedures cut in and protection equipment is deployed.

Q What is a Blowout Preventer?

A Blowout Preventer (BOP) is a large, specialised valve used to control excessive wellbore pressures by either closing over an open wellbore, sealing around drill pipe and drilling string in the well or by more dramatically using steel shearing surfaces (rams) to cut through drill pipe in order to seal the wellbore. This control equipment has normally multiple fail-safe systems with two rams each operated electrically and hydraulically. More recently double BOP systems have been deployed which effectively has two BOP's sitting above the well bore.

Q What are the functions of a drilling fluid?

There are multiple functions of a drilling fluid, more commonly know as mud, but most importantly it is there to: lubricate, cool and clean the drill bit; circulate cuttings out of the wellbore for identification and analysis; and, control pressures and prevent the uncontrolled inflow of formation fluids into the wellbore. The 'weight' of the mud is controlled by adjusting the density of the drilling fluid by adding or removing various different minerals, the most common being barite.

Q What type of drilling fluids will be used for the project?

The Company intends to use water (i.e. seawater) as the basis for its drilling fluids. In certain operating situations there are options to use synthetic-based drilling fluids, but currently there are no plans to use synthetic drilling fluids. If, due to technical or safety reasons its use becomes unavoidable; a strict policy of 'total containment' will apply for the duration of its use across the whole rig. Synthetic drilling fluids and all mud will be contained and shipped to shore to certified facilities for recycling by the vendor. It should be noted that oil-based fluids will not be used for drilling at any time. Notwithstanding these restrictions, all chemicals used during any operations will be selected on the basis that they are 'environmentally friendly' and low toxicity selected using the internationally recognised OSPAR classification for chemicals (OSPAR Oslo/Paris commissions emerged following a growing general awareness of the potential dangers of pollution following a number of serious oil tanker incidents.) Thus, all containers will be classified using a green and yellow designation to be tracked and accounted for. No chemicals designated as red and black under this system are intended to be used throughout the whole operation.

Q How would one determine what exists on the seabed near the drill site and prior to any drilling?

A high resolution sea bottom survey using Multibeam and 3D seismic techniques has been used to capture the natural and man-made sea bottom features within a wide project area. Such a survey allows the Company to determine the accurate presence of the following:

- seabed topography and relief
- pipelines
- sea grass beds
- communication cables
- cold water corals
- shipwrecks
- gas vents and natural oil seeps
- archaeological features
- benthic communities
- fishing spawning grounds

This work will then be translated into an environmental sensitivity map to be used throughout the project to direct activity. Once a drill rig is on site further verification and a detailed visual inspection will take place using a Remote Operated Vehicle (ROV).

Environmental Report

The undoubtedly beautiful environment of The Bahamas Image source: www.TheAgencyRE.com

The economic case for petroleum exploration can be compelling but Bahamas Petroleum Company is committed to environmentally responsible and safe exploration activities and therefore ensuring the current environmental conditions are preserved for the enjoyment of future generations.

This commitment is evident in the contents and the intent of the submitted Environmental Impact Assessment (EIA) for proposed offshore exploratory drilling in the Bain, Cooper, Donaldson and Eneas lease areas.

The completion of such an assessment is consistent with the original licence obligations and requires close collaboration with a number of government agencies and departments across a multitude of disciplines. The EIA systematically identifies, predicts and evaluates as many of the potential environmental impacts as is possible from the drilling of an exploratory well at a simulated location in the Donaldson block.

The simulated well location is at least 15 miles from land and over 25 miles from the nearest inhabited island in waters between 300m and 600m deep.

The drilling is estimated to take approximately 100 – 130 days and is targeted to be drilled outside the hurricane season.

In the unlikely event that a hurricane were to occur during the course of and in the immediate vicinity of drilling it is planned that, depending on circumstances, all operations would be suspended and the rig moved to a harbour of safety away from risk. At all times, industry standard guidelines (i.e. IADC) for operations in the vicinity of hurricanes will be followed.

The Company intends to assure compliance with the highest of either national or international standards, environmental rules or codes of practice that apply to the drilling operations, inclusive of operational integrity, safety and environmental standards of API as well as safety and environmental guidelines issued by the International Oil and Gas Producers Forum (OGP – www.ogp.org.uk) and the International Petroleum Industry Environmental Conservation Association (IPIECA – www.ipieca.org).

In addition, the Company will comply with three international treaties that relate to maritime traffic, vessel collision prevention and environmental protection. These are COLREGs (1972), SOLAS (1974) and MARPOL (1973/1978). The Bahamas is one of 166 IMO member countries.

The Company will communicate with local port, marine navigation and fishing authorities in advance of drilling activities, advising them of the rig mobilisation routes, rig locations, exclusive zones and scheduling of events to ensure to the maximum degree possible coordinated and safe simultaneous operations. With the specific intent of protecting all vessels and the health and safety of members of the public in the project vicinity, a safety zone up to 1km radius will be established around the drilling rig with verbal warnings provided by the drill rig captain to approaching vessels.

In ensuring the protection of the entire marine ecosystem, a high resolution sea bottom survey has been completed across the whole potential drilling area, including the simulation site. A combination of 3D seismic techniques and 5,000 line kms of high-resolution multibeam, back scatter and sea bottom profile dataset were used to capture a detailed and accurate description of the sea bottom for analysis. Any significant anomalies identified will be assessed immediately, but once the drill rig arrives, to further corroborate the findings of this sea bottom survey/analysis, a remote operated vehicle (ROV) will be used to conduct a visual inspection ahead of commencing drilling operations and again at the completion of the project to ensure minimal impact including the discharge of rock cuttings.

The intent of the Company is to select environmentally-friendly drilling fluids to be used in all aspects of the operation, aligned with the OSPAR principles. OSPAR classifies all common chemicals and additives on a priority listing based on their ecotoxicological data as described in the OSPAR Harmonised Offshore Chemical Notification Format. The chemicals to be used offshore are assessed on toxicity and classified as ‘green’, ‘yellow’, ‘red’ or ‘black’. The Company intends to exclusively use the least impactful green and yellow classified chemicals.

Oil based mud will not be utilised for any aspect of drilling the exploration well. Further, there are no plans to use synthetic drilling fluids and even if their use does become necessary then a strict policy of ‘total containment’ will be followed. All fluids and cuttings associated with the synthetic fluid will be contained upon the rig and at the end of operations, the fluids will be returned to the vender for recycling and the cuttings will be disposed of at a licenced landfill site onshore.

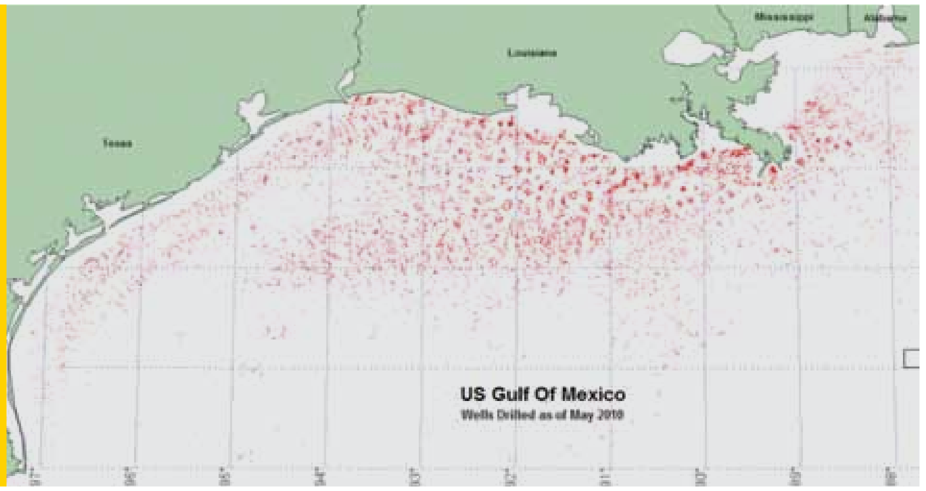
In the normal course of operations, rock chip cuttings will pass through solids control equipment and dryers prior to being discharged overboard. Neither cuttings nor anchors will be placed near sensitive areas (i.e. coral reefs, sea grass beds, submerged archaeological). Industry practices will be utilised to ensure any oil carried on discharged cuttings after washing and drying will be reduced to less than 1% of oil liberated during contained drilling through hydrocarbon bearing zones.

All water draining from decking will be treated prior to finding its way back to the sea to ensure any fluids do not pick up any inadvertent contamination. The discharged fluids, in compliance with industry standards, will have a maximum of 15 parts per million of hydrocarbons in the normal course of operations. Produced water from the well bore aquifer or reservoir will be treated in accordance with the International Finance Corporation (IFC) guidance whereby an absolute maximum oil content of 42mg/l is acceptable, but in the further context where any 30 day average does not exceed 29mg/l.

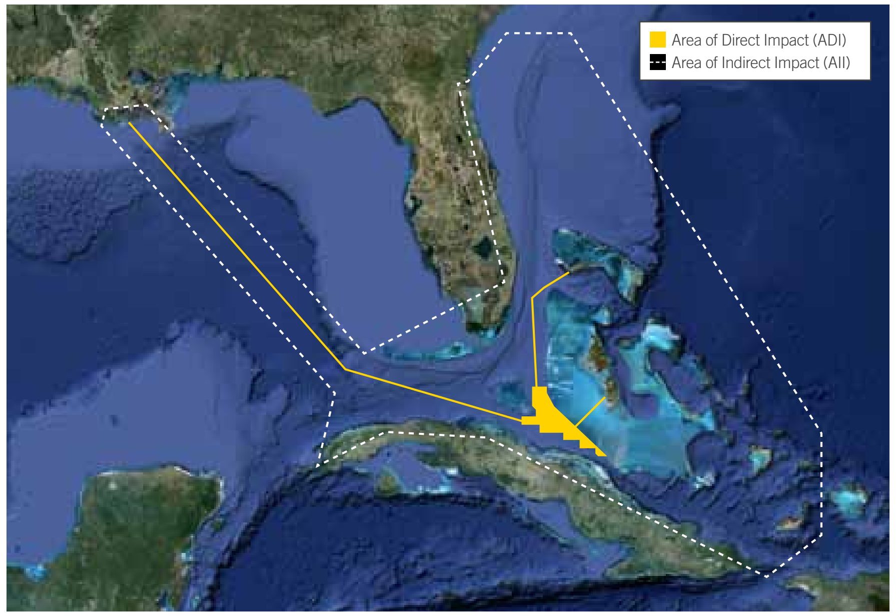
The Company or operator will develop a project-specific waste management plan, to ensure that all wastes from the drilling activities are properly managed, in accordance with applicable laws and regulations, Company policies and international standards relevant to the oil and gas industry. This objective is to be facilitated by the initial selection of the least hazardous materials available for the project duration. All hazardous materials will be labelled and transported in appropriate containers and stowed as necessary to avoid release to the marine environment by exposure to wind, rain or any other event. Storage areas, containing hazardous liquids, will have secondary containment, such as bounded areas and/or closed loop drainage systems such that even in the event of an incident, no spill overboard is allowed to occur.

