BAHAMAS PETROLEUM COMPANY PLC.

Opportunities for Growth

ANNUAL REPORT & ACCOUNTS,
YEAR ENDED 31 DECEMBER 2012

Overview
01-07
01 Highlights
02 At a Glance
04 Chairman's Statement
06 Oil & Gas Activity in The Bahamas

Business Review
08-39
08 Review by Chief Executive Officer
12 Community and People
14 Economic Opportunity
16 Our People
18 Operational Review
27 Exploration Licences
28 Safety and Environmental Focus
34 Governance and Disclosure
39 40 Years of Independence

Corporate Governance
40-44
40 Board of Directors & Senior Management
42 Chief Executive Officer's Report
44 Corporate Governance

Accounts
46-77
46 Directors' Report
48 Statement of Directors' Responsibilities
49 Independent Auditor's Report
50 Consolidated Statement of Comprehensive Income
51 Consolidated Balance Sheet
52 Consolidated Statement of Changes in Equity
53 Consolidated Cash Flow Statement
54 Notes to the Consolidated Financial Statements
70 Parent Company Independent Auditor's Report
71 Parent Company Balance Sheet
72 Parent Company Statement of Changes in Equity
73 Parent Company Cash Flow Statement
74 Notes to the Parent Company Financial Statements

Other Information
78-IBC
78 Glossary of Terms
IBC Corporate Directory

BAHAMAS
"THE BRIDGE TO THE FUTURE...THE JOURNEY CONTINUES"

We are:
Bahamas Petroleum Company

An oil and gas exploration company with 100% owned offshore licences exclusively focused on the Commonwealth of The Bahamas. We have demonstrated a dramatic reduction in technical risk through the acquisition and interpretation of modern data and are committed to conducting an environmentally responsible exploration drilling programme.

An enchanting archipelago of 700 islands and cays, these are Ernest Hemingway's 'Islands in the Stream', the nearest of which to Bahamas Petroleum Company operations are the uninhabited Guinchos Cay and the islands that constitute Cay Sal. The island of Andros lies some 80 miles to the north-east of the most likely well location, with the closest inhabited land being that of Cuba, some 25 miles away.

Overview
Business Review
Corporate Governance
Accounts
Other Information

Forging Relationships

We continue to work closely with the people of The Bahamas to give a clear understanding of the integrity of the Company's operations and the potential benefits a commercial oil discovery could bring the country and its people.

Read more
pages 12-17

Ready Technically

The geological and geophysical studies are substantially complete; from a G&G standpoint we are ready to plan drilling.

Read more
pages 18-27

Sustainable Processes

We are intent on utilising international best practices in our exploration and drilling operations and are committed to maintaining environmentally responsible exploration.

Read more
pages 28-39

2012 Highlights

Financial and Corporate

- Total aggregate spend to date of over US$50 million (US$45.7 million capitalised exploration);
- Cash balance at year end US$21.3 million. A substantial cash balance to remain at end 2013;
- BISX listing sought through Bahamian Depository Receipts (BDR) prospectus submitted;
- Appointment of Bahamian resident Ross McDonald as Non-Executive Director;
- Government confirm exploratory drilling will proceed under strengthened and modernised regulations;
- Minister of the Environment confirms good standing of Company licences.

US$21.3 million

Cash balance at year end

Operational

- 3,075 km² Pearl 3D seismic survey fully processed;
- Confirms 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;
- Confirmation of prospectivity of deeper, Cretaceous intervals with the Jurassic horizons below still being fully evaluated.

3,075 km²

Pearl 3D seismic survey processed

Environmental

- Environmental Impact Assessment (EIA) released to the public by Bahamas Environmental, Science and Technology (BEST) Commission;
- Significant advancement made towards an Environmental Management Plan, Oil Spill Contingency Plan and Emergency Response Plan;
- Joined the Oil Spill Response Group (previously Clean Caribbean Americas);
- The Company welcomes intended strengthened and modernised environmental and safety standards and regulations.

EIA

Released to the public

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 seismic database. Further de-risking activities, including core retrieval, well logs re-evaluation and re-examination of original seismic data have already been conducted.

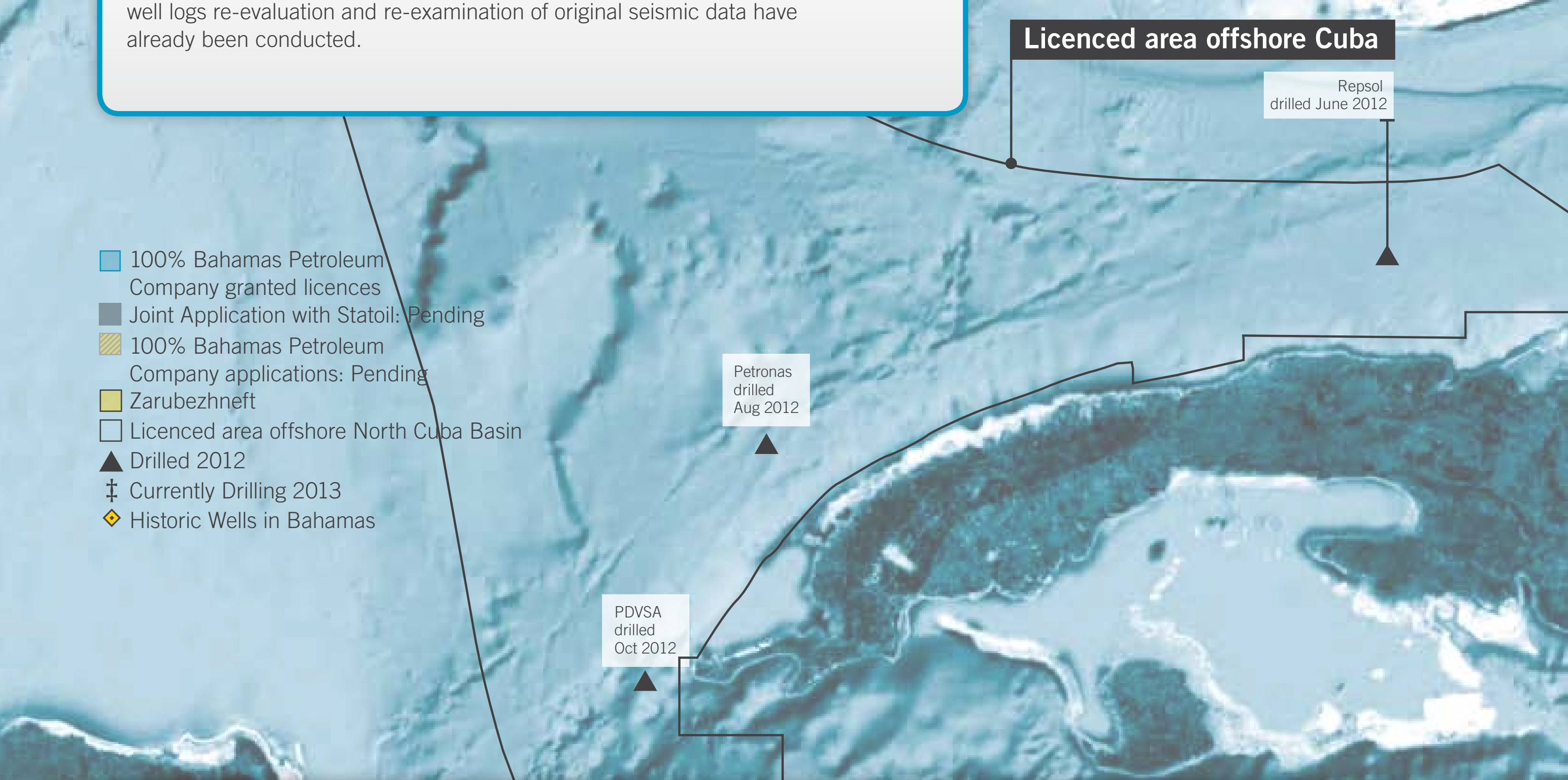


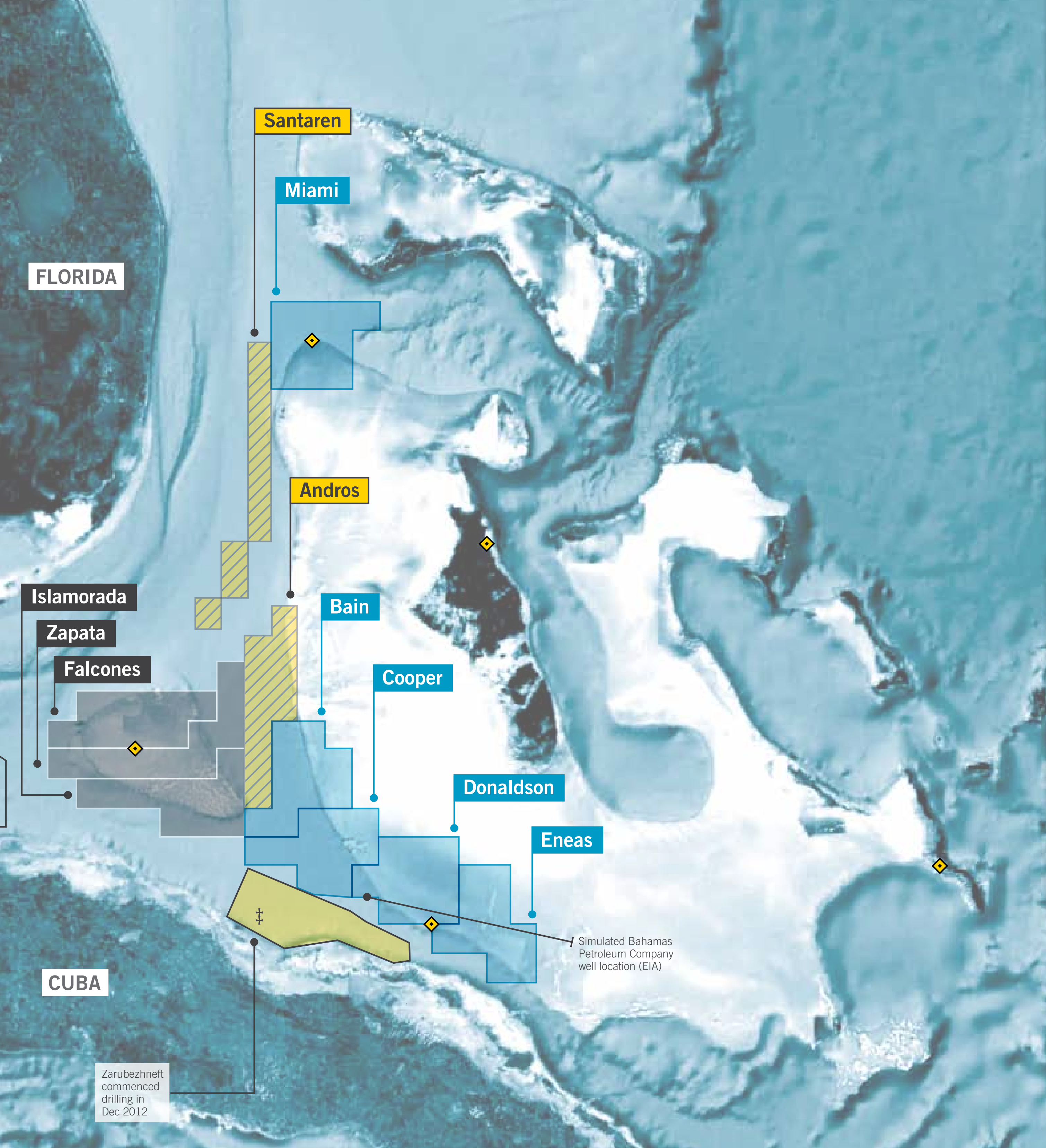
Image: © Google Maps

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.

Potential opportunities to diversify the portfolio consistent with regional or technical skills have been examined. However, such options either represent too high an entrance cost, are considerably higher risk, or are significantly smaller in absolute scale and with substantial additional capital still required to further reduce risk to a level commensurate with that available to the Company in The Bahamas. Such opportunities do not merit a dilution of the Company cash balances or focus of the organisation away from the scale of prospectivity already available in the existing licences.



16,000 km^2

Equivalent to 4 million acres or 672 OCS lease blocks: area of current Bahamas Petroleum Company licences in Bahamian waters

21 million barrels

Amount of oil produced in Cuba in 2011

Chairman's Statement

Adrian Collins Non-Executive Chairman

The past year has seen Bahamas Petroleum Company move closer to its goal of fully evaluating the resource potential of its assets in The Bahamas.

The Company has continued to shift its operating focus more heavily towards The Bahamas – stream-lining the Company structure, moving to a new office, engaging new employees and contractors, appointing new Directors from The Bahamas, doggedly pursuing a local listing on The Bahamas International Stock Exchange (BISX) while increasing the integrity of local governance, embedding new internal processes and seeking to fulfil the mandate, indeed the obligation it has, to explore through drilling. The year has not been without difficult and frustrating delays. However, I commend the determination and persistence of our staff.

2012 saw the Company having to navigate its way through the ever-changing political landscape of The Bahamas while the country held a General Election. This process reached a conclusion with the opposition PLP being returned to power in this "Westminster" style parliament, after a five-year absence and with a landslide majority. Often during the process the subject of oil and gas exploration, its potential impact on the environment and the position of Bahamas Petroleum Company became heavily politicised notwithstanding the fact that none of these topics featured in either of the leading parties' election manifestos. Historical events, current industry practices and the future mandate for drilling became topics for hot debate in the weeks preceding the election.