US Gulf of Mexico

Many thousands of wells have been completed safely in the Gulf of Mexico and drilling has long since been deemed safe enough to resume. But whilst the economic benefit of this activity is often compelling, a single incident has served as a salient reminder there is no room for complacency; not even in a single well exploration programme, notwithstanding materially different rock-types, pressures and water depths.



Environmental Report (continued)



Areas of direct and indirect impact studied for the EIA

As a final precaution, both the support vessels and the drilling rig will be equipped with equipment and personnel trained to respond quickly and safely. Standard procedures for refuelling, handling and managing wastes and monitoring any potential discharges will be followed during all aspect of operation to ensure protection of the environment is maximised at all times.

To minimise the contribution from the project to global greenhouse gas emissions, the Company will implement a series of mitigation measures. A rig audit will be conducted prior to contracting or before the commencement of drilling. It will include a check of all primary diesel engines to confirm that the equipment is in good working order and within manufacturer specifications. The Company will strive to minimise the amount of flaring required and will use modern 'green burner' type flares that maximise the complete combustion of all hydrocarbons, which minimises any fallout and/or harmful emissions. The amount of gas flared (if any) will be monitored and the volumes recorded.

An extensive monitoring process will be implemented for the life of the project to prevent and minimise the contamination of the marine eco-environment involving:

- all running equipment and flaring activities;
- types of drilling mud, additives and any discharged cuttings;
- sewage, deck drainage, bilge and ballast water;
- waste (kitchen, human etc.); and
- any and all spills along with all mitigation and clean up measures.

If marine mammals (i.e. dolphins, porpoises, seals, sea turtle, whales) are spotted near the path of the support vessels and/or the drilling rig then either speed will be reduced or, based on the distance from the animal, a watch will be posted to monitor and track its path.

In the event that hydrocarbons are encountered then offshore oil drilling operators have a responsibility to ensure there is no potential impact on the environment through the loss of well control, containment or a blow out.

However, in the extremely unlikely event that a spill were to occur then to properly mitigate and manage affects of this type of incident an assessment has to be made of how any spilt fluid may be transported away from the spill site by the combined affects of tide, current, wind and waves.

The Company intends to assure compliance with the highest of either national or international standards, environmental rules or codes of practice implementing fully the lessons learned from previous incidents. Given the experience and expertise held within Bahamas Petroleum Company, the Company is anxious, ready and willing to participate actively in future processes to determine appropriate environmental regulations in whatever manner the Government deems appropriate.

To this end a projection has been made by an independent third party through the construction of an oil spill model (OSM). Nowadays the response to the potential impact of any incident needs to be benchmarked against the scale of the Macondo incident in the Gulf of Mexico in 2010 – regardless of the likelihood of such a spill and in the event that absolutely no mitigation measures are undertaken at all.

Thus a long-term simulation covering the sea state and weather conditions prevailing each day over a 7-year duration (from January 2, 2004 to December 31, 2010) was performed, where the release of oil particles was simulated each and every day, so the largest variability in daily conditions could be simulated. The goal of this simulation was to detail the evolution and movement of an oil spill in any permutation of prevailing conditions during the 2004-2010 period. This extended period enables the inclusion of not only seasonal variations, but also more rapid changes, like those in the ambient Florida Current, as well as the extreme impact of hurricanes, especially given the inclusion of data from the intense 2005 season.

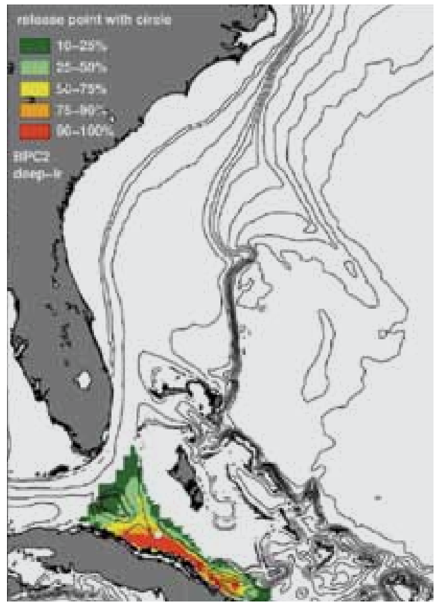
The key output that will help educate the fastest and most efficient response showed spill model trajectories (see map) being highly influenced by the bathymetry of the region (i.e. the natural guidelines of the Great Bahama Bank shelf break). Modelled oil dispersion tended to follow with the currents in deeper waters and less towards the shallow waters. Hurricanes have a noticeable effect on prevailing conditions but only when the epicentre passes directly over the release location.

Given that the drilling programmed to ensure the hurricane season will be avoided makes the probability of the conjunction of each and all of these events at the same time vanishingly small. The projected minimum time to shoreline impact varies depending on the location but is anticipated to exceed 2 days giving a realistic time to mobilise all required equipment from inside and outside of The Bahamas.

To prevent and mitigate the likelihood and impact of any oil spill – whatever the size – the Company is in the process of planning what will constitute maximum response readiness. This involves organising the contracting of spill containment operators and their equipment both in the region and specifically in The Bahamas as well as engaging the Cuban authorities in the requirements of an active spill response.

An environmental sensitivity map has been created prioritising areas of mangroves, coral reefs and other environmental and socioeconomic sensitive areas in the vicinity of the project for accelerated response.

The Company will provide all staff directly involved in the project with the relevant training to promote high standards of competence in the management of health, safety and the environment and in particular pollution control. Incident and emergency response training of appropriate personnel would be conducted prior to drilling. The Company will ensure that the established measures and controls are applied effectively and consistently throughout all applicable phases of the project in order to minimise the impact to the environment.



Probability of the maximum extent of oil sheen on the sea surface after a 60 day unconfirmed or mitigated spill at the sea floor (1,600m³/day).

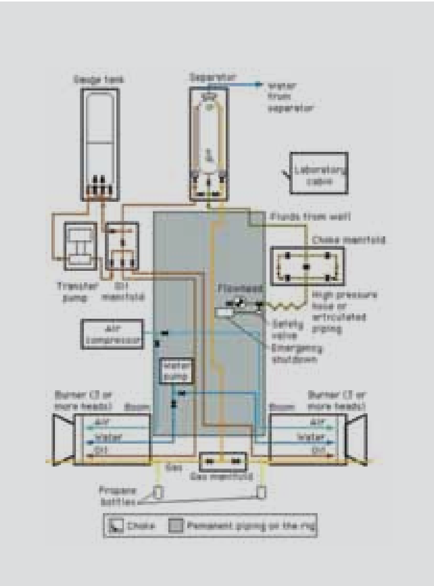
Source: Contracted report (2011). Results submitted to Government – EIA appendix.

% of oil released making shoreline, remainder either evaporated or biodegraded.

Location	Surface 15 mbopd
Eastern US	0.05
Southeast Florida	0.09
Florida Keys	0.04
Western Bahamas	0.07
Eastern Bahamas	0.16
Northern Cuba	46.44
Bahamian MPA's	0.00
Total	46.9

Blow Out Preventer (BOP)

A large, specialised valve used to control excessive wellbore pressures by either closing valves or by more dramatically using steel shearing surface (rams) to cut through drill pipe. This control equipment has multiple fail-safe systems and more recently can be deployed as a double BOP which is effectively mounting two BOPs sitting above the well bore.



Board of Directors & Senior Management

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1. Adrian Collins Non-Executive Chairman

Adrian Collins has worked in the fund management business for over 35 years, a large part of which was at Gartmore Investment Management plc where, latterly, he was managing director. He is chairman of Liontrust Asset Management plc and is also on the boards of City Natural Resources High Yield Trust plc, Douglas Bay Capital plc, New City High Yield Fund plc and a number of other companies. He was appointed Non-Executive Chairman on 3 October 2011.

2. Simon Potter Chief Executive Officer

Simon Potter qualified as a geologist with an M.Sc. in Management Science, has over 30 years oil and gas industry and mining sector experience. From the Zambian Copperbelt to a 20-year career with BP he has held executive roles in companies managing oil and gas exploration, development and production; gas processing, sales and transport; LNG manufacture, marketing and contracting in Europe, Russia, America, Africa and Australasia. On leaving BP, having helped create TNK-BP, he took up the role of CEO at Hardman Resources where he oversaw growth of the AIM and ASX listed Company into an oil producer and considerable exploration success ahead of executing a corporate sale to Tullow Oil. After running his own consultancy he joined Arrow Energy International as CEO and following the sale of Arrow Energy to Shell and PetroChina launched their international assets onto the ASX as the separately listed Dart Energy. He was appointed Chief Executive Officer on 17 October 2011.

3. Edward Shallcross Non-Executive Director

Eddie Shallcross is a Fellow of the Chartered Institute of Bankers and has had over 40 years of experience in the financial sector predominantly at Barclays PLC where he retired in 1998 as Isle of Man Director and also a Senior Executive Director of the bank. Since then he has held non-executive directorships in a number of major international companies.

4. Ross McDonald Non-Executive Director

Ross McDonald served 35 years with Royal Bank of Canada ('RBC') and was most recently Senior Vice President & Head of Caribbean Banking for RBC. Until his recent retirement, and since 2003, Ross led RBC's commercial and retail banking operations throughout the Caribbean and was instrumental in the acquisition of Royal Bank of Trinidad and Tobago (RBTT), which expanded RBC's operations to 19 countries and territories across the region and established it as the second largest commercial bank in the Caribbean. Ross is currently a director of RBC Financial (Caribbean) Limited, RBC's group holding Company in the Caribbean, RBC Royal Bank (Bahamas) Limited, RBC's commercial bank in The Bahamas, RBC FINCO, which is a public Company, and RBC's mortgage banking Company in The Bahamas and RBC Royal Bank (Cayman) Limited, RBC's commercial bank in the Cayman Islands. He also serves as a director of Royal Fidelity Merchant Bank & Trust which provides investment and corporate advisory services in The Bahamas and Barbados.

5. Steven Weyel Non-Executive Director

Steven Weyel is currently CEO and founder of Equigen LLC focused on equity investments in global energy. Previously, he was founder, President and COO of Energy XXI (Bermuda) Limited (Nasdaq: EXXI) ('Energy XXI'), an independent oil and natural gas exploration and production Company with operations focused in the U.S. Gulf Coast and the Gulf of Mexico, from its inception in July 2005 until July 2011. Energy XXI was initially floated on London's AIM (Alternative Investment Market) in October of 2005. Mr Weyel served on the boards of directors of Energy XXI from July 2005 until July 2011 and Particle Drilling Technologies, Inc. from May 2005 until August 2007. He received a Masters in Business Administration degree from the University of Texas at Austin in 1989 and a Bachelor of Science degree in Engineering from Texas A&M University in 1976. Mr Weyel has operating experience in every major oil producing basin in the world and his thirty-plus years of global experience as entrepreneur, executive officer and director of public and private companies will enable him to assist in the effective management and oversight of the Company.

6. Paul Gucwa Chief Operating Officer

Paul Gucwa has 38 years' experience as a Geoscientist as well as in technical and business management roles developing exploration and production projects throughout the United States and Canada. As Manager of US Exploration for Marathon from 1992 until 2000 Paul was responsible for an annual capital and expense budget in excess of US$100 million. During that time Marathon's domestic exploration programme added in excess of 300 million barrels of oil equivalent net to Marathon, while their Gulf of Mexico production increased 300% to just under 100 MBOE/D.

The following directors and officers have resigned

Alan Burns, Chief Executive Officer:	17/01/11
Paul Crevello, Chief Executive Officer:	12/08/11
Alan Burns, Chairman:	30/09/11
Mike Proffitt, Non-Executive Director:	30/09/11
Alan Burns, President Deceased:	28/12/11
Dursley Stott, Non-Executive Director:	30/04/12

Board of Directors
Senior Management

Chief Executive Officer's Report

Dear Shareholder,

Throughout 2011, Bahamas Petroleum Company has undergone a significant transformation. The Company is financially robust; has assembled a quality team of experienced individuals; upgraded processes and systems; accumulated technical data to more fully delineate prospectivity; and is making all preparations necessary to drill its first well as required under the terms of our licences.

For me personally it has been a year of change. Having worked with the Company founder, Alan Burns, during the initial stages of setting up the Company in 2006 and 2007, I have now returned to this endeavour with the significant opportunity to create a brand-new hydrocarbon province in the waters of The Bahamas. Consequently, it is with huge sadness and regret that I now take on this task without Alan's daily support, following his untimely death at the end of the year. It was his vision that led to the creation of this opportunity for shareholders, but it now beholds us to realise delivery against his insight.

During the latter half of 2011 there have been significant changes to management personnel, however these have now been completed, bringing with them a restructured approach to corporate governance; revised and additional Company policies; and new processes and systems to ensure compliance and enhanced performance management.

Following a raising of US$73.9 million in an oversubscribed equity placing in February 2011, the Company executed a 1,120 line kilometre 2D seismic survey and subsequent 3,075km² 3D seismic survey. The 2D seismic survey underpinned a Competent Persons Report ('CPR') conducted by Ryder Scott out of Houston which concluded:

- multiple structures over the southern licences with unrisked recoverable prospective resources (EUR) in excess of 500 million barrels at a number of different reservoir horizons;
- several individual structures with an EUR in excess of 1 billion barrels of oil;
- assessment was restricted to the Cretaceous interval only which leaves the shallower Tertiary strata and the deeper Jurassic strata still to be evaluated;
- the average Chance of Success was assessed at 25%.

Structurally, the identified features retain integrity at depth and appear continuous over several tens of kilometres. This offers huge encouragement for there being multiple targets at individual potential well locations.

Based upon the excellent data quality of the 2D survey, the desire to minimise identified risks pertaining to source maturity, migration pathways and seal and the need to design the safest and best placed well possible, the Company decided to shoot the Pearl 3D seismic survey using the most up-to-date CGG BroadSeis™ technology. Data acquisition was completed in September 2011, with the initial processing having been completed by the year end. Data quality is again excellent and further processing, analysis and interpretation remains ongoing for specific potential well targets, the mapping of seismic facies and attributes analysis, with detailed results anticipated during Q1 and early Q2 2012. Significantly, results to date seem to mitigate some of those key remaining risks. The 3D indicates the 'basement' to be deeper than interpreted previously implying a thicker, deeper, more mature Jurassic (source rock) section. Furthermore, the interpretation indicates a uniform south-west dip under the Cretaceous platform indicating access to a large fetch area below the Cuban mainland.

As the Company has matured, the focus of its operations has moved significantly towards The Bahamas. To that end, the Board decided to appoint two new directors based permanently in The Bahamas. This further demonstrates our clear commitment to a future embedded within the communities surrounding our resource base. Furthermore, the Company has resolved to seek a listing on The Bahamas International Stock Exchange in the form of Bahamian Depositary Receipts ('BDR'). These instruments represent tradable, listed securities which will provide Bahamians, effectively precluded from purchasing shares via the existing London Stock Exchange AIM listing due to excessive costs, with access to any capital growth in the stock of the Company as it proceeds towards drilling.

In support of future drilling activity the Company has submitted to the Government, in the form of The Bahamas Environment, Science and Technology Commission ('BEST'), an Environmental Impact Assessment ('EIA'). This report determines the most likely impacts any exploration activities may have on the environment and seeks to illustrate mitigating actions the Company could undertake. Significantly, this report includes a very sophisticated, long-term simulation study designed to assess the transport of oil away from any potential spill site, undertaken as part of the Company's oil spill contingency planning. The key conclusion from this study is that regardless of the spill size, ocean current, wind direction or sea state pertaining over the last seven years, Mother Nature is looking out for The Bahamas as an insignificant fraction of the likely spilled oil, even in the worst possible event, will ever make it to shore in Bahamian territorial waters, although cooperation with neighbouring territories would be a clear priority. This work will be progressed through the coming year up to and during the course of the drilling of our first exploration well.

The Company will further benefit during the course of the coming months from the results of drilling activity currently taking place in Cuban waters. Recently, the Scarabeo-9 drilling rig commenced activities under contract to Repsol, with a minimum of five wells anticipated to be drilled by the rig through 2012/3. In addition, Zarubezhneft, the operator of the Cuban licence immediately adjacent to our Southern blocks, has indicated that they will commence drilling in August following their recent 3D seismic survey.

Bahamas Petroleum Company continues to seek third-party farminees to share the costs of future exploration activities and remains in active negotiations with a number of companies. As these negotiations remain commercial in confidence, no update or announcement is anticipated until a successful outcome has been achieved, nominally expected in the summer of 2012.

Outlook

As the Company enters 2012 there are a number of major catalysts that will underpin and sustain future growth. These include the outcome of regional drilling activities, principally in Cuban waters adjacent to the Company's Bahamian licences and timely progress towards seeking a partner to participate in the drilling of a deep well.

Provision is being put in place for Bahamians to benefit from the potential wealth creation of the Company's capital growth, thus allowing them to enjoy the benefits of successful oil exploration in their native waters. All indications suggest the presence of potentially giant fields within the licence area, however all exploration activities must be conducted with due regard to minimising any environmental impact and with a view to future sustainability.

The Company is committed to moving forward with this objective during 2012 and we look forward to updating shareholders in due course.

Sincerely,

Simon Potter
Chief Executive Officer
29 March 2012

Corporate Governance

The UK Corporate Governance Code (formerly the Combined Code)

Bahamas Petroleum Company's shares are traded on AIM and as such the Company is not subject to the requirements of the UK Corporate Governance Code on corporate governance, 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 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 three Non-Executive directors. All Directors have access to the Company Secretary and the Company's professional advisors.

Record of Board meetings

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

Director	Number of board meetings attended	Number of board meetings eligible to attend
Simon Potter (appointed 17 October 2011)	2	2
Adrian Collins (appointed 3 October 2011)	2	2
Alan Burns (resigned 30 September 2011)	6	13
Paul Crevello (resigned 12 August 2011)	5	10
Michael Proffitt (resigned 30 September 2011)	13	13
Dursley Stott (resigned 30 April 2012)	11	15
Edward Shallcross (appointed 1 February 2011)	13	14
Steven Weyel (appointed 20 July 2011)	4	7
Ross McDonald (appointed 3 April 2012)	–	–

Audit Committee

The Audit Committee comprises Edward Shallcross (Chairman) and Dursley Stott (replaced by Ross McDonald on 30 April 2012). The Audit Committee is primarily responsible for ensuring that the financial performance of the Company is properly reported on and monitored, and 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 Dursley Stott (Chairman, replaced by Adrian Collins on 30 April 2012) and Edward Shallcross. A Charter of the Remuneration Committee has been approved and adopted which formally sets out the membership, roles and responsibilities of this committee. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding executive remuneration packages, including bonus awards and share options.

Nomination Committee

The Nomination Committee comprises Adrian Collins, Simon Potter and Edward Shallcross, and is chaired by Adrian Collins. It will meet at least twice a year and 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 and Safety Committee

The Company has also established a health and safety committee which comprises Simon Potter and Paul Gucwa, Group Chief Operating Officer (non-Board).

Internal Control

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

Going Concern

The directors consider that the Company has adequate financial resources to enable it to meet its financial obligations through to the end of 2012 from existing liquid cash resources. For this reason they continue to adopt the going concern basis of preparing the financial statements. Further information regarding the appropriateness of the use of the going concern assumption in the basis of preparation can be found in note 4 to the financial statements.