In the months following the election a lack of clarity over the Government's intentions to hold a referendum on oil and gas exploration led to uncertainty over the Group's operational timeframes. The recent announcement by the Government that a referendum would only be held once commercial reserves had been established, coupled with confirmation in the year by the Government of the Group's compliance with the licence terms, legislation and regulations, has acted to restore our mandate to drill which is now contingent only on the adoption of imminent environmental regulations by the Bahamian Parliament. The Company is currently working with the Government to quantify a revised deadline for drilling obligations under the licence terms, and we will update shareholders as and when appropriate.

> *"We intend to provide Bahamians with the opportunity to benefit on an individual level through participation in the equity ownership of the Company"*

Over the last six years the Company has worked hard to form an appropriately professional working relationship with the Government and people of The Bahamas regardless of which political party has been in power. As a result the Board is confident that the Company's strengthened "licence to operate" and its significant investment in the country, which currently stands at more than US$50 million, put it in a strong position to progress its future work programme at a pace more in keeping with shareholder expectations.

During the last year the Company completed the processing of 3D seismic data acquired during the second half of 2011 and commenced the process of interpreting this data to learn more about the geological characteristics of the southern licence areas. This process, now much further advanced in-house than envisaged, has been critical in continually de-risking our prospects, leveraging interest from potential partners and informing parameters critical to the design of the safest well plan possible whilst ensuring the greatest chance of a successful hydrocarbon find.

The Company has put in place additional policies and procedures to further strengthen its already sound corporate governance position. Furthermore, the Company has deepened its compliance and assurance experience in the year through the appointment of Ross McDonald to the Board and looks forward to enhancing its governance structure through further Board expansion and more advanced systems implementation as we gain clearer sight of our planned drilling schedule and attendant corporate development. The Company will continue to strive for best in class performance in this regard.

As noted above, during the year the Government has advanced plans to revise and upgrade environmental regulations designed to set the framework for exploration drilling within Bahamian waters, a prerequisite before any such drilling activity may take place. The Company welcomes all these developments as a clear sign of the Government's commitment to proceed recognising the highest international industry standards, a principal that we wholeheartedly share. In the event that our exploration programme yields a discovery of commercial reserves of hydrocarbons, the Company will welcome the opportunity for public consultation and debate on the creation of an industry as potentially significant to the people of The Bahamas as oil and gas extraction. Central to this process of public consultation will be the clear definition of who bears the costs and risk versus the level of potential benefits to the people of The Bahamas, of this and future generations.

For over 25 years no other company has shown the interest, insight nor the commitment of your Company in bringing to the attention of the Government, at no financial risk or cost to it or its people, the potential that may reside in Bahamian waters. The Company will continue to emphasise the direct benefits of Government royalty income from the very first day, indeed the first barrel of production. This Government income is modelled at the level in excess of US$20 billion from a 1 billion barrel discovery, whilst it is the oil company that bears the entire cost and financing of development and operations, as well as the risk that production is sustained over time as projected. It is also clear that the creation of such an industry will have multiple additional benefits, through employment, infrastructure investment, direct foreign investment and the development of associated industries.

In addition, we intend to provide Bahamians with the opportunity to benefit on an individual level through participation in the equity ownership of the Company. To this end we have engaged Royal Fidelity Merchant Bank and Trust to deliver a Bahamian Depository Receipt programme, which has been progressed through the year and on which we hope to provide greater detail in the near future. In this way we hope to further our goal of closer integration of the Company into Bahamian society by welcoming any citizens with an appetite for investment onto our shareholder register.

As mentioned above, the past year has seen further change to the composition of the Board of Directors as we welcomed Ross McDonald as a Non-Executive Director of the Company. Ross brings with him a wealth of business experience in The Bahamas with a long career in the country's banking sector. Ross's appointment both augments the breadth and depth of the Company's experience and skills, particularly in the area of corporate governance, and allows us to further our commitment to becoming a more indigenous Bahamian company.

During the year the Company also saw the departure of Dursley Stott from the Board, who had served for over two years and had contributed a great deal to the Company during this formative period, and for whose efforts the Board and I are grateful. Post balance sheet, Paul Gucwa elected not to renew his contract to pursue other opportunities. I would like to thank Paul for his help and expertise in significantly supervising work aimed at de-risking the drilling prospects.

I would like to express my gratitude to my fellow Directors as well as the Company's staff for their considerable efforts over the last year in preparing the Company for the next stage in its development.

Finally, I would like to thank our shareholders for continuing their patient support of the Company through what has been a challenging year. The Board and I are as confident as ever about the future of our Company and we look forward to advancing our opportunities for shareholder value creation.

Yours sincerely,

Adrian Collins
Non-Executive Chairman
12 April 2013

Oil & Gas activity already exists in The Bahamas

PAST

Historically five deep oil exploration wells have been drilled within The Bahamas, safely and without major incident. Numerous other wells have been drilled adjacent to the territorial waters.

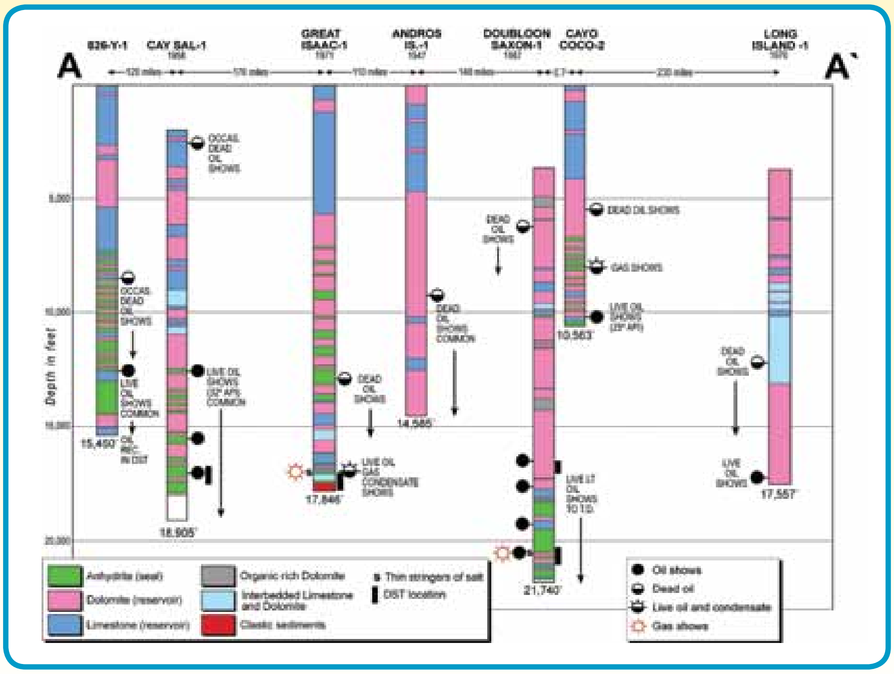
Over the past years Bahamas Petroleum Company has accumulated all the available core samples and chippings from the Great Isaac and Doubloon Saxon wells. New petrophysics has been run and new log interpretations have been generated using modern techniques. All other regional data available has been purchased including gravity, magnetics and detailed geochemical analysis from piston core samples of the seabed. Historic 2D seismic has been reprocessed, though of limited value.

All wells shown on the section (see map bottom right) indicate the presence of hydrocarbons and many demonstrate live oil shows. The Doubloon Saxon well, where the Company has retained the drilled core sections has significant evidence of hydrocarbons, especially in the deeper section of the well below the first anhydrite unit.

Further, in this well there is good evidence of high energy oolitic limestone and fractured dolomite potential reservoir units displaying good porosity in both the logs and the recovered core samples. These units are repeatedly interbedded with anhydrite potential seal intervals. As many as 20 individual reservoir units have been identified from the Doubloon Saxon well with many as thick as 200 feet over a total gross interval of some 1,400 feet.

Logs from the wells indicate that they are normally pressured although distinct zones of lost circulation were experienced as might have been anticipated from wells drilling these lithologies. Whilst there is clear evidence of a working hydrocarbon system no wells were flowed and certainly there is no indication of any commercially viable accumulations to date.

"All wells indicate the presence of hydrocarbons and each of the wells has live oil shows, most notably in the Doubloon Saxon well, especially in the deeper section of the well below the first anhydrite unit"



Previous Wells Drilled – Core and Log Interpretation.

Line of section joining the drilled wells.

This is a section across the region showing major rock types and oil shows derived from wells drilled in The Bahamas as well as the Cayo Coco well drilled in Cuba and a historic well drilled in the Florida Keys.

"Each of these oil and gas related activities are heavily regulated in The Bahamas and the adjacent countries of the region"

PRESENT

In Bahamian waters the incremental risk associated with new drilling is modest in the context of the risk profile that already exists.

The region is crossed by many international shipping lanes, the Old Bahama Channel alone carrying three million barrels (over 120 million gallons) a day, which is only likely to increase with the expansion of the Panama Canal and with access to the deepwater port at Grand Bahama. Regular inter-island transport carries fuel through narrow, shallow seaways. There is considerable existing oil production activity and associated refining and terminal capacity. Lastly, in The Bahamas, there is considerable storage and transshipment facilities, most notably the BORCO facility in Grand Bahama the largest in the Caribbean region, and global in scale.

Each of these major activities are heavily regulated in Cuba, the United States and The Bahamas (see Page 30). The Bahamas Government is a signatory to many international codes of practice, conventions and cooperative agreements including MARPOL, OPRC and OSPR, as well as specific maritime legislation. The Bahamas has its own oil spill contingency planning coordination group and is a member of the regional Caribbean coordinated response group. Bahamas Petroleum Company is already a member of the Oil Spill Response Group (formerly CCA), with access to their global resources.

Over and above this The Bahamas Government has recently announced that it is about to place before Cabinet modernised and strengthened regulations to govern oil exploration activity. It is anticipated that these regulations will combine best practices identified in a variety of leading jurisdictions – including new procedures and equipment requirements adopted post the Gulf of Mexico incident – to reflect the most up-to-date risk management practices and mandate the use of the best technology suitable – including capping stack and/or top hat technologies. A recent Bahamian Government delegation to Havana highlights the level of cooperation between the respective governments and the premium placed on the coordination of regulatory regimes and response activities.

Bahamas Oil Refining Company International Limited (BORCO) at Freeport Industrial Port, Bahamas, is the largest oil storage facility in the Caribbean.

Major oil and gas related activities in the region.

Business review from:

Chief Executive Officer

Simon Potter

Our focus is firmly on developing the fresh political mandate for exploration drilling in The Bahamas into progress with potential farmin partners and thus drilling preparations over the next 12-18 months. That drilling will proceed under strengthened and modernised regulations is to be welcomed as this will provide the Government, as well as the people of The Bahamas, sound assurance of a solid environmental and safety framework consistent with international best practices.

This last year, 2012, has been a busy year for Bahamas Petroleum Company and more latterly saw significant progress for the Company. We have worked relentlessly to progress towards our ultimate goal of drilling an exploration well to evaluate the presence and scale of hydrocarbon resources. Following the election of a new Government in The Bahamas, considerable clarity on the good standing of the Company's licences and our compliance with all legislation, regulations and licence requirements was provided. Further, the Government confirmed that Bahamas Petroleum Company can undertake exploratory drilling which will proceed under strengthened and modernised regulations.

We are closer than ever to realising our goal of exploring the hydrocarbon potential of The Bahamas and look forward to the near-term future with excitement and confidence.

Over the past year, we have been actively de-risking potential well locations and commenced initial planning for the start of drilling, notably by tying the extensive in-house core, chippings and log dataset to interpretation of the newly available, fully processed 3D data volumes. This work not only improved our understanding of the geology and thus detailed prospectivity but also provided us with a sufficient level of confidence to proceed with a Front End Engineering Design (FEED) which provided an initial well design and identified long lead items and schedule for the drilling of an exploration well which further ensures we remain **TECHNICALLY READY** to execute the first exploratory well in Bahamian petroleum exploration licenses in 25 years. The Government has made clear its mandate for the Company to commence such exploration drilling once modernised and strengthened environmental regulations, believed to be in an advanced state, are adopted by Parliament. Compliance with such an enhanced level of standards was anticipated in the EIA submitted to the Government, made public during the course of the year, ensuring for the people of The Bahamas that our **SUSTAINABLE PRACTICES** will 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 during the next year will be growing its quality team of experienced individuals to ensure we expand our **RELATIONSHIPS** across all aspects of our business, but most particularly in dealings with contractors, industry partners, local authorities and Government to establish ourselves in full compliance to ensure the future success of this endeavour.

Bahamas Context

Exploring for energy in the territorial waters of The Bahamas continues to be attractive for Bahamas Petroleum Company and remains its sole focus. We have examined opportunities elsewhere but quickly concluded that the nature of the prospectivity in The Bahamas, its low relative risk, the scale of the structures, our unique access to data and understanding does not merit us incurring high entry costs elsewhere. Further, a future programme of risk reduction in a new location would be expensive and unlikely to yield structures of scale or risked resources comparable to those we already have in the portfolio.

Whilst commencing work here in 2005 the Company has continued to reinforce its view of prospectivity with an extensive programme of risk reduction activity. Technology has been leveraging at this location with our ability to acquire modern 3D seismic data for the first time in Bahamian waters which, when combined with our unique access to historic data, provides a significant competitive edge in the pursuit of success. The facilities available to the Company from such local industrial areas as Grand Bahama and the Gulf of Mexico offer unique and competitive access to contractors and suppliers affording significant cost advantages.

The Bahamas, following an election in 2012, has a new Government with a political mandate for a further five years, taking it past its 40th anniversary of Independence, with a continued reputation for financial integrity, an established regime for the conduct of commerce, beneficial fiscal terms to incentivise successful development and a legal framework based upon the English rule of law. Notwithstanding continued vagueness during the year concerning a moratorium on offshore drilling enunciated by the previous Government, the new Government has recently clarified that the Company has a clear mandate to commence exploration drilling once modernised and strengthened environmental regulations are established, albeit that creation of a new industry based upon hydrocarbon extraction would be subject to popular support.