Accounts

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Other Information

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Directors' Report

Your directors present their report on the Company and 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 2011.

Directors

The following persons were directors of the parent Company during the whole or part of the financial year:

Simon Potter – Appointed 17 October 2011
Adrian Collins – Appointed 30 September 2011
Alan Burns – Resigned 30 September 2011
Paul Crevello – Resigned 12 August 2011
Michael Proffitt – Resigned 30 September 2011
Dursley Stott – Subsequently resigned on 30 April 2012
Edward Shallcross – Appointed 1 February 2011
Steven Weyel – Appointed 20 July 2011
Ross McDonald – Appointed 3 April 2012

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 and gas exploration in The Commonwealth of The Bahamas.

Results and dividends

The results of the Group for the year are set out on page 38 and show a loss for the year ended 31 December 2011 of US$10,139,145 (2010: loss of US$5,318,458). The total comprehensive loss for the year of US$10,139,145 (2010: US$5,211,843) has been transferred to reserves.

The directors do not recommend payment of a dividend (2010: US$nil).

Review of operations

In January 2011 the Group acquired 1,120km of 2D seismic over the southern licence areas. The results of this survey provided greater insight in to the nature of the geological structures therein and allowed the Group to move forward with the 3D seismic acquisition programme discussed below.

On 16 March 2011 the Company announced the placement of 243,100,000 new ordinary shares at 18.75 pence per share, raising US$70.2 million in net proceeds (net of US$3.8 million in transaction costs). Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011, with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. The proceeds of this placement have been used to advance the Group's technical work programme in its licence areas.

On 18 July 2011 the Group published a Competent Persons Report by Ryder Scott opining on the petroleum systems in the southern licence areas and the corresponding likely reserve volumes.

In September 2011 the Group completed the acquisition of 3,075km² of 3D seismic over the southern licence areas. The results of this survey have allowed the Group to more clearly define the petroleum system and to mature and define drilling locations ahead of the intended drilling programme.

During the year the Group has seen a restructuring of the Board of Directors with the retirement and subsequent death of Alan Burns (founder, President and Chairman), Dr Paul Crevello (Chief Executive Officer) and Michael Proffitt (Non-Executive Finance Director); and the appointment of Simon Potter (Chief Executive Officer), Adrian Collins (Chairman), Edward Shallcross (Non-Executive Director) and Steven Weyel (Non-Executive Director).

Substantial shareholdings

The following table represents shareholdings of 3% or more as at 31 December 2011:

Name	Number of shares	% of shareholding
TD Direct Investing	72,589,155	5.90%
Fidelity Worldwide Investment	66,152,501	5.38%
Barclays Wealth	61,042,792	4.96%
Standard Life Investments	60,394,958	4.91%
Hargreaves Lansdown	56,679,210	4.61%
JM Finn & Co	55,678,025	4.52%
Selftrade	41,165,133	3.35%
Halifax Share Dealing	40,104,870	3.26%
Majedie Asset Management	38,590,886	3.14%

Directors' interests

The interests in the Group at the balance sheet date of all directors who held office on the board of the parent Company at the year-end are stated below.

Shareholding and Options

Name	Number of shares 31 December 2011	Number of Share Options 31 December 2011	Number of shares 31 December 2010	Number of Share Options 31 December 2010
Simon Potter	–	4,000,000	–	–
Adrian Collins	–	1,000,000	–	–
Dursley Stott	400,000	1,500,000	315,000	–
Edward Shallcross	120,000	1,500,000	–	–
Steven Weyel	–	1,000,000	–	–

No options were exercised during the year. Options held by directors who resigned in the year, amounting to 9,500,000 at an exercise price of 21.25 pence, remain in existence at the year end. See note 18 to the consolidated financial statements for further details.

Independent auditor

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue on office and will be reappointed at the next Annual General Meeting of the Company's members.

By order of the Board

Benjamin Proffitt
Company Secretary
29 March 2012

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable Isle of Man law.

Company law requires the directors to prepare Group and Parent Company 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 for that period. In preparing those Group and Parent Company 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 Group and Parent Company financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and 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 Group and Parent Company 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.

By order of the Board

Edward Shallcross
Director
29 March 2012

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements ('the consolidated financial statements') of Bahamas Petroleum Company plc and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the consolidated financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

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

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

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
29 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 Group $	2010 Group $
Continuing operations			
Employee benefit expense	7	**(4,970,950)**	(2,006,305)
Depreciation expense	12	**(156,153)**	(38,779)
Other expenses	8	**(5,078,092)**	(3,335,161)
Operating loss		**(10,205,195)**	**(5,380,245)**
Finance income	6	**66,050**	–
Loss before income tax		**(10,139,145)**	**(5,380,245)**
Income tax credit	9	**–**	61,787
Loss for the year		**(10,139,145)**	**(5,318,458)**
Other comprehensive income:			
Currency translation differences		**–**	106,615
Other comprehensive income for the year, net of tax		**–**	106,615
Total comprehensive income for the year		**(10,139,145)**	**(5,211,843)**
Loss per share for loss attributable to owners of the Company:			
Basic and diluted loss per share (expressed in cents per share)	10	**(0.87)**	(0.61)

The notes on pages 42 to 58 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 Group $	2010 Group $
ASSETS			
Non-current assets			
Property, plant and equipment	12	**491,342**	189,779
Intangible exploration and evaluation assets	13	**38,927,378**	5,024,331
Restricted cash	11	**239,654**	325,046
		39,658,374	5,539,156
Current assets			
Other receivables	15	**967,794**	896,246
Restricted cash	11	**231,995**	–
Cash and cash equivalents	14	**34,976,049**	6,068,558
Total assets		**75,834,212**	**12,503,960**
LIABILITIES			
Current liabilities			
Trade and other payables	16	**2,680,478**	364,980
Total liabilities		**2,680,478**	**364,980**
EQUITY			
Share capital	17	**37,253**	29,359
Share premium reserve	17	**78,185,102**	8,037,595
Merger reserve	17	**77,130,684**	77,130,684
Reverse acquisition reserve		**(53,846,526)**	(53,846,526)
Share based payment reserve	18	**1,424,164**	425,666
Retained earnings		**(29,776,943)**	(19,637,798)
Total equity		**73,153,734**	**12,138,980**
Total equity and liabilities		**75,834,212**	**12,503,960**

The financial statements on pages 38 to 58 were approved and authorised for issue by the Board of Directors on 29 March 2012 and signed on its behalf by:

Simon Potter
Director

Edward Shallcross
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Currency translation reserve $	Retained earnings $	Total equity $
Balance at 1 January 2010		23,242	–	73,639,708	(53,846,526)	347,361	(106,615)	(14,319,340)	5,737,830
Comprehensive income									
Loss for the year		–	–	–	–	–	–	(5,318,458)	(5,318,458)
Other comprehensive income									
Currency translation differences		–	–	–	–	–	106,615	–	106,615
Total comprehensive income for the year		–	–	–	–	–	106,615	(5,318,458)	(5,211,843)
Transactions with owners									
Share options – value of serves	18	–	–	–	–	78,305	–	–	78,305
Issue of ordinary shares	17	6,117	8,037,595	3,490,976	–	–	–	–	11,534,688
Total transactions with owners		6,117	8,037,595	3,490,976	–	78,305	–	–	11,612,993
Balance at 31 December 2010		**29,359**	**8,037,595**	**77,130,684**	**(53,846,526)**	**425,666**	**–**	**(19,637,798)**	**12,138,980**
Balance at 1 January 2011		29,359	8,037,595	77,130,684	(53,846,526)	425,666	–	(19,637,798)	12,138,980
Comprehensive income									
Total comprehensive income for the year		–	–	–	–	–	–	(10,139,145)	(10,139,145)
Transactions with owners									
Share options – value of services	18	–	–	–	–	998,498	–	–	998,498
Issue of ordinary shares	17	7,894	70,147,507	–	–	–	–	–	70,155,401
Total transactions with owners		7,894	70,147,507	–	–	998,498	–	–	71,153,899
Balance at 31 December 2011		**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,424,164**	**–**	**(29,776,943)**	**73,153,734**

The notes on pages 42 to 58 form part of these consolidated financial statements.

The reverse acquisition reserve balance arose from the issue of shares in BPC (Falklands) Limited (Formerly Falkland Gold and Minerals Limited) as part of the reverse takeover of BPC Falklands by the shareholders of BPC Jersey in September 2008.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 Group $	2010 Group $
Cash flows from operating activities			
Cash used in operations	19	**(8,359,760)**	(5,422,619)
Net cash used in operating activities		**(8,359,760)**	**(5,422,619)**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(457,716)**	(209,852)
Payments for exploration and evaluation assets	13	**(32,045,332)**	(960,507)
Increase in restricted cash	11	**(154,398)**	(205,491)
Interest received	6	**66,050**	–
Net cash used in investing activities		**(32,591,396)**	**(1,375,850)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**70,155,401**	11,534,688
Net cash generated from financing activities		**70,155,401**	**11,534,688**
Net increase in cash and cash equivalents		**29,204,245**	**4,736,219**
Cash and cash equivalents at the beginning of the year	14	**6,068,558**	1,337,885
Effects of exchange rate changes on cash and cash equivalents		**(296,754)**	(5,546)
Cash and cash equivalents at the end of the year	14	**34,976,049**	**6,068,558**

The notes on pages 42 to 58 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information
Bahamas Petroleum Company plc ('the Company') and its subsidiaries (together 'the Group') is the holder of several oil and 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.

The Company has six directly and seven indirectly 100% owned subsidiaries as follows:

Name	Country of Incorporation	Holding
BPC Jersey Limited	Jersey	100% Direct
BPC (Falklands) Limited	Falklands	100% Direct
BPC (Donaldson) Limited	Isle of Man	100% Direct
BPC (Eneas) Limited	Isle of Man	100% Direct
BPC (Cooper) Limited	Isle of Man	100% Direct
BPC (Bain) Limited	Isle of Man	100% Direct
BPC Limited ('BPC Limited (Bahamas)')	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 years presented, unless otherwise stated.

2.1 Basis of preparation
The consolidated financial statements of Bahamas Petroleum Company reflect the results and financial position of the Group for the year ended 31 December 2011, have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

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

Going concern
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.

Changes in accounting policy and disclosures
a) New and amended standards adopted by the Group
IAS 24, 'Related party disclosures' (revised 2009). The new standard replaces IAS 24, 'Related party disclosures' issued in 2003 and it amends the definition of a related party; and modifies certain related-party disclosure requirements for government-related entities. This has not affected the Group significantly.

Annual improvements 2010 (issued May 2010), effective 1 January 2011, were issued by the IASB as part of the 'annual improvements process' resulting in amendments to 7 standards. The improvements have not had a significant effect on the Group.

b) Standards, amendments and interpretations to existing standards that are relevant to the Group but not yet effective and have not been early adopted
IAS 1, 'Financial statement presentation' regarding other comprehensive income, issued in June 2011. The amendment changes the disclosure of items presented in other comprehensive income ('OCI') in the statement of comprehensive income on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). This standard is applicable for periods beginning on or after 1 July 2012. However the standard has not yet been endorsed by the EU. The Group is yet to fully assess IAS 1's impact.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 'Financial instruments: recognition and measurement' that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to fully assess IFRS 9's impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to fully assess IFRS 10's impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to fully assess IFRS 11's impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to fully assess IFRS 12's impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to fully assess IFRS 13's impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.

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

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

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

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

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. 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.

Notes to the Consolidated Financial Statements
(continued)

2 Summary of significant accounting policies (continued)

2.3 Operating segments

All of the Group's business activities relate to oil and gas exploration activities in the Commonwealth of The Bahamas. The business is managed as one business segment by the chief operating decision maker ('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 are presented in United States Dollars, which is the Company's functional and the Group'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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as other 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

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

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

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

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

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

2.6 Intangible assets – exploration and evaluation assets

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

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

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

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

Exploration and evaluation expenditure which fails to meet at least one of the conditions outlined above is taken to the consolidated statement of comprehensive income. Costs incurred in drilling exploration wells that fail to encounter significant hydrocarbons are written off in the year of failure.

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

Exploration and evaluation assets are regularly 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 2011 and 2010 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 2011 and 2010 the Group did not have any financial liabilities at fair value through the 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 year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2.9 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, where applicable, are shown within borrowings in current liabilities on the balance sheet.

Notes to the Consolidated Financial Statements
(continued)

2 Summary of significant accounting policies (continued)

2.10 Share capital

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

2.11 Employee benefits

i) Wages and salaries, annual leave and sick leave

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

ii) Share based payments

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

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

The charge for share based payment is calculated in accordance with the analysis described in note 18. The option valuation models used require highly subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yield, risk-free interest rates and expected staff turnover. The Directors draw upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.

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 publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.12 Interest Income

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

2.13 Leases

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

2.14 Taxation

Income tax expense or credit represents the sum of the current tax and deferred tax charge for the period.

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 Chief Executive Officer under policies approved by the board of directors. The Chief Executive Officer 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 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 the UK pound. 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. At 31 December 2011 the Group held US$6,811,742 of cash in Sterling (2010: US$945,777) and had an immaterial amount of trade and other payables denominated in Sterling.

At 31 December 2011, 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 would have been reduced/increased by approximately US$681,000 (2010: reduced/increased by US$95,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling-denominated bank balances. Losses are more sensitive to movement in currency exchange rates in 2011 than 2010 due to larger amounts of UK Sterling currency held for corporate working capital purposes.

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 2011 and 2010 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 deposits with banks and financial institutions. 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.

Notes to the Consolidated Financial Statements
(continued)

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

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.

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 be able to meet its liabilities as and when they fall due.

As at the date of this report, the 3D seismic acquisition programme over the Group's southern licence areas has been completed with final processing of the results remaining ongoing. The Directors are of the opinion that the Group has more than adequate financial resources to enable it to complete this work programme and provide sufficient working capital over the forthcoming twelve months based on cash flow forecasts and the Group's existing liquid cash resources.

Additional cash resources may become available to the Group following the granting of three new exploration licences in The Bahamas which would result in the completion of the farm in agreement with Statoil and the receipt of consideration funds.

The Group's ability to meet its obligations beyond 2012 is dependent on the level of exploration and appraisal activities undertaken. The Group has given notice to the Government of the Commonwealth of The Bahamas of its intention to renew the licences for a further three year period, precipitating the requirement that the Group spud a well by 26 April 2013 in order that these licences remain valid. The ability of the Group to discharge this obligation is contingent on the successful completion of a farm in arrangement or a further equity raise.

b) Carrying value of exploration expenditure

Expenditure of US$38,927,378 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2011 (31 December 2010: US$5,024,331).

Ultimate recoupment of exploration and evaluation assets capitalised is dependent on successful development and commercial exploitation, or alternatively, sale of the respective 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.

c) Share based payments

Share based payments comprise equity settled share options granted during the year to Directors, employees and consultants of the Group. IFRS 2 requires an estimate of the fair value of all options to be undertaken at the date of grant with a charge being made to the consolidated statement of comprehensive income, spread over the expected vesting period of the options. Fair value is determined using an appropriate pricing model determined by the directors who also determine that the assumptions applied in the calculation of the fair values of the options are appropriate. Details of the option model and assumptions used are set out in note 18.

5 Segment information

The entity is domiciled in the Isle of Man. The total of non-current assets other than financial instruments located in the Isle of Man is US$136,098 (2010: US$70,858), and the total of such non-current assets located in The Bahamas is US$39,282,622 (2010: US$5,143,252).

6 Finance income

	2011 Group $	2010 Group $
Finance income – interest income on short term bank deposits	**66,050**	**–**

7 Employee benefit expense

	2011 Group $	2010 Group $
Directors and employees salaries and fees (including bonuses)	**2,273,294**	1,816,403
Cessation of service fees and benefits (see note 21)	**1,363,259**	–
Social security costs	**84,394**	93,415
Pension costs – defined contribution	**14,436**	6,714
Share based payments (see note 18)	**998,498**	–
Other staff costs	**237,069**	89,773
	4,970,950	**2,006,305**

8 Other expenses

	2011 Group $	2010 Group $
Travel and accommodation	**928,333**	627,396
Operating lease payments	**464,251**	173,426
Premises relocation costs	**–**	64,377
Legal and professional	**2,081,037**	1,146,944
Auditor's remuneration;		
– Current year audit of parent Company and consolidated financial statements	**97,608**	60,000
– Prior year audit under/(over) provision	**12,909**	(14,417)
– Taxation services	**35,919**	2,354
– Other services	**–**	20,535
Net foreign exchange loss	**305,755**	112,161
Management and administration fees	**288,044**	385,515
Other	**864,236**	756,870
Total other expenses	**5,078,092**	**3,335,161**

9 Income tax

During 2010, the Group underwent a Scheme of Arrangement which resulted in the Isle of Man subsidiary becoming the Group's parent Company, with the Group tax residency correspondingly being migrated to the Isle of Man. Companies incorporated and resident in the Isle of Man are subject to Isle of Man income tax at a rate of zero per cent.

The Company's 100% directly held subsidiary, BPC Jersey Limited is treated as a zero rated Company under the amended Income Tax (Jersey) Law 1961.

The Company's 100% indirectly held subsidiary, BPC Perth Pty Ltd was dissolved in 2010 with no tax being payable.

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

The credit to income tax in 2010 results from the release of a provision of $61,787 for employee benefit taxes in the Falkland Islands from previous years, following agreement of a final assessment of $nil with the tax office in the Falkland Islands.

Notes to the Consolidated Financial Statements
(continued)

10 Basic and diluted loss per share

a) Basic

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

	2011 Group	2010 Group
Loss attributable to equity holders of the Company	**$(10,139,145)**	$(5,318,458)
Weighted average number of ordinary shares in issue	**1,169,713,891**	876,109,553
Basic loss per share (US Cents per share)	**(0.87)**	(0.61)

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:

	2011 Group	2010 Group
Total share options in issue (see note 18)	**21,500,000**	**–**

The effect of the above share options at 31 December 2011 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

11 Restricted cash

	2011 Group $	2010 Group $
Non-current assets		
Bank deposits	**239,654**	325,046
Current assets		
Bank deposits	**231,995**	–

Bank deposits include US$231,995 (2010: US$232,221) held by Barclays Bank Plc as security for a guarantee provided to Her Majesty's Revenue and Customs ('HMRC'). The guarantee was required to be in place prior to migrating the UK tax residency of BPC Limited (incorporated in the Falkland Islands) to Jersey in 2008 and was required to be increased by the Supreme Court of the Falkland Islands as a condition of the completion of the Scheme of Arrangement. These amounts are now due for release to the Company pending receipt of consent from HMRC and have consequently been reclassified as at 31 December 2011 as a current asset.

Included in non-current bank deposits is the amount of US$239,654 held as security for Company credit card facilities (2010: US$92,825).

12 Property, plant and equipment

Group	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
At 1 January 2010				
Cost	102,434	146,364	–	248,798
Accumulated depreciation	(98,818)	(131,274)	–	(230,092)
Net book amount	**3,616**	**15,090**	**–**	**18,706**
Year ended 31 December 2010				
Opening net book amount	3,616	15,090	–	18,706
Additions	29,010	108,985	71,857	209,852
Depreciation charge	(3,616)	(27,978)	(7,185)	(38,779)
Closing net book amount	**29,010**	**96,097**	**64,672**	**189,779**
At 31 December 2010				
Cost	131,444	255,349	71,857	458,651
Accumulated depreciation	(102,434)	(159,252)	(7,185)	(268,872)
Net book amount	**29,010**	**96,097**	**64,672**	**189,779**
Year ended 31 December 2011				
Opening net book amount	29,010	96,097	64,672	189,779
Additions	36,360	205,412	215,944	457,716
Disposals – cost	(102,434)	(41,833)	–	(144,267)
Depreciation charge	(65,370)	(59,654)	(31,129)	(156,153)
Disposals – accumulated depreciation	102,434	41,833	–	144,267
Closing net book amount	**–**	**241,855**	**249,487**	**491,342**
At 31 December 2011				
Cost	65,370	418,928	287,802	772,100
Accumulated depreciation	(65,370)	(177,073)	(38,315)	(280,758)
Net book amount	**–**	**241,855**	**249,487**	**491,342**

Disposals in the year were for $nil proceeds and were of assets that had been fully depreciated.