"Tourism remains fundamental to the economy of The Bahamas but can exist in conjunction with responsible exploratory drilling given the additional assurance of compliance with new regulations"

Business Fundamentals

This recent clarification of the exploration process and timetable has already re-energised farm-in negotiations which hitherto have suffered from these commercial uncertainties notwithstanding the significant interest expressed by numerous parties over the Company's technical prospects. The farm-in process is live, active and on-going. The corporate cash position remains strong whilst the process to seek a funding partner continues. Proactive cost management has ensured that the cash at hand is sufficient to manage the needs of the business for several years.

On the financial results, the operating loss for the year of US$6.3m represents a 39% decrease on 2011, largely due to cost reductions made during late 2011 and early 2012. This is underpinned by a 50% reduction in employee related expenses year-on-year. Cash expenditure in the year of US$8.6m on intangible exploration assets comprises predominantly 3D seismic processing costs and brings the total capitalised exploration expenditure to US$45.7m at the year end. With no further non-drilling exploration expenditure commitments, the closing cash balance of US$21.3m places the Company in a strong financial position going forward.

Technical Progress

This last year has seen further delays to our exploration drilling programme plans, but the time, however, has not been wasted as we have been able to further de-risk the prospectivity through even more detailed seismic analysis and interpretation in-house. Technical work to date continues to confirm the primary target for drilling to be the lower Aptian and older, deeper section (16 – 18,000 feet and below) where interbedded anhydrites (seal) high porosity/permeability dolomites (reservoir) and source rock are interpreted to exist with a high degree of probability.

Since the PSDM data volume was delivered in August of 2012, delays resolving regulatory/Governmental issues have provided the time to allow a much fuller in-house interpretation of this data volume.

Business review from:

Chief Executive Officer (continued)

Simon Potter

These data are of high quality and represent our best image of the subsurface. Using these data the regional control on the stratigraphic framework has been established; a comprehensive seismic facies analysis has been completed; key horizons from the intra Jurassic to the intra Tertiary have been remapped; and the Doubloon Saxon well petrophysics and lithology has been carefully tied into the overall interpretation. This work has advanced understanding of the geologic history and hydrocarbon potential. Specifically the assessed seal risk has been considerably reduced and the hydrocarbon potential increased in the lower stratigraphic horizons of both Folds B and C.

With regard to seal risk, the seismic facies mapping has identified an Upper Albian starved basin mudstone that covers Fold C and most of Fold B. This mudstone would likely be an effective seal and would not have been penetrated in the previously drilled wells. In addition, petrophysical work involving the Doubloon Saxon #1 well logs and a synthetic seismic tie to the 3D gives us a high degree of confidence in identifying anhydrite intervals in the Lower Cretaceous evidenced in this well. These regionally extensive anhydrite beds are now mapped from as shallow as approximately 13,000 feet.

New data has allowed the mapping of three intervals below base Aptian with confidence. The Lower Cretaceous/Upper Jurassic section should be considered highly prospective but was never considered in the Ryder Scott Competent Persons Report (CPR). Indeed it is this horizon that is now considered the primary target – hence planned drilling depths past 20,000 feet. These units consist of interbedded reservoir (dolomite), seal (anhydrite) and source rock repeating units. The top of this interval ties to the anhydrite interval already seen and mapped in the base of the Doubloon Saxon #1 well from logs, chippings and core where evaporites are interbedded with reservoir quality dolomite – a conclusion now also supported by seismic inversion analysis. The detachment surface that accommodates the major thrust faulting is readily mappable and occurs below the base Lower Cretaceous in what we interpret to be the organic rich shales of the Upper Jurassic – this would act as the link between this active source below in the Jurassic and the reservoir rocks above.

In summary, this deeper section has the source, faulted migration pathways, reservoir and seal in juxtaposition – all of which point towards potentially successful commercial oil exploration. Most of this deeper section is below the intervals assessed in the CPR released in 2011 and is the section indicated therein as having 'significant unevaluated potential'. As regards the potential resource volumes that are indicated in the CPR additional seal encouragement exists with the identification of the Albian mudstones. As currently mapped, the closure of the overall Fold B structure extends some 78 kilometers along strike with a vertical closure of over 850 metres.

The Company derived sufficient confidence from the Fast Track results of the initial seismic interpretation to proceed with an initial front end engineering design (FEED) to construct a well plan, including a review of the previously drilled wells and specific new plans for the drilling of a 22,500 feet deep exploration well estimated to take up to 120 days to drill and log (P_{50} case). This target depth and interpretation has been reinforced by the interpretation of the PSDM dataset. Ultimate well cost is highly dependent on spread rate but is still anticipated to be in the $100-$120 million range.

The Company opened a data room for the period of May 2012 and received a number of offers to farm-in to its licences, none of which were accepted, as they were deemed to be heavily discounted due to commercial uncertainties. Discussions remain ongoing with a number of interested parties, but the basis for these discussions has benefited significantly from the renewed clarity provided by the Government.

Environmental Progress

In support of drilling preparedness, the Environmental Impact Assessment (EIA) submitted in October 2011 has been made a public document open to review, scrutiny and comment by all agencies, though there continues to be no schedule for any public consultation. The Company has continued work on the subsequent and related Environmental Management Plan (EMP) elements of which are 60% complete. This plan includes the Oil Spill Contingency Plan (OSCP), and the Emergency Response Plan (both based upon a simulated worst-case discharge calculation). Another major component of the EMP are a series of environmental sensitivity index maps identifying areas of high impact put together by the Company based upon extensive public consultation. In this context the Company has also taken the proactive step of joining the Oil Spill Response Group – previously Clean Caribbean Americas (CCA), which places a significant amount of equipment at the disposal of the Company in order to mitigate the impact of any potential incident.

A prerequisite for any drilling campaign will be the establishment of new environmental regulations by the Government. The new administration continues to work on this task and the Company has offered its encouragement and assistance, having already incorporated international

"The corporate cash position remains strong whilst the process to seek a funding partner continues. Proactive cost management has ensured that the cash at hand is sufficient to manage the needs of the business for several years"

best practices and standards within its EIA document submission.

With respect to the new licenses currently under joint application with Statoil, the operator has submitted its Environmental Feasibility Study and a final response from the Government is still awaited.

Competitive Terrain

During the year, Repsol, Petronas and PDVSA have each completed exploratory wells in adjacent Cuban acreage. Whilst all wells were plugged and abandoned, each of the latter two wells were said to have demonstrated a working hydrocarbon system, albeit not commercial at the drilled location. Both wells would have barely tested the uppermost Cretaceous section and neither well would have been capable of interrogating the intended Bahamas Petroleum Company target intervals. Finally, Zarubezhneft commenced drilling in December 2012 approximately 12 miles from The Bahamas – Cuba border. There has been little news of progress to date, though recently it has been reported that repairs to critical equipment have constrained drilling progress.

Outlook 2013

The outlook for Bahamas Petroleum Company is encouraging as we gear up for drilling, expected to start between mid-year 2014 at the earliest but potentially closer to the end of 2014.

During 2013 there are a number of major catalysts that will underpin and sustain future growth. A key priority this year will be to close the farm-out discussions as soon as possible but as these negotiations remain commercially sensitive, no update or announcement is anticipated until a successful outcome has been achieved, nominally expected after the summer of 2013.

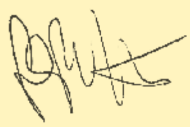
Ongoing work will continue with a greater focus on drilling as we progress with designing and planning the exploration well in the context of the new environmental regulations and continue to review options over drilling rig selection. We will continue to build our technical team to best manage the exciting transition from wholly subsurface to drilling activities. The Company will be keen to benefit from positive results of drilling activity currently taking place in Cuban waters.

We will look to receive the necessary approvals to confirm our BDR process as soon as possible in order to ensure that any Bahamians who wish to can 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 continue to suggest the presence of potentially giant fields within the Company licence areas, 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 all of these objectives during 2013 and growing substantially shareholder value.

Yours sincerely,



Simon Potter
Chief Executive Officer
28 May 2013

Community and People

We are:

Forging Relationships

We work closely with the people of The Bahamas to foster a better understanding of the Company operations, any potential impacts, their mitigation and the economic opportunity a commercial oil discovery could bring to the country, the people of the current generation and to those of generations still to come.

Community liaison

It is an important aspect of the Company's work to liaise and consult extensively with all communities likely to be impacted by its activities and forge appropriate relationships across all aspects of business dealings with local contractors, regional authorities and Government. An important part of that communication is an anticipation of the future benefits to be derived from exploration success and subsequent oil development. The Company commits to continuing transparency involving all of its activities, believing that demonstrating such clarity concerning all of its operations shows a commitment to safeguarding the environment, and the interests of its employees, broader communities and wider stakeholders.

Community Engagement over the year

Separate presentations were given to:

- The Central Bank of The Bahamas
- The Securities Commission and Bahamas International Stock Exchange
- Bahamas Financial Services Board
- Chamber of Commerce and individual branches on many islands
- Bahamas National Trust
- Other party political representatives and members of the civil service
- Representatives of the technical and contractor community
- Hotelier associations
- Government Ministers and ministry officials
- Prominent members of the business community
- Chartered Engineers and Chartered Accountants associations
- Bahamas Christian Council
- Church representatives and various individual parishes, denominations, assemblies and communities
- Members of the house, Government and official opposition
- Retiree groups
- Trade Union representatives, various officials and unions
- Staff associations
- College of The Bahamas in various locations, staff and students
- Schools on many different Islands
- Consular groups and Ambassadors
- Rotarian and Kiwanian groups in different communities
- 'Open evenings' at the Nassau office

We are open to presenting to any interested groups.

"One of the key goals for the Company is to manage effectively the maintenance of its licence-to-operate and in this regard the Company must ensure that activities and planned operations are conducted in compliance with internationally recognised standards and based upon full consultation with interested communities and stakeholders"

Focus Group Testing in The Bahamas

In October 2012 Bahamas Petroleum Company commissioned focus group testing to help determine Bahamian attitudes towards exploration and the general level of knowledge about the upstream oil and gas industry. Ten focus groups were conducted in total during last October. Four focus groups were conducted in Nassau, two in Freeport, two in Nicholls Town, Andros and two in Marsh Harbour, Abaco. The groups ranged in size and composition with each group session running over two hours in length.

The presence of an active upstream oil and gas industry is a relatively new consideration for most Bahamians as The Bahamas has not seen an oil and gas exploration well drilled in over 25 years – most people do not know that five oil exploration wells in total have already been drilled in The Bahamas. Thus given their potential lack of familiarity Bahamas Petroleum Company felt it was important to gain a better understanding concerning what Bahamians know about the industry and how they feel towards the prospect of offshore exploration and, in the event of success, an oil development.

The focus groups showed that Bahamians generally view the opportunity for oil development as positive and that they have a thirst for more knowledge about the industry and Bahamas Petroleum Company. In particular – the experience of the staff, the people and their track record. Many respondents felt that potential revenue from oil royalties could have a transformational impact on the country's economy, infrastructure and services.

When residents were informed that The Bahamas' regional neighbours were already exploring for and producing oil they felt strongly that The Bahamas should also pursue this opportunity. However, when respondents recalled the Gulf of Mexico oil spill of 2010 they wanted reassurance

that oil activities would be conducted in a safe and responsible manner.

In regards to Bahamas Petroleum Company, most Bahamians indicated that they have some familiarity with the Company, although many respondents were unable to offer specific information about Bahamas Petroleum Company.

After being presented with background information about Bahamas Petroleum Company, most respondents appreciated and responded favourably to the Company's international expertise and the experience of management in each of its disciplines.

British High Commissioner to the Caribbean Howard Clarke, Bahamas Petroleum Company CEO Simon Potter, Senior Trade and Investment Officer, British High Commission, Charmaine Wright.

Broader Community

Other Governments, both within the Commonwealth and across the Caribbean, have considerable experience and history of resources development, emerging regulations, vocational training and skills development, relevant standards and monitoring of operations. It is important to be able to consult with and draw on the broader knowledge base available in order to assure that the most suitable technologies are being harnessed, the most up-to date international best practices are being followed and incorporated into emerging industry activities. Broad technical and commercial discussions have been held with the British, Australian, Cuban and Trinidadian authorities in order to facilitate cooperative working, shared knowledge and experience. International organisations also offer vast amounts of equipment knowledge and experience. Bahamas Petroleum Company is also a member of the domestic Bahamas Oil Spill Response Committee and has attended regional Caricom meetings designed to address many of these issues.

Community and People (continued)

Joy Jubrilu Director Investments, Bahamas Investment Authority; Simon Potter, Hon. Khaalis Rolle, Minister of State for Investments, Jobeth Coleby, In-house legal counsel.

Economic Opportunity

For over 25 years no other company has shown the interest, insight nor the commitment of Bahamas Petroleum Company in bringing to the attention of the Government, at no financial risk or cost to it or its people, the potential wealth that may reside in Bahamian waters. The Company will continue to emphasise the direct benefits of Government royalty income from the very first day, indeed the first barrel of production. This Government income is modelled at the level in excess of US$20 billion from a 1 billion barrel discovery, whilst it is the oil company that bears the entire cost and financing of development and operations, as well as the risk that production is sustained over time as projected. Such an income stream and new industry would make the national economy less susceptible to slumps in other sectors, less exposed to the vagaries of other nations' economies and afford a greater level of energy security whilst providing options for reduced prices of fuel and power.