Notes to the Consolidated Financial Statements
(continued)

13 Intangible exploration and evaluation assets

Group	Licence costs $	Geological, Geophysical and Technical Analysis $	Total $
Year ended 31 December 2010			
Opening cost/net book amount	1,218,750	2,845,074	4,063,824
Additions	575,000	385,507	960,507
Closing cost/net book amount	**1,793,750**	**3,230,581**	**5,024,331**
Year ended 31 December 2011			
Opening cost/net book amount	1,793,750	3,230,581	5,024,331
Additions	–	33,903,047	33,903,047
Closing cost/net book amount	**1,793,750**	**37,133,628**	**38,927,378**

Ultimate recoupment of intangible exploration and evaluation assets capitalised is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas (note 2.6).

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.

14 Cash and cash equivalents

	2011 Group $	2010 Group $
Cash at bank and in hand	**34,976,049**	**6,068,558**

The 2011 balance includes interest bearing accounts at rates between 0% and 1% (2010: 0% to 1%).

15 Other receivables

	2011 Group $	2010 Group $
Other receivables (note (a))	**135,617**	113,298
Prepayments (note (b))	**832,177**	782,948
	967,794	**896,246**

a) Other receivables
These amounts include VAT recoverable and funds advanced to the resident management office in The Bahamas for forthcoming local expenditure. The funds are held on a trust account with First Caribbean Bank by the resident management office. The funds are generally utilised within three months and the receivable is non-interest bearing.

b) Prepayments
Prepayments include US$500,000 (2010: US$500,000) in applications fees paid to the Government of The Commonwealth of The Bahamas for additional exploration licences, pending award. In the event that the Group's applications are unsuccessful 50% of this amount is refundable to the Group. No provision has been made in the financial statements to write down the carrying value of these prepayments in the event that the applications are unsuccessful.

16 Trade and other payables

	2011 Group $	2010 Group $
Exploration and evaluation liabilities	**1,857,715**	–
Accruals	**335,547**	37,807
Trade payables	**481,624**	272,029
Other payables	**5,592**	55,144
	2,680,478	**364,980**

17 Share capital, share premium and merger reserve

Group		Number of shares	Issue price $	Ordinary shares $	Share premium reserve $	Merger reserve $	Total $
At 1 January 2010		**789,639,838**		**28,764**	**73,634,186**	**–**	**73,662,950**
16 March 2010	Placing	69,842,860	0.05	2,056	3,490,976	–	3,493,032
15 June 2010	Scheme of Arrangement	–	–	(5,522)	(77,125,162)	77,130,684	–
6 October 2010	Placing	120,000,000	0.07	3,811	7,462,963	–	7,466,774
11 October 2010	Options exercised	2,500,000	0.07	80	180,726	–	180,806
10 November 2010	Options exercised	2,500,000	0.07	80	183,213	–	183,293
23 November 2010	Options exercised	2,896,398	0.07	90	210,693	–	210,783
At 31 December 2010		**987,379,096**		**29,359**	**8,037,595**	**77,130,684**	**85,197,638**
17 March 2011	Placing	110,000,000	0.30	3,537	31,445,689	–	31,449,226
13 April 2011	Placing	133,100,000	0.31	4,357	38,701,818	–	38,706,175
At 31 December 2011		**1,230,479,096**		**37,253**	**78,185,102**	**77,130,684**	**155,353,039**

The total authorised number of ordinary shares at 31 December 2011 and 2010 was 5,000,000,000 shares with a par value of 0.002p per share.

All issued shares are fully paid.

On 16 March 2010 the Company issued 69,842,860 new ordinary shares in the then Parent Company BPC Limited, incorporated in the Falkland Islands, at 3.5 pence (5 cents) per share.

On 15 June 2010 the Group underwent a Scheme of Arrangement which saw the shares in the Parent Company BPC Limited replaced with shares in Bahamas Petroleum Company (then BPC plc), which became the new Parent Company of the Group.

On 6 October 2010 the Company issued 120,000,000 new ordinary shares at 4.25 pence (7 cents) per share.

On 16 March 2011 the Company announced the placement of 243,100,000 new ordinary shares at 18.75 pence per share, raising US$70,155,401 in net proceeds (net of US$3,848,817 in transaction costs). Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted on 13 April 2011 following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011.

Share options totalling nil (2010: 7,896,398) were exercised in the year.

Notes to the Consolidated Financial Statements
(continued)

18 Share based payments

Share options are granted to directors, selected employees and consultants to the Company. The exercise price of the granted options is equal to the fair value of the shares on the date of the grant.

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:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Average exercise price per share	No. Options	Average exercise price per share	No. Options
At beginning of year	–	–	4.55p	7,896,398
Granted in the year	16.10p	21,500,000	–	–
Exercised	–	–	(4.55p)	(7,896,398)
At end of year	16.10p	21,500,000	–	–
Exercisable	21.25p	6,750,000	–	–

On 12 April 2011 the Company granted 13,500,000 share options to directors, management and consultants of the Company. The options have an exercise price of 21.25 pence and an expiry period of 5 years. Half of the options became exercisable immediately on grant with the remaining half becoming exercisable once the Company share price reached 50 pence per share. The options do not lapse in the event that the option holder ceases to hold office at any time during the exercise period.

On 27 October 2011 the Company granted 8,000,000 share options to directors and management. The options have an exercise price of 7.4 pence, an expiry period of 5 years and become exercisable once the Company share price reaches 18.75 pence per share. In the event that the option holder ceases to hold office during the exercise period, the survivability of the options is at the explicit discretion of the Board of Directors.

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

	27 October 2011	12 April 2011
Share price at date of grant	7.4 pence	21.25 pence
Exercise price	7.4 pence	21.25 pence
Expected volatility	36%	61%
Expected life	1.5 years	2 years
Risk free return	1.34%	1.34%
Dividend yield	Nil	Nil
Hurdle rate	18.75 pence	50 pence*
Fair value per option tranche 1	0.16 pence	7.31 pence
Fair value per option tranche 2	n/a	4.67 pence*

*Hurdle rate for options granted on 12 April 2011 applies to 50% of total options granted only, forming tranche 2.

Expected volatility has been based on an assessment of the volatility of the share price of the Company and a selection of its peers over a period consistent with the expected life of the options. The weighted average remaining contractual life of the options in issue at 31 December 2011 is 4.2 years.

Expenses arising from share based payment transactions.

Total expenses arising from equity-settled share based payment transactions during the year were as follows:

	2011 Group $	2010 Group $
Expense in relation to options issued to Nominated Advisor, included as part of legal and professional expense	–	78,305
Expense in relation to options issued to Directors, staff and consultants	998,498	–
	998,498	78,305

19 Cash used in operating activities

	2011 Group $	2010 Group $
Loss after income tax	(10,139,145)	(5,318,458)
Adjustments for:		
– Depreciation (note 12)	156,153	38,779
– Share based payment (note 18)	998,498	78,305
– Finance income (note 6)	(66,050)	–
– Foreign exchange loss on operating activities (note 8)	305,755	112,161
– Tax credit (note 9)	–	(61,787)
Changes in working capital		
– Other receivables	(71,548)	(426,569)
– Trade and other payables	456,577	154,950
Cash used in operating activities	(8,359,760)	(5,422,619)

20 Contingencies and commitments

i) Contingencies

As at 31 December 2011 the Company had entered into a contract with Simon Potter for the provision of a Chief Executive Officer. The terms of this contract give rise to certain contingent liabilities, details of which may be found in note 21.

ii) Expenditure commitments

As at 31 December 2011 the Group had discharged all of its work obligations under the terms of the existing exploration licence period.

On 26 April 2012 the Group's exploration licences will renew for a further 3 year period, precipitating the obligation that the Group spud an exploration well by 26 April 2013. In addition, the Group will be obliged to undertake technical expenditure over the renewed 3 year licence period as follows:

	$
Year 1	$400,000
Year 2	$600,000
Year 3	$500,000

At 31 December 2011 the Group had a contractual obligation of $4,995,734 (2010: $nil) in seismic processing costs which had not become payable during the year and consequently, has not been recorded in these financial statements.

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. By letter dated 20 March 2008, the Government of The Commonwealth of The Bahamas approved a two year extension to the existing three year licence period which now expires on 26 April 2012.

During the year the Company informed the Government of The Commonwealth of The Bahamas of its intention to renew the licences for a further 3 years. Rentals for year licence in the three year period of renewal are as follows; Year 1 is US$57,500, Year 2 is US$86,250 and Year 3 is US$115,000.

Rental payments on licence areas were resumed in the prior year due to the lifting of the Government of The Commonwealth of The Bahamas requested halt on exploration activities.

Notes to the Consolidated Financial Statements
(continued)

20 Contingencies and commitments (continued)
iii) Annual rental commitments (continued)

No licence rentals were paid in the current year due to the prepayment of these rentals in prior years, when the Group was prohibited from engaging in exploration activities by the Government of The Commonwealth of The Bahamas, pending completion of maritime border negotiations with Cuba.

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:

	2011 Group $	2010 Group $
No later than 1 year	**174,171**	86,200
Later than 1 year and no later than 5 years	**–**	–
Later than 5 years	**–**	–
	174,171	**86,200**

21 Related party transactions
Key Management Personnel

Details of key management personnel are as follows:

Adrian Collins	Non-Executive Chairman
Alan Burns	Non-Executive Chairman – Resigned in the year
Simon Potter	Director and Chief Executive Officer
Paul Crevello	Director and Chief Executive Officer – Resigned in the year
Michael Proffitt	Finance Director, Non-Executive – Resigned in the year
Dursley Stott	Non-Executive Director
Steven Weyel	Non-Executive Director – Appointed in the year
Edward Shallcross	Non-Executive Director – Appointed in the year

Key Management Compensation

	2011 Group $	2010 Group $
Short term employee benefits	**2,418,662**	1,718,987
Cessation of service benefits	**1,363,259**	–
Share based payments	**867,703**	–
	4,649,624	**1,718,987**

During the year cessation of service payments totalling US$1,100,000 were paid to Paul Crevello.