It is also clear that the creation of such an industry will have multiple additional benefits. Success will offer considerably wider opportunities through infrastructure investment, direct foreign investment and the development of new and established

Benefits to the Economy

Royalty payments: a long-term source of Government revenue	• Increase with oil price and production levels • Availability to secure wealth for future generations
Diversification of the economy	• Less susceptible to slumps/seasonal effects in other sectors • Less exposed to fluctuations in other North American economies
New employment opportunities associated with offshore oil production	• Direct employment in the industry • Indirect employment with contractors, suppliers and service companies
Workforce development	• Before oil production begins there will be opportunities for Bahamians to receive vocational & technical training • Upgraded education facilities to supply industry
Greater energy security	• Broader options on the choice of energy supply • Options to reduce prices of fuel and electricity
A chance for Bahamian shareholders to share in the profits if oil is discovered	• Bahamas Petroleum Company is working to make shares of the Company available through a listing on BISX • This offering will be in the form of a Bahamian Depository Receipt (BDR) • Each BDR will represent a bundle of Bahamas Petroleum Company shares priced by the market • There is no Company limit to the number of shares made available

An Economic Opportunity for The Bahamas

If commercial quantities of oil are discovered in offshore waters, the construction and production activities to bring the oil to market as well as the royalties earned by the Government will bring significant benefits to the economy of The Bahamas – detailed above.

companies in industries involved directly and indirectly in oil development and associated activities. New employment opportunities will be created with a requirement for new vocational training and skills development. It will be an important consideration in the future that local firms are well represented in this new sector. Such firms will need to be supported in the need to demonstrate that they can meet, and better, prequalification standards associated with international industry health, safety and the environment requirements.

The Company is committed to seeking 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 potential wealth to be created by any future capital growth of the Company. This potential growth is based upon the enormous upsides associated with the extensive mapped prospectivity derived from 3D seismic coverage anticipating an extension of the existing, proven Cuban play types into Bahamian waters, albeit at significantly deeper stratigraphic horizons. Such a new investment option would represent a unique value proposition in The Bahamas.

"A key lesson learned internationally is that to ensure a sustainable level of development is the integration of the energy sector fully into the economy by keeping standards high, investing in technical and vocational education and training and promoting capacity in the local private sector"

Republic of Trinidad and Tobago

Case study

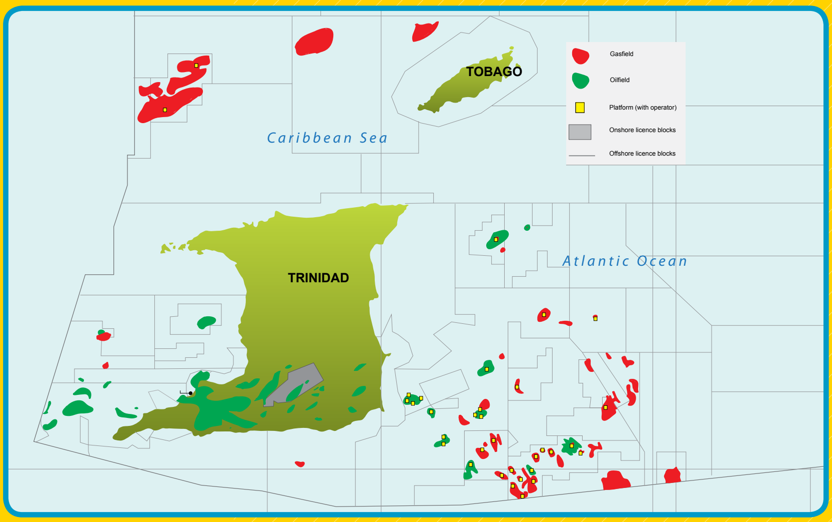
All of the Caribbean islands boast of sun, sand and sea, generating significant revenues from tourism. However, Trinidad, the largest economy in CARICOM, generates 45% of its GDP and 80% of its exports from the oil and gas industry demonstrating industry and tourism can co-exist. Between October 2011 and June 2012 a total of 76 wells (73 exploratory wells and six development wells) were drilled in Trinidad. At the end of 2007, the proven reserves exceeded 3 billion barrels of oil equivalent.

Trinidad serves as a model for the Caribbean region in the oil and gas sector as they have not only generated revenues from the oil and gas industry but have also integrated the energy sector into a broader based economy. The development of the local private sector to service the industry is encouraged whilst maintaining stringent health, safety and environmental (HSE) standards. This integration was achieved by strong links between industry and educational institutions in addition to the creation of technical and vocational educational centres. As a result, Trinidad has developed high paying jobs and skill sets that are marketable worldwide in the oil and gas industry.

Presently, whilst the majority of electricity generated in Trinidad and Tobago is from fossil fuels the Government has proposed reforms to stimulate the development of renewable energy (such as wind, waste to energy, solar water heaters and photovoltaic (PV) systems), and encourage energy efficiency with less of a dependency on fossil fuels use, so promoting a reduction of Green House Gas emissions (GHG). Trinidad has demonstrated its commitment to the protection of the environment by the establishment of a Green Fund in 2000. The fund provides a financing mechanism for Community Groups and Organisations focused on remediation, restoration or conservation of the environment. The first financial contribution was made in 2001 and the current balance is approaching US$0.5 billion.

At least initially, Trinidad paid fuel subsidies which whilst dramatically reducing the price of fuel then amounted to some two-thirds of the country's budget deficit with diesel fuel costing the Government over four times more than it retails at the pump. Last year, in order to cut this deficit, the Government of Trinidad announced an immediate removal of all fuel price subsidies. In order to help the situation further, Trinidad is transitioning its transportation sector to compressed natural gas (CNG) away from diesel fuel. This move is facilitated by the increase in CNG supply and refuelling infrastructure, including new stations and upgrades of existing stations to multifuel, furthering the green agenda at the same time.

For more information please visit:
Government of the Republic of Trinidad and Tobago Review of the Economy 2012, Stimulating Growth, Generating Prosperity – http://www.finance.gov.tt/content/Review-of-the-Economy-2012.pdf
http://www.ngvglobal.com/trinidad-andtobago-budget-addresses-cripplingfuel-subsidies-with-cng-1010.



Oil and Gas Fields in Trinidad and Tobago.

Our People

While Bahamas Petroleum Company is a relatively young Company, our management team has participated in operations around the world, including many environmentally sensitive areas.

Given the expertise and experience of the employees of Bahamas Petroleum Company, the Company is now anxious, ready and willing to commence a modern exploration programme in The Bahamas.

The Company office in Nassau is where executive management is based and is the centre of operations for all technical, commercial and environmental work. It is important that major decisions are made by management embedded in the communities closest to the resource base. The Company has room for the expansion of its local office, commensurate with expanding activities, and is committed to continued training and development for all of our national staff to ensure the highest standards of operation competitive with international standards.

Areas of the world where management have undertaken oil or gas exploration and production activities in different complex cultural settings, communities and operating environments, both onshore and offshore.

Bahamas Petroleum Company was formed in 2005 to seek extension of the Cuban oil play fairway into Bahamian waters. The exploration licences were granted in 2007 and the shares became a public traded stock in 2008. A major fund-raising occurred in 2011 to promote significant expansion of the Company's activities.

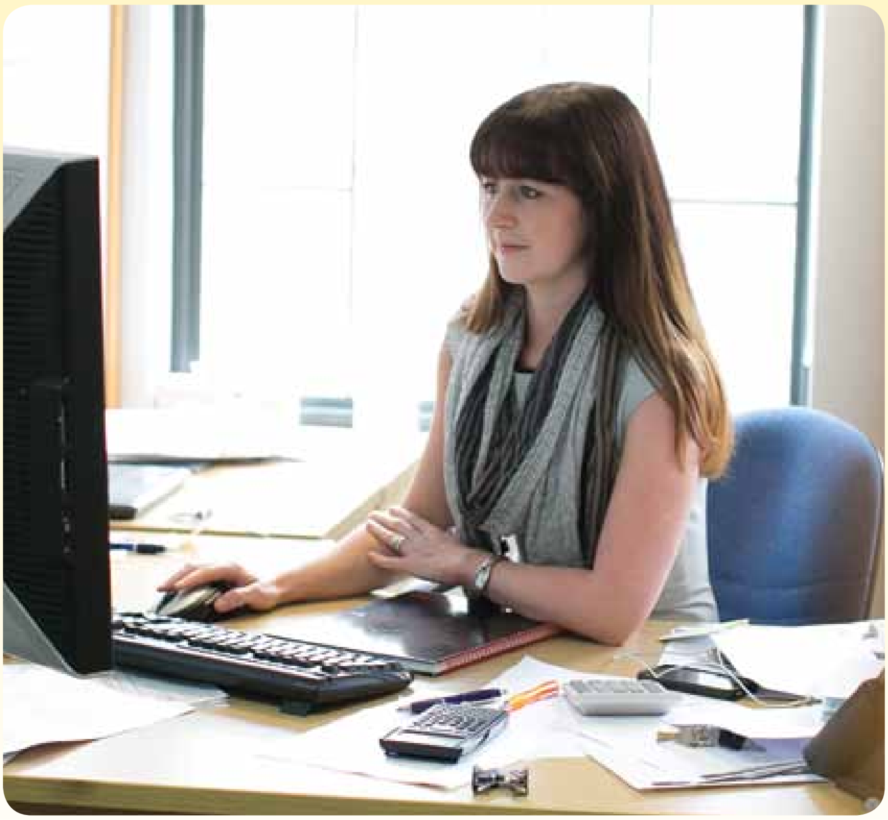
In The Bahamas:

As the Company has matured and grown the focus of its operations has moved significantly towards The Bahamas. To that end the board has appointed a new director permanently based in The Bahamas with an intention to follow this up with further appointments of national directors, professionally qualified and experienced in the local and broader communities of The Bahamas.

"The Company was founded in the committed belief of the prospectivity of the rocks in The Bahamas, this vision will ultimately only be realised based upon the efforts of experienced, talented and equally committed people"

In the UK

The Company domicile is the Isle of Man, a part of The United Kingdom, whilst the Company's shares trade publicly on the London Stock Exchange's Alternative Investment Market. As a consequence there are specific compliance and governance obligations to be discharged within the United Kingdom for which the Company maintains a small office to manage administrative and compliance tasks associated with the Company charter, domicile, the capital markets and various domestic legal requirements.



In addition to these two main offices, the Company contracts individuals, companies and education institutions consistent with the needs of the business. Currently contracted staff operate out of numerous locations in the United States, The Bahamas and the United Kingdom. Further, the Company draws on the services of many advisory companies who themselves have international offices. The ability to draw on experienced staff across various global locations, familiar with all aspects of the Company business is important in ensuring consistent, quality service delivery.

As a Bahamian International Business Company (IBC) and being a publically traded stock, Bahamas Petroleum Company and our people manage the business in full compliance with all laws of The Bahamas, the Isle of Man and the United Kingdom. The Company already complies with all the strict disclosure and transparency rules applied to public companies in the United Kingdom and, in anticipation of a BISX listing, the Company is already ensuring full compliance with domestic rules.

Operational Review

We are:

Ready Technically

Bahamas Petroleum Company has seen advances in its exploration programme during the year, significantly improving its understanding and further de-risking the prospectivity through detailed seismic analysis and interpretation in-house. Technical work to date continues to confirm the primary target for drilling interpreting the existence of seal and source rock with a high degree of probability.

Highlights

In 2012, having previously acquired the first modern 3D seismic survey in The Bahamas (covering 3,074 km^2), the Company completed the initial processing of the data (Fast Track) in January and the final processed volume, a pre-stack depth migration (PSDM), was completed in August. These data contain over 4 trillion bits of information and provide a very high resolution picture of a significant portion of the Southern Licence area. The PSDM is currently being utilised to improve our understanding of the hydrocarbon potential and volumes, select appropriate drill sites and to guide well planning.

- Both the Fast Track and the final data were utilised by consultants at The University of Texas (UT), Bureau of Economic Geology (BEG), Reservoir Characterization and Research Lab (RCRL) to construct a detailed seismic facies analysis of the southern licence area.
- In conjunction with the UT study, iReservoir completed a detailed evaluation of the log data, particularly from the Doubloon Saxon well, and used these data to complete a seismic inversion of the Fast Track data.
- The University of Miami, Carbonate Sedimentology Lab (CSL) completed the interpretation of the multibeam survey previously collected over a portion of the southern licences.

As a result of this work regional stratigraphic control has been tied to the seismic at the Mid-Cenomanian Unconformity (MCU); a comprehensive seismic facies analysis has been completed; key horizons from the intra Jurassic to the intra Tertiary have been remapped; and, the Doubloon Saxon well petrophysics and lithology have been carefully tied into the overall interpretation.

"Recent exploration wells in Cuba show evidence of a working hydrocarbon system, though non-commercial"

> *"The 3D interpretation indicates the deeper section has the source, migration pathways, reservoir and seal in close juxtaposition – all of which point towards potentially successful commercial oil exploration"*

Thus the understanding of the geologic history and hydrocarbon potential has been significantly advanced, most specifically, the assessed seal risk has been considerably reduced and the hydrocarbon potential increased in the lower stratigraphic horizons of both Folds B and C.

- Industry interest in the area increased with three wells drilled into the North Cuba Basin on the northwestern side of Cuba. These wells, drilled by Repsol, Petronas and PDVSA, were plugged and abandoned however each encountered indications of a working hydrocarbon system. A fourth well operated by the Russian company Zarubezhneft was spud late December 2012 and continues drilling into May 2013.
- Sufficient confidence was derived from interpretation of the Fast Track results to proceed with a Front End Engineering Design (FEED) study to construct an initial well plan. This included a review of the previously drilled wells and provides plans for the safe drilling of a 22,500 feet deep exploration well. This well is estimated to take up to 120 days to drill and log (P_{50} case). The ultimate well cost is highly dependent on spread rate but is anticipated to be in the $100-$120 million range.

2D Seismic Interpretation – Competent Persons Report

In 2011, 1,100 line kilometres of 2D seismic data was acquired followed by an independent assessment of the hydrocarbon potential in the southern licences by RyderScott (Competent Persons Report – CPR). Their evaluation documented that three of the four structures mapped have an unrestricted potential in excess of 1 billion barrels of recoverable oil. The report addressed the chance of success for each structure ranging from 23% to 35% with the major residual risks being identified as source and charge. However, it is important to note that this report dealt only with the Aptian through top Cretaceous interval. Subsequent work continues to confirm that significant potential exists in the lower Aptian and deeper section and marks the primary target for drilling.

3D Seismic Interpretation

A major milestone of 2012 was the receipt of the processed 3D seismic data from the Southern Licence area. These data were collected by CGGVeritas using their "BroadSeis" technology. An early volume, "Fast Track", of the data was delivered in January 2012; and the final pre-stack depth migration (PSDM) processing was delivered in August 2012. Sample spacing on the PSDM volume is 12.5 metres horizontally and 4 metres vertically. The data are of high quality and are now being used to advance our understanding of the hydrocarbon systems. The 3D confirms and better defines the prospective structures (Folds B and C) previously mapped on the 2D and evaluated in the CPR, whilst removing structures mapped on the 2D underneath Trend A, which were confirmed as velocity artifacts. Significantly, the new data provides insight into the residual risks with encouragement regarding source potential and fetch area, indicating the basement to be deeper than previously mapped implying a thicker, deeper Upper Jurassic (source rock) interval. Furthermore, the interpretation shows a uniform south west dip under the Cretaceous platform (Trend A) indicating access to a larger than previously mapped fetch area toward the Cuban mainland under the North Cuban basin. Faulting continues to display a distinct overthrust character turning horizontal in the interpreted organic-rich facies of the late Jurassic. The seismic displays good correlation across faults giving high confidence in the fault picks.

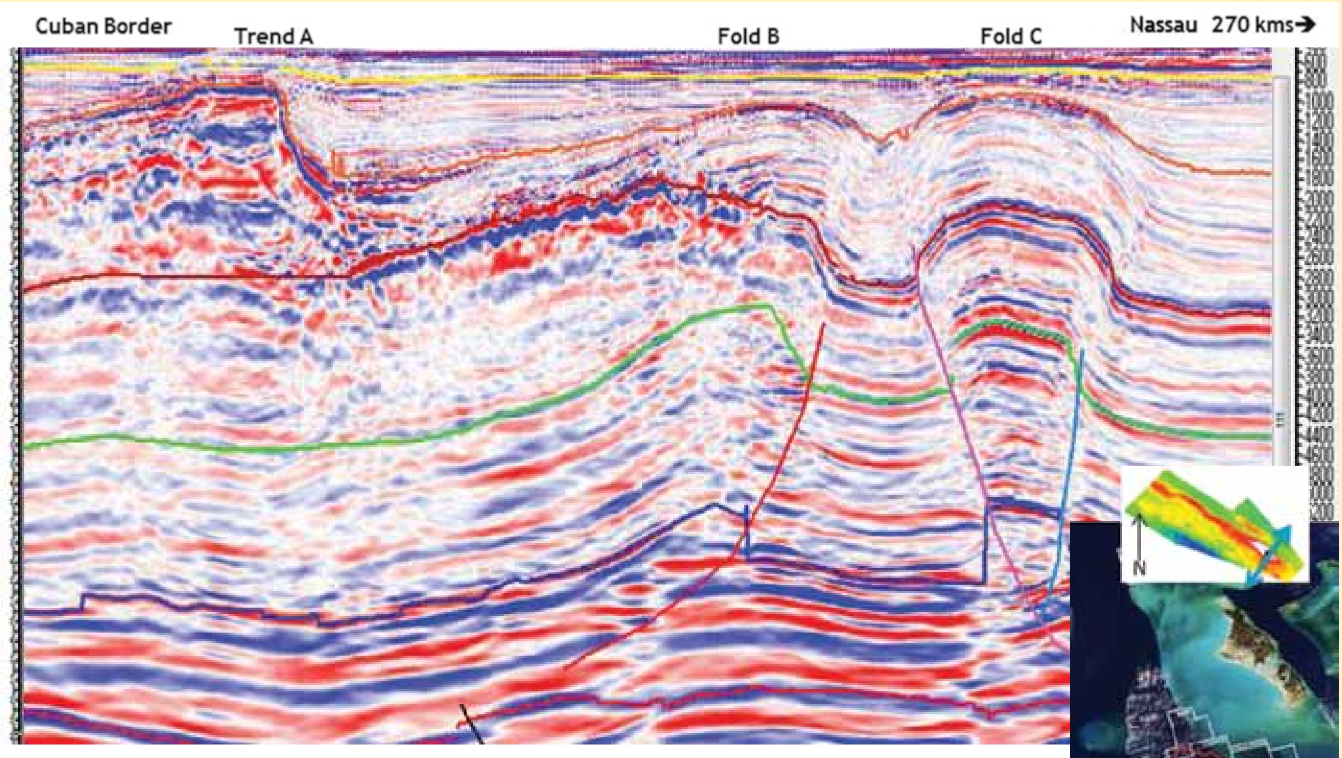


Figure 1: Shows a vertical section through the 3D dataset 25 km long and 8 km deep. Geological horizons, shown in colour, are tied directly to previously drilled wells and record the evolution from hypersaline basin to north east facing reef/platform margins and basin morphology.

Operational Review (continued)

The folding shows distinct rollover above the fault plane creating significant attic volumes above any migration entry or exit point to the structure.

A structure map near the late Cretaceous level (Figure 2) shows clearly the carbonate platform/reef edge (Trend A) and the distinctive features Fold B and Fold C. The tops of these features at this horizon are at a depth of between 700 and 900 m, structures are continuous on strike for 75 and 25 km respectively with obvious closure. Vertical relief is between 350 and 750 m. In total Fold B displays closure at this horizon exceeding 400 km² and Fold C over 60 km². At the Albian level the earlier platform/reef edge is clearly visible and displays significant karstified weathering. Ahead of the reef edge it has been possible to map a starved basin mudstone that covers Fold C and most of Fold B. This mudstone would likely be an effective seal and would not have been penetrated in any of the previously drilled wells. Considerable vertical relief in the both of these structures is preserved down below the Aptian horizon at a depth of between 2,400 m and 3,250 m and certainly well below the first anhydrite salt horizon which shows itself clearly on the seismic.

Seismic Interpretation integration

The last oil exploration well drilled in The Bahamas was completed in 1987, located on the edge of the existing great Bahama bank within the Donaldson licence some 25 km from the crestal location at Fold B. Drilled on the back of poor quality 2D seismic it is difficult for us now to interpret any trap at this location (Figure 3) as there is very little residual data once noise is filtered out. Ideally the modern 3D data would have been tied directly into this well location, but water depth and acquisition technique precluded this. However, it has been possible to merge, with good correlation, the 3D into the historic data at the Fold B location highlighting the distinctive structuring based upon better imaging of reflectors at depth as well as the better polarity, amplitude and frequency character of the 3D slice compared to the 2D.

As part of interpretation efforts iReservoir were contracted to generate an inversion of the Fast Track data. An inversion seeks to identify rock properties from the seismic signature and tie these properties directly to rock types. This technique involves careful analysis of the log data from the previously drilled wells to tie the lithology seen in those wells directly to a specific seismic response. The result of these efforts is an excellent tie of the rock types seen in the Doubloon Saxon #1 well (only available through the Company data room) to the 3D data volume (Figure 3). Thus now, in combination with other data, these seismic attributes can be used to better understand how the lithology and possibly fluid content may vary across the entire area of the acquired 3D (Figure 4). This study adds further evidence that the best potential exists in the lower Cretaceous where the regionally extensive evaporite beds begin to occur. The inversion indicates this interval to comprise interbedded anhydrite and dolomite and can most clearly be seen in Figures 3 and 7.

RCRL have completed a seismic facies interpretation on vertical slices every 200 crosslines (2,500m spacing) and structure maps on fourteen individual stratigraphic horizons from the Tertiary drape, through the top Cretaceous Pelagics, the Upper Cretaceous platform, the Albian down to the first anhydrite occurrence into the Lower Cretaceous and the base of the high amplitude evaporite zone and finally into the late Jurassic (Callovian) – the results of which are most clearly shown and summarised in Figure 4.

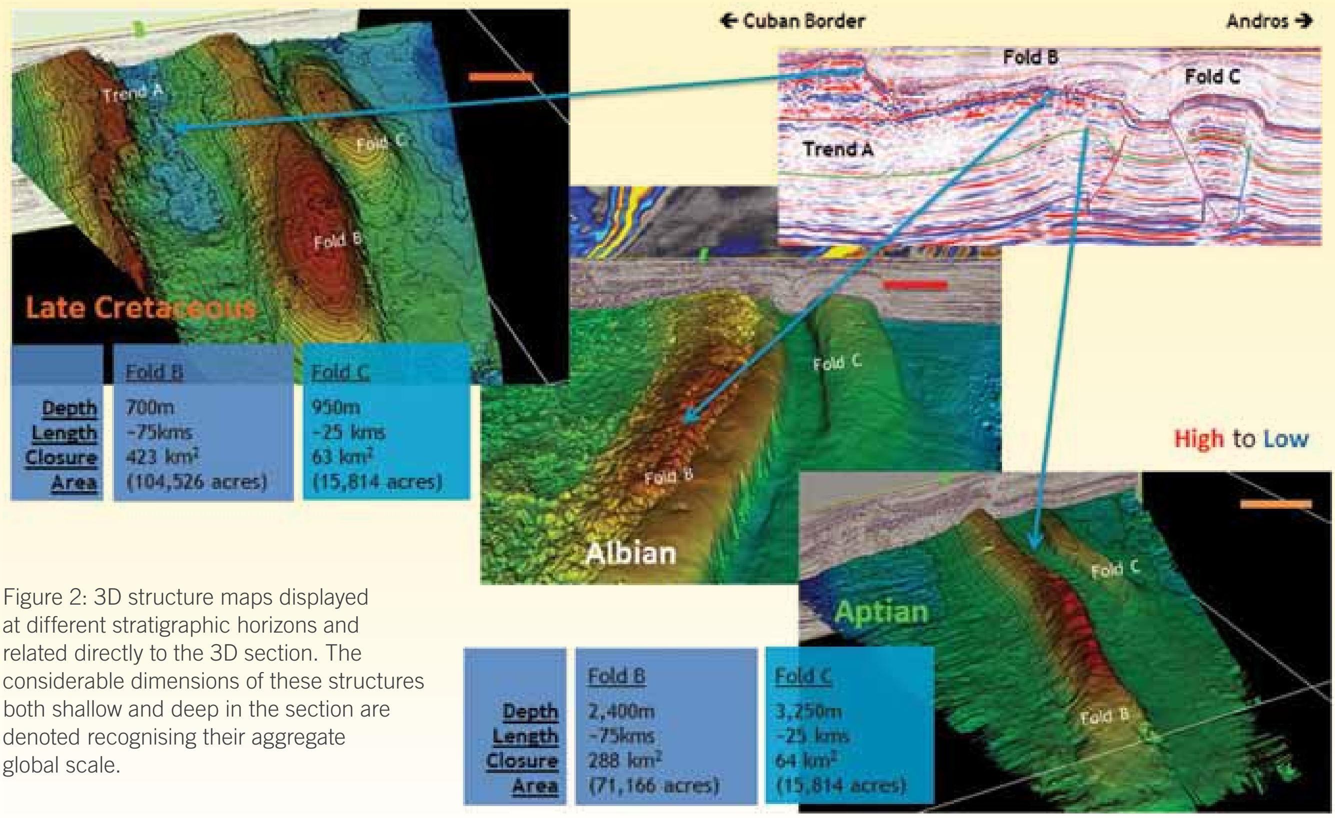


Figure 2: 3D structure maps displayed at different stratigraphic horizons and related directly to the 3D section. The considerable dimensions of these structures both shallow and deep in the section are denoted recognising their aggregate global scale.

"Seismic inversion seeks to identify rock properties from the seismic signature and tie this character directly to rock types"

- The seismic facies interpretation documents the evolution from a shallow water restricted basin, through gradually deepening water depth, to a carbonate "mega bank", breakup of the megabank into isolated platforms and deeper water channels and finally cessation of growth and burial of the carbonate platform by deeper water sediments (Figure 5).
- Their work has provided some additional encouragement for seal potential above the evaporite (anhydrite) section. By carefully tying the sequences to nearby deep ocean drill sites with biostratigraphy they can project where known Oceanwide Anoxic Events (OAE) would occur. Elsewhere in the Gulf of Mexico the OAE zones correspond to shale (probable seal) intervals: (Figure 6).
- The top Cretaceous reef and platform can be shown to tie to the mid Cenomanian unconformity, a Gulf wide event: (All Figures).
- The sink hole/karst features seen on the sea bottom and at the top of the mid Cenomanian platform can be shown to extend downward to the top Albian karsted surface. The possible gas escape features could be sourced as deep as the top Albian below Trend A.