During the year amounts totalling US$3,000 (2010: US$3,600) were paid by the Company for the maintenance of residential property in the United States of America belonging to Paul Crevello.

During the year, amounts totalling US$8,292 were reimbursed to Paul Crevello for travel and relocation costs following his resignation as CEO of the Company.

During the year, amounts totalling US$17,539 were paid by the Company for the shipping of personal effects belonging to Paul Crevello from The Bahamas to the United States of America following his resignation as CEO of the Company.

During the year, Paul Crevello was provided with housing in Nassau, The Bahamas for his exclusive use at a cost to the Company of US$187,000 (2010: US$119,000). These amounts have been recognised in the financial statements as premises expenses under the categorisation 'other costs'.

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

- Annual salary of US$1,000,000 with minimum CPI indexation.
- Mr Potter is entitled to receive pension contributions from the Company equal to 10% of his annual salary.
- The term of the contract is 4 years. Benefits arising from termination during the term range from nil to payment of salary over the full term, depending on the circumstances surrounding termination.

During the year US$500,000 was paid to Simon Potter as a sign on bonus prior to commencement of duties.

During the year, amounts totalling US$84,341 were reimbursed to Simon Potter for relocation costs following his appointment as CEO of the Company.

During the year Simon Potter was provided with the use of a Company vehicle which had a purchase cost of US$104,767.

During the year cessation of service payments totalling US$237,428 were paid to Michael Proffitt.

Directors' remuneration

	2011 Group $	2010 Group $
Simon Potter	**788,642**	–
Adrian Collins	**22,471**	–
Alan Burns	**609,471**	783,558
Paul Crevello	**1,783,552**	802,618
Michael Proffitt	**409,801**	78,298
Dursley Stott	**74,093**	54,513
Edward Shallcross	**69,476**	–
Steven Weyel	**24,415**	–
Total	**3,781,921**	**1,718,987**

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

	Number of Options granted	Exercise price per Ordinary Share	Date of Grant
Simon Potter	4,000,000	7.40p	27 October 2011
Adrian Collins	1,000,000	7.40p	27 October 2011
Steven Weyel	1,000,000	7.40p	27 October 2011
Paul Crevello	4,000,000	21.25p	12 April 2011
Alan Burns	3,000,000	21.25p	12 April 2011
Mike Proffitt	2,500,000	21.25p	12 April 2011
Dursley Stott	1,500,000	21.25p	12 April 2011
Edward Shallcross	1,500,000	21.25p	12 April 2011

Details of share options granted are disclosed in note 18 to these financial statements.

Notes to the Consolidated Financial Statements
(continued)

21 Related party transactions (continued)

Other related party transactions

During the period to 30 September 2011, goods and administration services totalling US$15,336 (2010: US$40,870) were procured from Albert Technologies Limited, a Company owned by Alan Burns.

During the period to 30 September 2011, Mr M Proffitt and Mr A Burns were both directors and shareholders of Renewable Energy Holdings Plc (REH). During this period, fees totalling US$40,210 (year to 31 December 2010: US$116,531) were paid to REH for shared office facilities, equipment and staffing.

During the year, expenses totalling US$14,707 were incurred by the Company on behalf of Sotaterra plc, a Company owned by Alan Burns. These amounts were subsequently recharged to Sotaterra plc resulting in a nil impact on the cash position of the Company and the loss for the year.

During the period to 30 September 2011, accountancy and other financial consultancy services were procured from BDP Orbita Limited, a Company in which Benjamin and Daniel Proffitt, relatives of Michael Proffitt, are directors. Fees totalling $186,194 (year to 31 December 2010: $331,629) were paid to BDP Orbita Limited for these services. On 12 April 2011 500,000 options were granted by the Company to BDP Orbita Limited (see note 18 for information on the terms of these options).

During the year amounts totalling US$5,489 (2010: US$4,738) were paid by the Company for the storage of personal effects belonging to Paul Crevello in the United States of America.

Parent Company Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bahamas Petroleum Company plc ('the parent Company') which comprise the balance sheet as of 31 December 2011 and the statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the financial position of the parent Company as of 31 December 2011, and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and
- the parent Company financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931-2004.

Matters on which we are required to report by exception

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

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

Other Matters

We have reported separately on the consolidated financial statements of Bahamas Petroleum Company for the year ended 31 December 2011.

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
29 March 2012

Parent Company Balance Sheet
As at 31 December 2011

	Note	2011 Company $	2010 Company $
ASSETS			
Non-current assets			
Property, plant and equipment	5	**136,098**	70,858
Investment in subsidiary	6	**29,560,456**	29,560,456
Other receivables	7	**35,549,439**	1,091,374
Restricted cash	4	**239,654**	325,046
		65,485,647	**31,047,734**
Current assets			
Other receivables	7	**310,766**	180,185
Restricted cash	4	**231,995**	–
Cash and cash equivalents	8	**34,976,049**	6,068,558
		35,518,810	**6,248,743**
Total assets		**101,004,457**	**37,296,477**
LIABILITIES			
Current liabilities			
Trade and other payables	9	**822,762**	281,846
Total liabilities		**822,762**	**281,846**
EQUITY			
Share capital	10	**37,253**	29,359
Share premium reserve	10	**78,185,102**	8,037,595
Other reserve	10	**29,535,159**	29,535,159
Share based payments reserve	11	**1,054,120**	55,622
Retained earnings		**(8,629,939)**	(643,104)
Total equity		**100,181,695**	**37,014,631**
Total equity and liabilities		**101,004,457**	**37,296,477**

The financial statements on pages 60 to 66 were approved and authorised for issue by the Board of Directors on 29 March 2012 and signed on its behalf by:

Simon Potter
Director

Edward Shallcross
Director

Parent Company Statement of Changes in Equity
For the year ended 31 December 2011

	Note	Share capital $	Share premium $	Other reserve $	Share based payment reserve $	Retained earnings $	Total equity $
Comprehensive income							
Total comprehensive income for the period	3	–	–	–	–	(643,104)	(643,104)
Transactions with owners							
Issue of ordinary shares	10	29,359	8,037,595	29,535,159	–	–	37,602,113
Share options – value of service		–	–	–	55,622	–	55,622
Total transactions with owners		29,359	8,037,595	29,535,159	55,622	–	37,657,735
Balance at 31 December 2010		**29,359**	**8,037,595**	**29,535,159**	**55,622**	**(643,104)**	**37,014,631**
Balance at 1 January 2011		**29,359**	**8,037,595**	**29,535,159**	**55,622**	**(643,104)**	**37,014,631**
Comprehensive income:							
Total comprehensive income for the year	3	–	–	–	–	(7,986,835)	(7,986,835)
Transactions with owners							
Issue of ordinary shares	10	7,894	70,147,507	–	–	–	70,155,401
Share options – value of service	11	–	–	–	998,498	–	998,498
Total transactions with owners		7,894	70,147,507	–	998,498	–	71,153,899
Balance at 31 December 2011		**37,253**	**78,185,102**	**29,535,159**	**1,054,120**	**(8,629,939)**	**100,181,695**

The accompanying notes on pages 63 to 66 form part of these financial statements.

Parent Company Cash Flow Statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 Company $	16 months ended 31 December 2010 Company $
Cash flows from operating activities			
Cash used in operations	12	**(6,293,801)**	(3,922,435)
Net cash used in operating activities		**(6,293,801)**	**(3,922,435)**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(110,943)**	(77,111)
Interest received		**66,050**	
Increase in restricted cash		**(154,397)**	(206,988)
Advances to group companies		**(34,458,065)**	(1,091,374)
Net cash used in investing activities		**(34,657,355)**	**(1,375,473)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**70,155,401**	8,041,657
Advances received from group companies		**–**	3,324,809
Net cash flows from financing activities		**70,155,401**	**11,366,466**
Net increase in cash and cash equivalents		**29,204,245**	**6,068,558**
Cash and cash equivalents at the beginning of the year/period		**6,068,558**	–
Effects of exchange rate changes on cash and cash equivalents		**(296,754)**	–
Cash and cash equivalents at the end of the year/period		**34,976,049**	**6,068,558**

The accompanying notes on pages 63 to 66 form part of these financial statements.

Notes to the Parent Company Financial Statements

1 General information

Bahamas Petroleum Company plc ('the Company') and its subsidiaries (together 'the Group') are the holders of several oil and 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.

The accounting reference date of the Company is 31 December. As the prior year financial statements were the first to be prepared by the Company following its incorporation on 25 August 2009, they were prepared for a period of 16 months.

2 Accounting policies

2.1 Basis of preparation

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and 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 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

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as and when they fall due. 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 Loss attributable to members of the parent Company

The loss dealt with in the financial statements of the parent Company for the year to 31 December 2011 is $7,986,835 (16 months ended 31 December 2010: $643,104). 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 period.

4 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.

Notes to the Parent Company Financial Statements (continued)

5 Property, plant and equipment

Company	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
Period from 25 August 2009 to 31 December 2010				
Opening net book amount	–	–	–	–
Additions	29,010	48,101	–	77,111
Depreciation charge	–	(6,253)	–	(6,253)
Closing net book amount	**29,010**	**41,848**	**–**	**70,858**
As at 31 December 2010				
Cost	29,010	48,101	–	77,111
Accumulated depreciation	–	(6,253)	–	(6,253)
Net book amount	**29,010**	**41,848**	**–**	**70,858**
Year ended 31 December 2011				
Opening net book amount	29,010	41,848	–	70,858
Additions	–	6,176	104,767	110,943
Depreciation charge	(29,010)	(16,693)	–	(45,703)
Closing net book amount	**–**	**31,331**	**104,767**	**136,098**
As at 31 December 2011				
Cost	29,010	54,277	104,767	188,054
Accumulated depreciation	(29,010)	(22,946)	–	(51,956)
Net book amount	**–**	**31,331**	**104,767**	**136,098**

6 Investment in subsidiary

	2011 Company $	2010 Company $
Investment in BPC (Falklands) Limited		
At beginning of the period	–	–
Additions	–	29,560,456
Dividend in specie	–	(29,560,456)
At 31 December 2011	**–**	**–**
Investment in BPC Jersey Limited		
At beginning of the period	29,560,456	–
Dividend in specie	–	29,560,456
At 31 December 2011	**29,560,456**	**29,560,456**

On 15 June 2010 the Company acquired 100% of shares in issue in BPC (Falklands) Limited (formerly BPC Limited), a Company incorporated in the Falkland Islands, through a Scheme of Arrangement resulting in the issue of 859,382,698 new ordinary shares to the existing shareholders of BPC (Falklands) Limited. The cost of investment in BPC (Falklands) Limited has been recorded as the value of the net assets of BPC (Falklands) Limited immediately prior to the Scheme of Arrangement of US$29,560,456, which comprised of its investment in 100% of the share capital of BPC Jersey Limited, a Company incorporated in Jersey.

On 29 December 2010, BPC (Falklands) Limited granted its investment in BPC Jersey Limited to the Company by way of a dividend in specie. This has had the effect of reducing the value of the Company's investment in BPC (Falklands) Limited to $nil whilst giving rise to the investment in BPC Jersey Limited of US$29,560,456.

On 6 January 2011 the Company acquired 100% of the issued share capital of BPC (Bain) Limited, BPC (Cooper) Limited, BPC (Donaldson) Limited and BPC (Eneas) Limited. All four of these companies are incorporated in the Isle of Man, remain dormant and have a carrying value of US$nil in these financial statements.

7 Other receivables

	2011 Company $	2010 Company $
Non-current assets		
Amount owing by group undertakings	35,549,439	1,091,374
Current assets		
Prepayments	210,370	180,185
Trade and other receivables	100,396	–
	310,766	**180,185**

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.

8 Cash and cash equivalents

	2011 Company $	2010 Company $
Cash at bank and in hand	**34,976,049**	**6,068,558**

The 2011 and 2010 balances include interest bearing accounts at rates between 0% and 1%.

9 Trade and other payables

	2011 Company $	2010 Company $
Accruals	**335,547**	–
Trade payables	**481,624**	272,029
Other payables	**5,591**	9,817
	822,762	**281,846**

10 Share capital, share premium and other reserve

Company		Number of shares	Issue price $	Ordinary shares $	Share premium reserve $	Other reserve $	Total $
Incorporation 25 August 2009		**2**		**4**	**–**	**–**	**4**
12 April 2010	Reclassification	100,000	–	–	–	–	–
15 June 2010	Scheme of arrangement	859,382,698	–	25,298	–	29,535,159	29,560,457
6 October 2010	Placing	120,000,000	0.07	3,811	7,462,963	–	7,466,774
11 October 2010	Options exercised	2,500,000	0.07	80	180,726	–	180,806
10 November 2010	Options exercised	2,500,000	0.07	80	183,213	–	183,293
23 November 2010	Options exercised	2,896,398	0.07	90	210,693	–	210,783
At 31 December 2010		**987,379,096**		**29,359**	**8,037,595**	**29,535,159**	**37,602,113**
17 March 2011	Placing	110,000,000	0.30	3,537	31,445,689	–	31,449,226
13 April 2011	Placing	133,100,000	0.31	4,357	38,701,818	–	38,706,175
At 31 December 2011		**1,230,479,096**		**37,253**	**78,185,102**	**29,535,159**	**107,757,514**

All issued shares are fully paid.

Notes to the Parent Company Financial Statements (continued)

10 Share capital, share premium and other reserve (continued)

Prior to 12 April 2010 the authorised share capital of the Company consisted of 2,000 ordinary shares of £1 each. On 12 April 2010 the authorised share capital of the Company was increased to 5,000,000,000 ordinary shares of 0.002 pence each.

On 6 October 2010 the Company issued 120,000,000 new ordinary shares at 4.25 pence (7 cents) per share.

On 16 March 2011 the Company announced the placement of 243,100,000 new ordinary shares at 18.75 pence per share, raising US$70,155,401 in net proceeds (net of US$3,848,817 in transaction costs). Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted on 13 April 2011 following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011.

Share options totalling nil (2010: 7,896,398) were exercised in the year.

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 (then BPC plc), which became the new Parent Company of the Group.

11 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.

12 Cash used in operating activities

	Year ended 31 December 2011 Company $	16 months ended 31 December 2010 Company $
Loss before income tax	**(7,986,835)**	(643,104)
Adjustments for:		
– Depreciation	**45,703**	6,253
– Finance income	**(66,050)**	–
– Foreign exchange loss on operating activities	**305,823**	–
– Intercompany payables written back	**–**	(3,442,867)
– Share based payment	**998,498**	55,622
Changes in working capital		
– Other receivables	**(130,650)**	(180,185)
– Trade and other payables	**539,710**	281,846
Cash used in operating activities	**(6,293,801)**	**(3,922,435)**

13 Related party transactions

During the year, goods and services totalling US$34,442,708 (2010: US$3,090,729) were charged by the Company to BPC Limited in The Bahamas, the 100% indirectly owned subsidiary of the Company.

During the year, goods and services totalling US$15,357 (2010: US$2,885) were charged by the Company to BPC (Jersey) Limited, the 100% directly owned subsidiary of the Company.

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.

Glossary

Albian A geologic period, the uppermost sub-division of the early or lower Cretaceous period, that extends from about c.112 Mya (million years ago) to 100 Mya

Aptian A geologic period, a sub-division of the early or lower Cretaceous period, that extends from about c.125 Mya (million years ago) to 112 Mya

Appraisal well An appraisal well is drilled to assess the characteristics (e.g. flow rate, areal extent) of a discovered oil or gas accumulation

bbl Barrel of oil; equivalent to 42 US gallons

bcf Billion cubic feet of gas

boe Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of approximately 6mcf to one barrel of oil

boepd Barrels of oil equivalent per day

bopd Barrels of oil per day

Carbonate Rocks Rocks made of particles (composed >50% carbonate minerals – limestones ($CaCO_3$) and dolomites ($CaMg(CO_3)_2$)) embedded in a cement. They make up 10 – 15% of sedimentary rocks and dissolve in dilute acidic groundwater. Most carbonate rocks result from the accumulation of bioclasts created by calcareous organisms and therefore originate in areas favouring biological activity i.e. in shallow and warm seas in areas with little to no clastic input. In present day Earth conditions these would be primarily areas limited to ±40 latitude

Cretaceous A geologic period that extends from about c.145 Mya (million years ago) to 65 Mya

CSR Corporate Social Responsibility

Development well A development well is drilled within the proved area of an oil or gas reservoir for the purpose of producing hydrocarbons

E&P Exploration and production

Exploration well An exploration well is drilled to find and test potential oil or gas accumulations in an unproved area

Estimated Ultimate Recovery Abbreviated to EUR, are those Prospective Resources recoverable from an accumulation, plus those quantities already produced therefrom and can be applied to an individual accumulation of any status/maturity (discovered or undiscovered)

Formation Used to describe a particular sequence of rocks of similar character recognisable over distance. Also an oil industry term used to describe a particular layer being tested for oil and gas

Fracture A break in the rock that can serve as both a migration pathway and a reservoir for gas, oil and water

G&G Geological and geophysical work, data or studies

Graben A fault bounded structural feature in the sub-surface resulting from extension. It may serve as a site for thick accumulation of hydrocarbon prospective rocks

HSE Health, Safety and Environment

Hydrocarbon Any liquid or gas made up of an appreciable volume of combustible organic compounds of hydrogen and carbon, such as any of those that are the chief components of petroleum and natural gas

Karst The topography that describes the erosion surfaces and caves that typically develop due to the solubility of carbonate rocks in dilute acidic groundwater

km^2 Square kilometres

Jurassic A geologic period that extends from about c.200 Mya (million years ago) to 145 Mya

mcf Thousand cubic feet of gas

mcf/d Thousand cubic feet of gas per day

mmbbl Millions of barrels of oil

mmboe Millions of barrels of oil equivalent

mmcf/d Millions of cubic feet of gas per day

mmstb Millions of stock tank barrels

NGLs Natural Gas Liquids

NGO Non-governmental organisation

Operator Runs the day to day hydrocarbon exploration and production programme on behalf of the working interest holders in the project

Permeable A rock that allows fluid to pass through it easily is said to be permeable

Petroleum A flammable mixture of gaseous, liquid, and solid hydrocarbons that occurs naturally beneath the Earth's surface capable of being separated into various fractions

Platform A continental area covered by relatively flat or gently tilted, sedimentary strata

Prospective Resources An estimate of the potential oil and gas volumes thought to be present in an undrilled area

PSC Production Sharing Contract

psi Pounds per square inch (pressure)

Reef A build up of carbonate rocks in tropical waters developed through biotic processes dominated by corals and calcareous algae

Reservoir A rock formation with sufficient holes (porosity) to hold and store oil until it is discovered and sufficient permeability to allow the oil to be produced economically. A reservoir rock hosts the hydrocarbon accumulation in the subsurface and may consist of any number of rock types (although it is often sandstone). Also includes permeable and porous fractured rock and coal seams

Section A stratigraphic sequence encountered in a well

Seismic The seismic process records the time taken for a sound wave to travel from the surface of the earth to a sub-surface rock layer and then back again. The data collected can be processed to provide a pictorial representation of the sub-surface rock layers and is used extensively in hydrocarbon exploration and production. In a 2D seismic survey, several seismic lines are recorded to yield individual cross-sections. In a 3D seismic survey, multiple closely spaced seismic lines are recorded and the high density of cross sections are interpolated to yield detailed subsurface maps on which exploration prospects can be delineated

Stock tank barrel A barrel of oil measured at standard temperature (60° F) and pressure (14.7 psi)

STOIIP Stock tank oil initially-in-place

Tertiary A geologic period that extends from about c.65 Mya (million years ago) to beginning of the last ice age

WI Working interest

Corporate Directory

Company Number
Registered in the Isle of Man
with registered number 123863C

Current Directors
Adrian Collins
Non-Executive Chairman
Simon Potter
Chief Executive Officer
Ross McDonald
Non-Executive
Edward Shallcross
Non-Executive
Steven Weyel
Non-Executive

Secretary
Benjamin Proffitt

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Isle of Man
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P.O BOX SP-64135
Nassau, Bahamas

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Isle of Man
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PricewaterhouseCoopers LLC
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Isle of Man
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