This work has reduced seal risk by identifying potential starved basin mudstones draped over Fold C and most of Fold B, which would not have been penetrated in the previously drilled wells, identified regionally extensive anhydrite beds now mapped from as shallow as approximately 13,000 feet and allowed the mapping of intervals below base Aptian with greater confidence.
The Lower Cretaceous/Upper Jurassic section is now considered the primary target – hence planned drilling depths past 20,000 feet. These units are interpreted to consist of interbedded reservoir (dolomite), and seal (anhydrite). The top of this interval ties to the anhydrite interval already seen in the base of the Doubloon Saxon #1 well from logs, chippings and core – a conclusion further supported by this seismic inversion analysis. The detachment surface that accommodates the major thrust faulting is readily mappable and occurs below the base Lower Cretaceous in what is interpreted to be the organic rich shales of the Upper Jurassic – this would act as the link between the interpreted source below and the reservoir rocks above.
In summary, this deeper section has the source, migration pathways, reservoir and seal in juxtaposition – all of which point towards potentially successful commercial oil exploration. Most of this deeper section is below the intervals assessed in the CPR released in 2011. It is the section we previously indicated as having 'significant unevaluated potential'. As regards the risk estimates that are indicated in the CPR, additional seal encouragement exists with the identification of the Albian mudstones. As mapped the closure of the Fold B structure extends some 78 kilometers along strike with a vertical closure of over 850 metres.

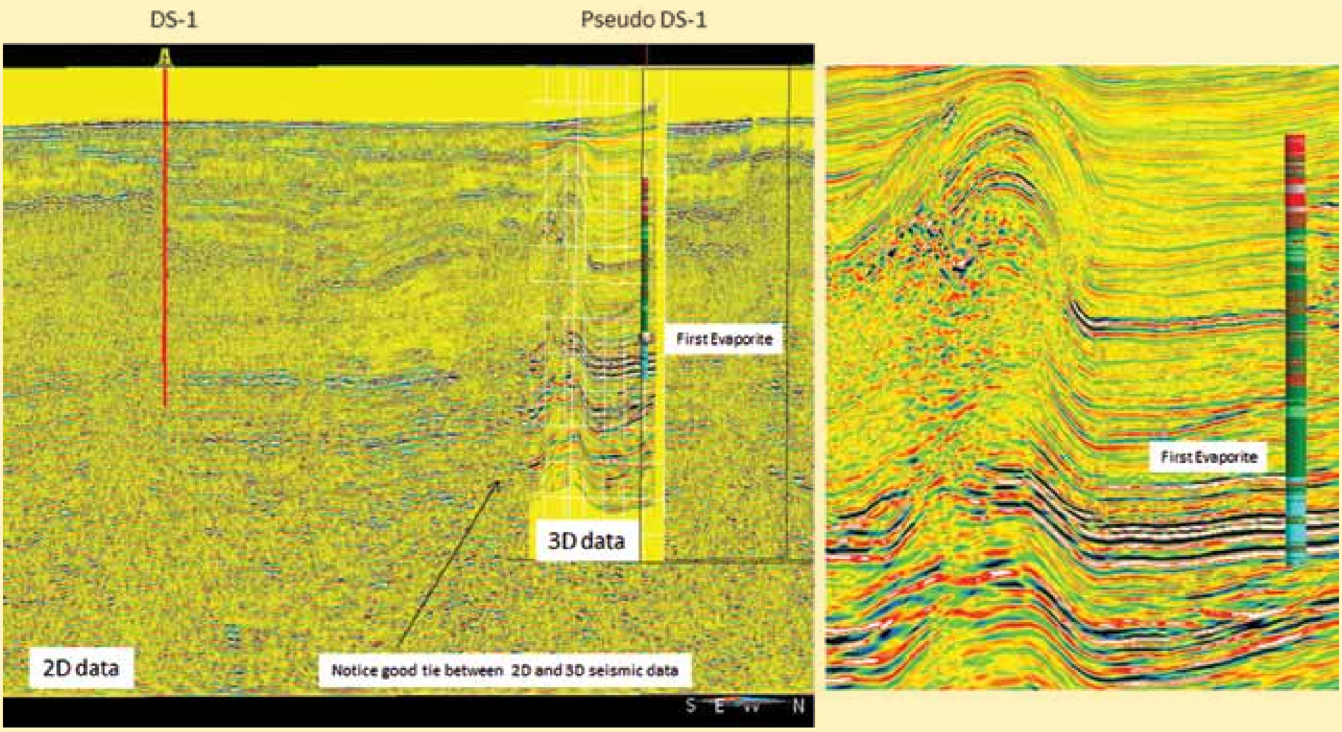


Figure 3: To the left: shows the drilling location of the Doubloon Saxon – 1 well drilled in 1987 superimposed on the historic 2D data devoid of character and structure. Compare this to the inserted slice of recently acquired 3D data displaying better polarity, amplitude and frequency character. To the right: a synthetic section based upon log, cuttings and core data superimposed and correlated to the 3D section.

Operational Review (continued)

Figure 4

Stratigraphic model and major events. This is a summary of the regionally significant stratigraphic events as identified by the Reservoir Characterization Research Lab at The University of Texas. As the continental margin subsided following the breakup of the continents in the Jurassic the initial sediments were deposited in a restricted marine environment (grey and purple). It is in the first layer (grey) that we believe our source rocks were deposited. The purple layer records a regionally extensive evaporitic basin where anhydrite (seal) and dolomite (reservoir) were deposited. As the water depth deepened an extensive carbonate platform, or “megabank”, was created (green through light blue-Aptian through lower Albian). As the water depth continued to deepen the megabank divided into distinct reef and platform areas separated by deeper water areas. This lasted until mid-Cenomanian (top of the light orange) when the water depth became too deep for the reef and platform facies. During the overall trend of deepening water depth there were times when sea level dropped and the reef and platform areas were exposed and caves and caverns developed (dark orange). This seismic facies framework is used to help us better interpret rock types from the seismic and is key to our well planning.

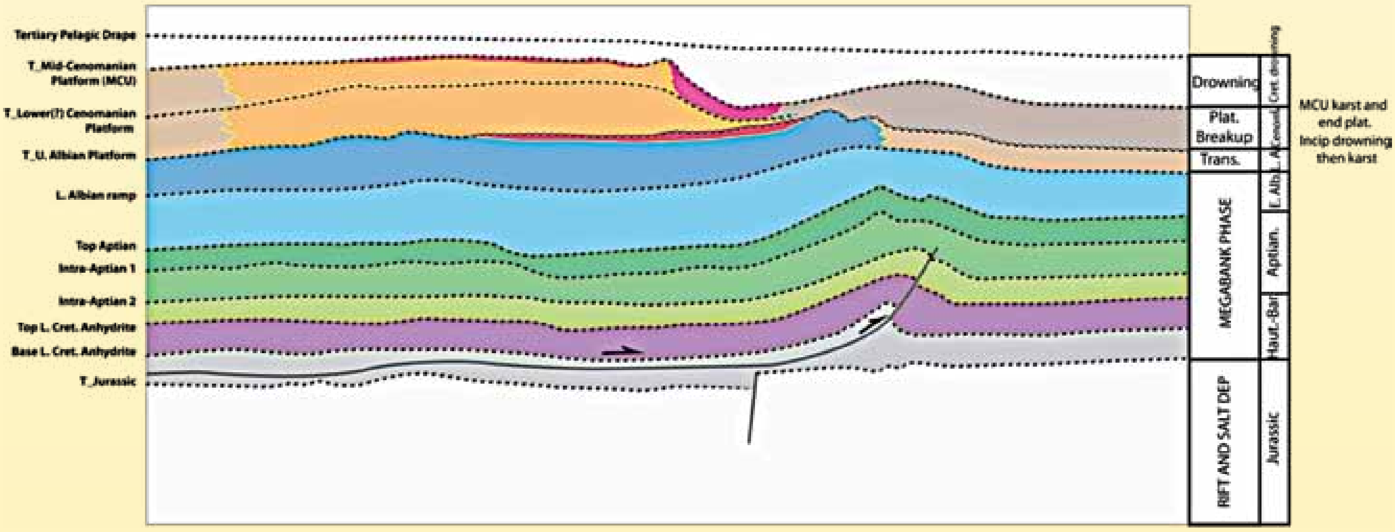
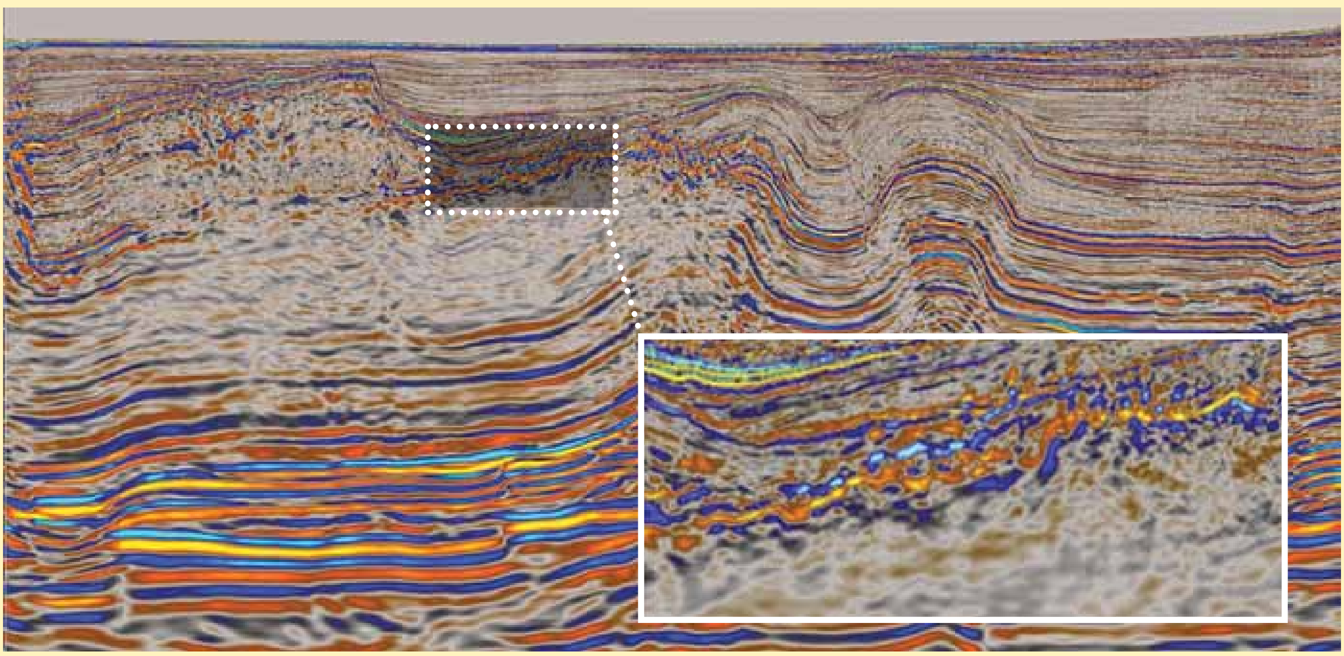


Figure 5

Shows an example of the karsted surface on top of the Albian reef.



Karsted platform top: The irregular surface of the Upper Albian platform results in discontinuous seismic reflections.

"This interpretation documents the evolution from a shallow water basin to a carbonate mega bank breakup and burial of the carbonate platform by deeper water sediments"

Figure 6

Shows the onlap of deeper water facies onto the Albian reef. Note the very high quality of the seismic data and the younger Cenomanian reef and platform shallower and to the left.

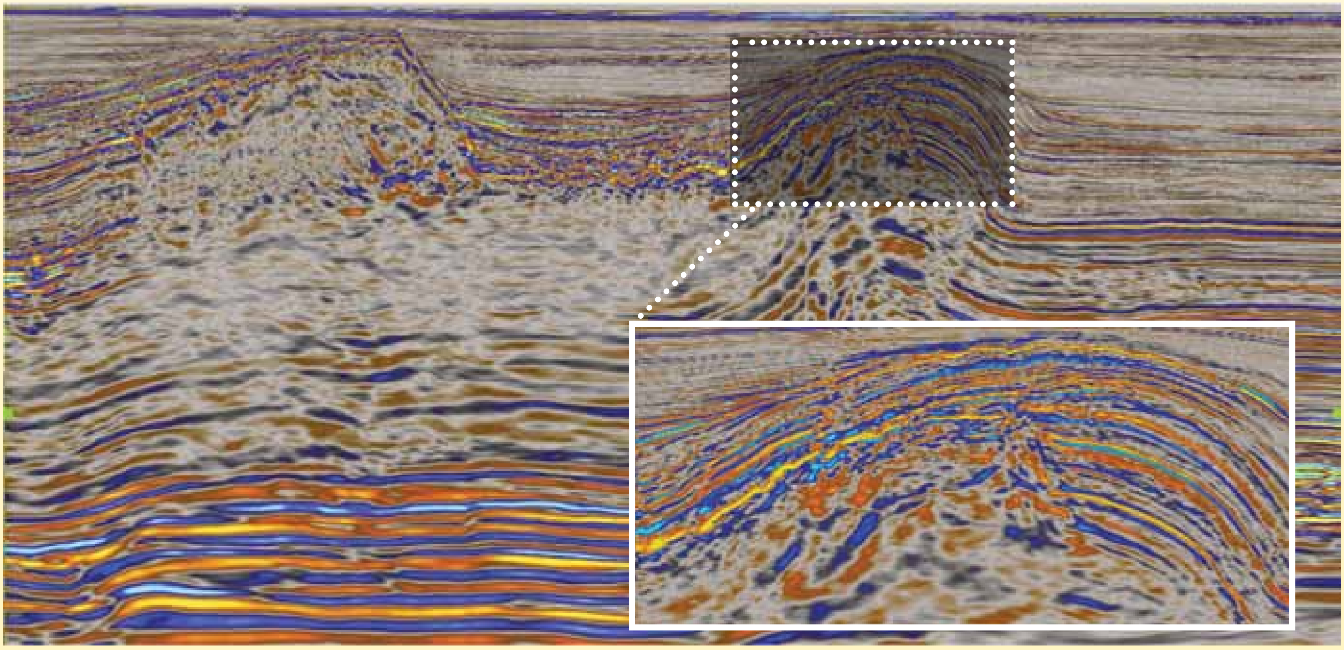
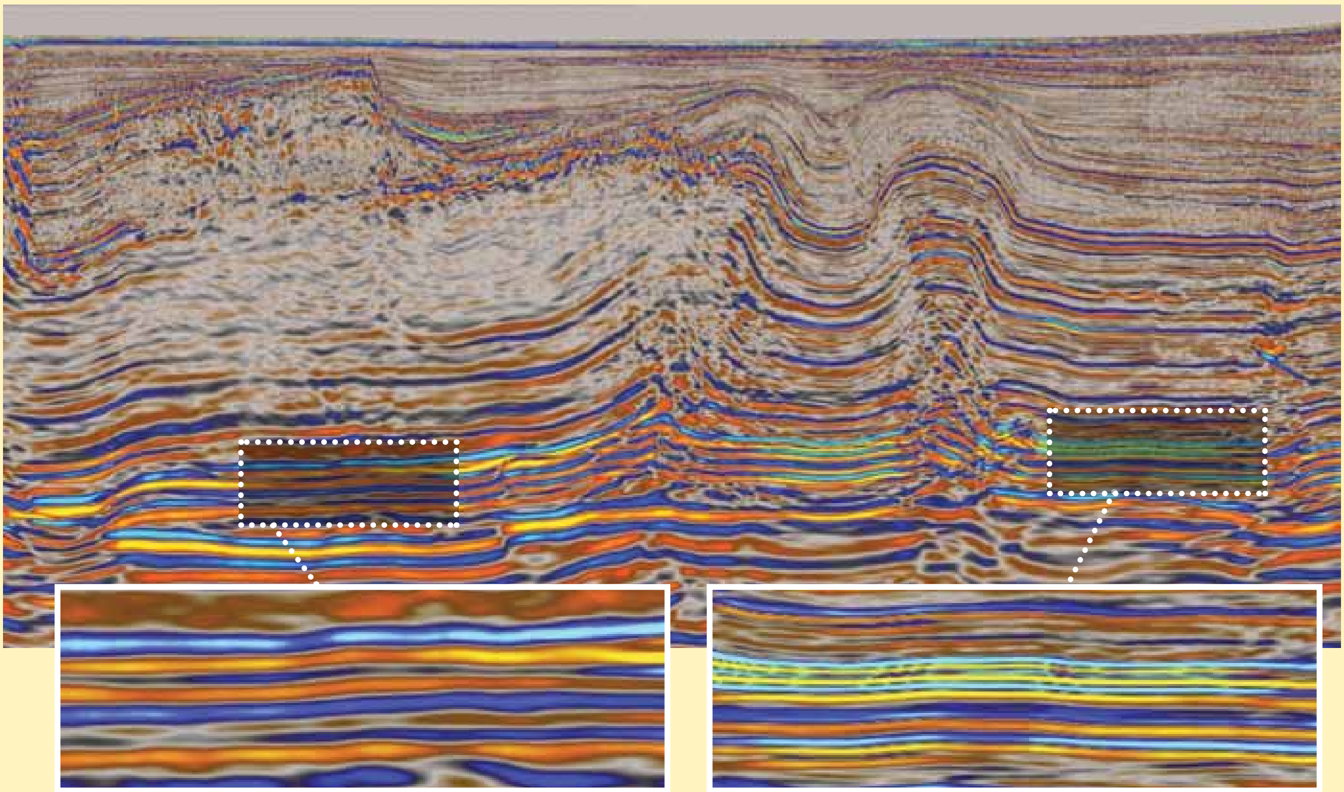


Figure 7

Shows the high amplitude high frequency nature of the deeper section. The peaks (blue) are interpreted as anhydrite the troughs (yellow) are interpreted as porous dolomite. It is this section that contained the oil shows in the previously drilled wells. This interval is our primary target for exploration.



Operational Review (continued)

Drilling Preparations

Utilising the 3D data, the seismic facies mapping, detailed prospect inventory work, the multibeam data collected in 2011 and incorporating data from previous drilling in the area Advanced Drilling Technologies (ADTI) have provided initial well designs and drilling plans (Figure 8), as well as specifically identified long lead time items to discharge licence obligations. Currently these long lead items are identified as the large bore wellhead with H_2S resistant metallurgy (and appropriate running tools) and a rig that can accommodate "managed pressure drilling". The plan has safety and environmental components consistent with international waste and emissions standards as well as response plans for emergency situations.

The well – named Perseverance – is designed to target the Jurassic at or around a TD of 22,500 feet located on the crest of Fold B (Figure 9) at the south-eastern end of the structure. This location will fully evaluate those resources identified in the competent person's report at the late Cretaceous, Albian and late Aptian horizons but significantly is also designed to target the additional prospectivity now the focus of the Company's attention in the inter bedded anhydrite, dolomite and limestone reservoir sequences in the Early Aptian and below.

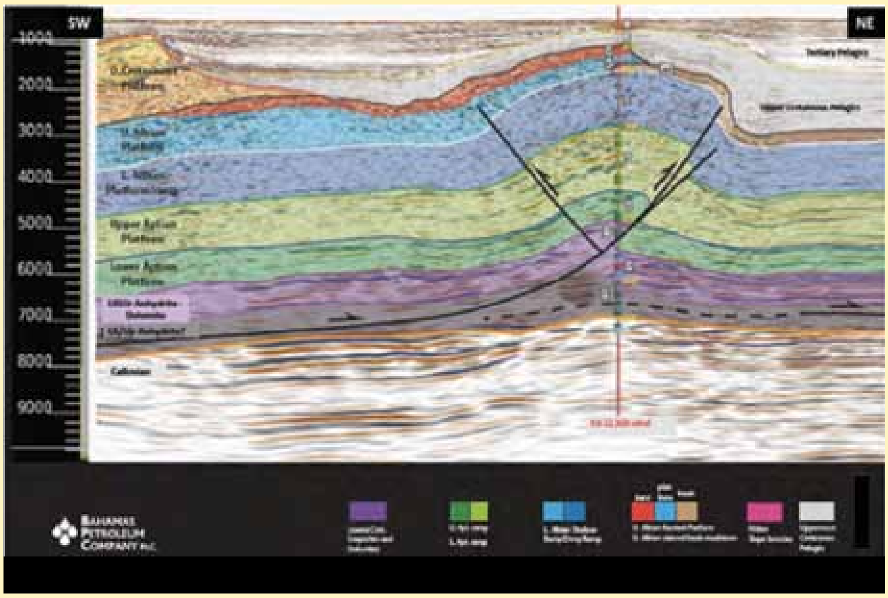


Figure 9: Geological section through well location.

Drilling is anticipated to be in approximately 1,500 feet of water, which by today's modern standards is relatively modest (see page 31), to take 120 days to execute and log. The ultimate well cost is highly dependent on spread rates and is still anticipated to be in the US$100 million – US$120 million range.

It is further anticipated that the rig will carry additional safety related equipment based upon Gulf of Mexico incident experience as Bahamas Petroleum Company is committed to employing the best planning, preparation and equipment for the drilling conditions anticipated in the subsurface.

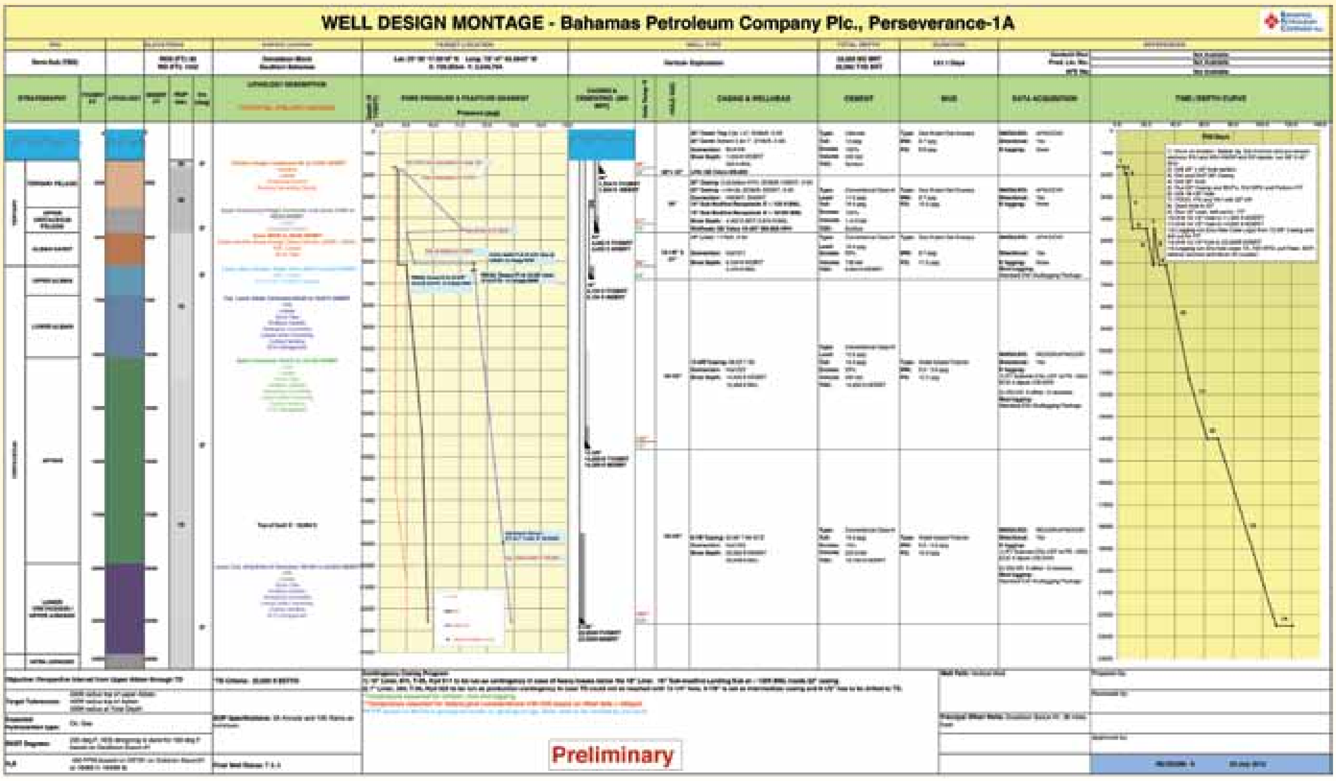


Figure 8: Well Design Montage.

"Significant interest expressed by numerous potential partners with discussions given further impetus by political clarity on exploration mandate; farm out process is live, active and on-going"

Competitor Activity

As Bahamas Petroleum prepares to drill its well, international oil companies have increased activity offshore Cuba. Three offshore wells drilled during 2012 on the Western side of Cuba were plugged and abandoned. These wells were drilled by Repsol, Petronas and PDVSA. Each of these wells reportedly encountered shows in both the Tertiary and the Cretaceous section but were not considered commercial at these locations. It is important to note the geology where these wells were drilled is considerably different from the geology in Bahamian waters. In western Cuba, where these wells were drilled, the Mesozoic carbonate rocks are buried beneath a deep Tertiary basin. A 15,000 foot exploratory well would need to drill through as much as 13,000 foot of Tertiary cover and only penetrate the uppermost portion of the carbonate platform rocks of the Late Cretaceous; well short of the deeper section where confidence in seal is increased. In addition the trap styles, fault bounded high standing horst features, are considerably different and considered higher risk than the thrust related, four-way dip closed anticline structures found in The Bahamas. Thus Bahamas Petroleum does not believe their result has a negative impact on the assessment of the potential in Bahamian waters.

A well drilled to between 15,000 and 16,000 feet at locations in Cuba would only be able to intercept the upper portion of the mesozoic carbonate section because of the thick Tertiary cover. Whereas at a location on Fold B within the Company licences a well to a similar depth would be able to penetrate the regional anhydrite seal and reach the additional prospectivity of the Lower Cretaceous.

Scarabeo 9 drill rig used in Cuban drilling.

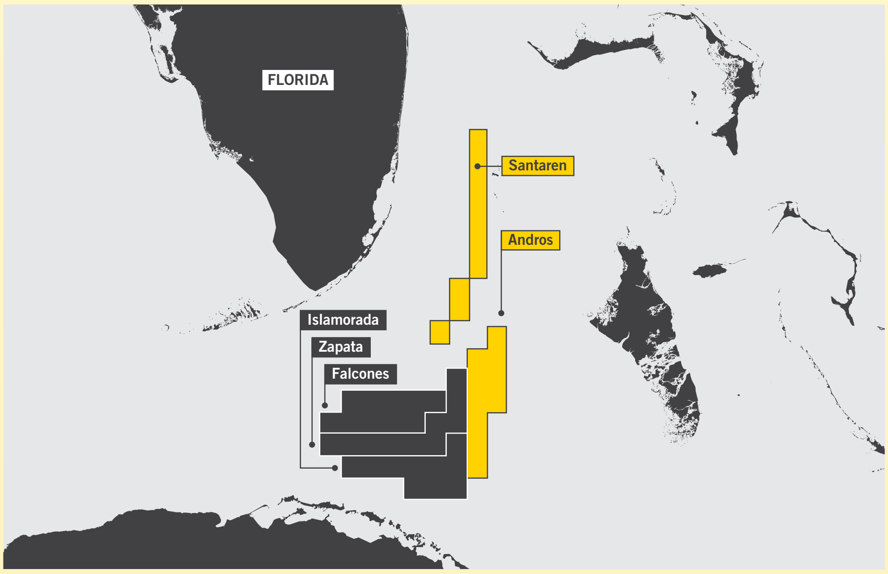
Data Room

Bahamas Petroleum continues to seek an industry partner to join in the drilling and opened a data room for the period of May 2012 receiving a number of offers to farm-in to its licences, none of which were accepted, as they were deemed to be too heavily discounted. Discussions remain ongoing with a number of interested parties, but the basis for these discussions has benefited significantly from the renewed clarity provided by the Government in early 2013 regarding a clear mandate to carry out an exploratory drilling programme.

New Licence Applications

The company has applied for two additional licenses in the Santaren Channel and a further three licences in joint partnership with Statoil. In the joint-venture with Statoil an Environmental Feasibility Study (EFS) has been submitted and is currently under review by The Bahamas Environmental, Science and Technology (BEST) Commission and their consultants. A decision on these applications is expected in 2013.

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

Operational Review (continued)

Timeline of Petroleum Development Phases and Associated Costs*

Phase	~ 5 - 10+ years	~ 1 year	~ 1 - 3 years	~ 3 - 6 years	~ 20 - 40 years
	Seismic & Geologic Studies	Exploratory Drilling	Appraisal Drilling	Development Planning & Construction	Production and Sustaining Development
Company Cost	$50 million USD	$60 - 160 million USD	$400 - 600 million USD	$30 - 40 billion USD	
Government Revenue	Zero Cost Zero Financial Risk	Zero Cost Zero Financial Risk	Zero Cost Zero Financial Risk	Zero Cost Zero Financial Risk	Revenues of ~ $20 billion USD
	Completed	In Progress	Estimated Typical Costs Based on Exploration Success		

TODAY

* Projected revenue assumes 1 billion bbls developed at an oil price of $80/bbl. These numbers are based on a conceptual development with estimates and assumptions that could change as the result of data acquired by exploration drilling.

2013 and 2014 Outlook

Since the time of licence award and before, the Company has worked diligently to collect all available historic geological and geophysical data and where possible re-examine using modern technologies and interpretative techniques. At today's prices the data would have cost hundreds of millions of dollars to acquire.

Integration of all of this data, new and historic, 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. There remains a variety of different play types within 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.

Therefore the outlook for Bahamas Petroleum Company is encouraging as we gear up for drilling, expected to start between mid-year 2014 at the earliest but potentially closer to the end of 2014.

Ongoing work will continue with a greater focus on detailed prospect evaluation and volumetric analysis. Whilst inversion, attributes, anomaly and DHI analysis will remain ongoing to high-grade drilling locations with a capacity for multiple targets, it is not anticipated that further work will lead to a significant reduction in risk. A new emphasis will be on detailed drilling planning work as we progress with designing the exploration well in the context of the new environmental and safety regulations, anticipated new standards and required equipment specifications.

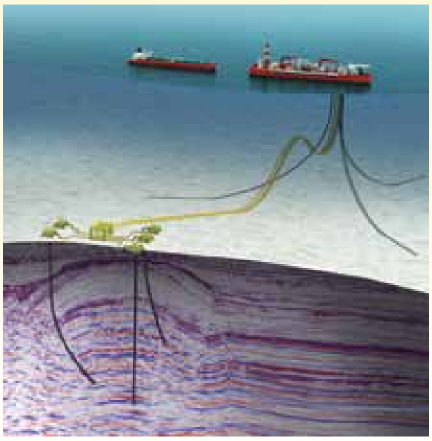
Technical studies and projects currently underway which the Company expects to detail during the year are:

1. Development of an extensive prospect inventory;
2. Detailed volumetric analysis of the high graded inventory;
3. Site specific drilling plans; and
4. Emergency Management Plans (EMP) for possible drill sites. Each comprising oil spill analysis for worst case discharge, oil spill response plans and specific compliance documentation.

A key priority this year will be to close the farm-out discussions as soon as possible and review options over drilling rig selection, long lead item selection, procurement plans and scheduling.

In response to these activities we will be looking to broaden skill sets of the employed staff continuing to build our technical team to best manage the exciting transition from wholly subsurface to drilling activities.

We will be continuing to push for the and BDR listing on the Bahamian International stock exchange and whilst a lot of work has already been done in preparation of the prospectus there will no doubt be considerable work in support of coming to the market.



Conceptual Floating Production, Storage and Offloading (FPSO) development scheme.

Exploration Licences 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: Likely to increase during next exploration phase. In the event the Company is granted a production lease, rentals will be at a rate of US$0.92 per acre, per annum for the area subject to the 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: At grant on 26 April 2007 licences issued for 12 years with renewal each new three-year period, first three-year period granted a two-year extension. Second three-year period will be extended to allow the safe and timely design and execution of the Group's exploration drilling programme.

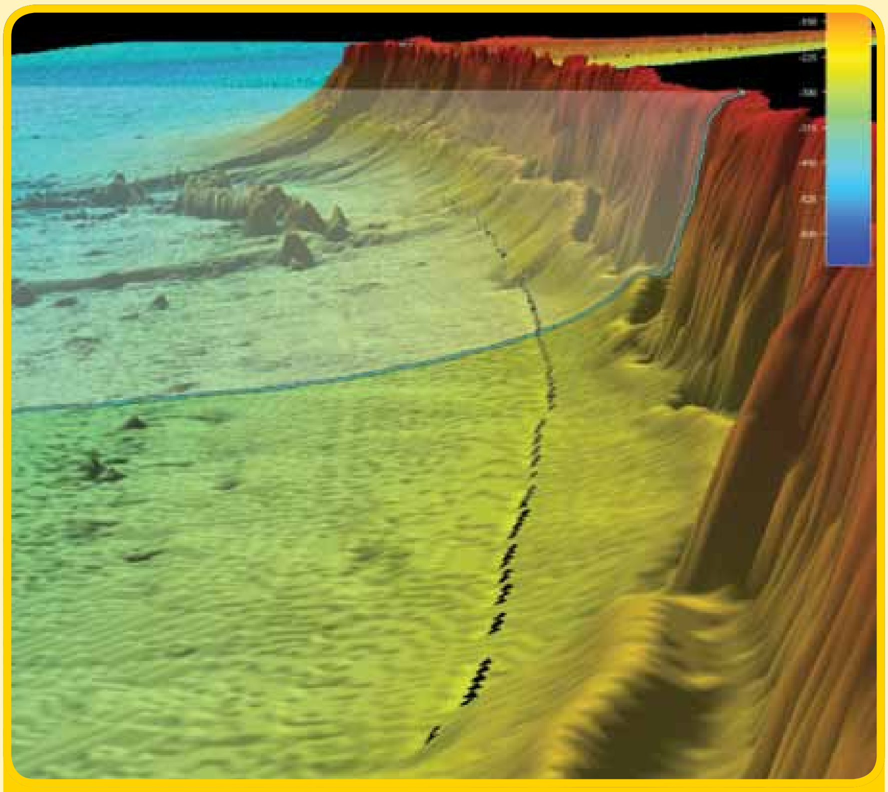
Application**	Holder	Licence Area
The Bahamas – Islamorada Licence (offshore)	Bahamas Petroleum Company/Statoil	777,900 acres 3,148km^2
The Bahamas – Zapata Licence (offshore)	Bahamas Petroleum Company/Statoil	776,200 acres 3,141km^2
The Bahamas – Falcones Licence (offshore)	Bahamas Petroleum Company/Statoil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

** July 2010 applications. Joint Venture Interest for all licences: Statoil (operator) with majority interest – Bahamas Petroleum Company.

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.

Safety and Environmental Focus



Snapshot from the high resolution sea bottom survey in The Bahamas Petroleum Company Southern Licence area.

We have:

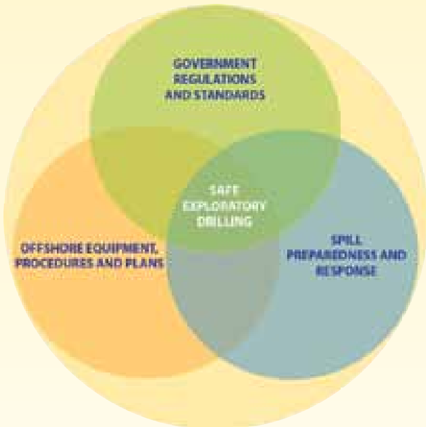
Sustainable Practices

Bahamas Petroleum Company intends to assure compliance with international standards, environmental rules or codes of practice implementing fully the lessons learned from previous incidents. This commitment to environmentally responsible and safe exploration activities will ensure the current conditions are preserved for the enjoyment of this and future generations.

Focus on Safe Exploratory Drilling

The industry and Government response to the 2010 incident in the Gulf of Mexico, in order to assure safe exploratory drilling, has focused on three main areas shown in the diagram below; **regulations**, **equipment** and **spill response**. Regulated operations with appropriate standards to prevent an incident, equipment and procedures to manage and, in the unlikely event of a loss of containment, a vigorous response to contain exposure.

Whilst all data collected to date in The Bahamas shows unambiguously that, compared to the Gulf of Mexico, there is different geology, reservoir pressures and shallower water depths it is most important the industry shares and then applies the learnings from such tragic occurrences. Bahamas Petroleum Company, in its forward work programmes, is looking to integrate these revised best practices with the safe drilling of the previous wells in The Bahamas. Thus over and above existing current regulatory requirements the Company will be examining the extent to which upgraded or new equipment and additional spill preparedness or indeed higher standards may help mitigate any future risk and thus incident. In addition, the Government of The Bahamas has committed to modernised and strengthened regulations to ensure risks to the environment and safe operations do not become manifest.



Focused approach to ensuring safe exploratory drilling across offshore oil drilling operations.

"An ounce of prevention is worth a pound of cure"
Benjamin Franklin, 1735

Regulations and Standards

In compliance with licence obligations and in close collaboration with a number of Government agencies and departments across a multitude of disciplines, Bahamas Petroleum Company has produced an Environmental Impact Assessment (EIA) that systematically identifies predicts and evaluates as many of the potential environmental impacts as is reasonably possible associated with the drilling of an exploratory well at a simulated well location in the Donaldson block. Once a detailed location is identified and a rig contracted an Environmental Management Plan (EMP) will be completed identifying all plans to mitigate identified potential impacts.

Environmental Impact Assessment

The EIA was reviewed and accepted by The Bahamas Environment Science & Technology Commission in March 2012 and posted for public viewing on their website in October 2012 (www.best.bs). To ensure the well is drilled safely while safeguarding the environment and protecting workers the Company has committed to using best practices and standards from jurisdictions such as Norway, the United States (as pertains post the Gulf of Mexico incident), Australia, the United Kingdom and from international organisations such as International Oil and Gas Producers Forum (OGP – www.ogp.org.uk), International Association of Drilling Contractors (IADC – www.iadc.org), and the International Petroleum Industry Environmental Conservation Association (IPIECA – www.ipieca.org). The significant findings from the EIA were as follows:

- The results of the high resolution sea bottom survey (opposite) showed that there are no sensitive environments in the immediate vicinity of the first proposed drill site – archaeological, fauna, flora or existing infrastructure or usage;
- The drilling environment is one of low/normal pressure reservoirs, thereby reducing the probability of an incident as fluids will not be sufficiently pressured to free flow to the surface without the aid of pumps; and
- The impacts identified were deemed normal or acceptable with proper controls as part of the standard operating practices.

Environmental Management Plan

To complement the EIA, and in fulfilment of further licence requirements an Environmental Management Plan (EMP) is currently being produced and will be completed and approved prior to drilling operations going ahead. The EMP is a site-specific plan outlining agreed performance criteria and all measures that are necessary to minimise and mitigate potential impacts to the environment while complying with all aspects of environmental legislation. The EMP will provide information on the design, construction and operation of the drill rig and its associated facilities and services and highlight the means by which identified potential risks and impacts will be mitigated. The EMP is already designed to include an Oil Spill Contingency Plan and a Waste Management Plan but may be expanded in compliance with any new standards or requirements the Minister may impose.

Local and International Regulations

The main legislation that governs the oil and gas industry in The Bahamas is the Petroleum Act promulgated in 1971 and qualified by regulations from 1978 and complimented by a series of other local and international regulations, codes of practise and policies to which the Government is a signatory. This Act provides for the exploration, boring and extraction of petroleum through permitting, licensing and leasing system for the exploration, prospecting and mining of petroleum. The regulations of this Act are currently being reviewed by the Government of The Bahamas with a view to modernising and strengthening them.

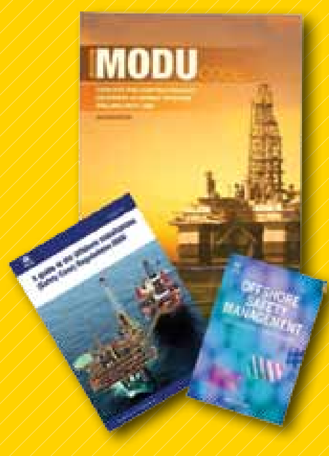
Safety Case

The 'Safety Case' for an operation or installation is defined as a structured argument, supported by a body of evidence that provides a compelling, comprehensible and valid case that a system is safe for a given application in a given operating environment.

The two elements – argument and evidence – are mutually supporting. The evidence is needed to justify that the argument holds true. The argument is needed to show that the evidence is sufficient and relevant. A key part of the Safety Case will be to demonstrate that all credible risks have been identified and suitable methods have been identified to ensure these risks can be effectively managed.

Such an evidence-based, 'performance' oriented approach can be contrasted with a prescriptive approach which requires safety to be justified using a prescribed process. Such an approach has not typically, explicitly, required evidence of safe practises and instead relies on the premise that following the prescribed process will ensure safety.

Integrated into an overall safety management system or plan such a methodology is widely regarded as industry best practice.



Safety and Environmental Focus (continued)

Modernised and strengthened regulations in The Bahamas

Each of the present day activities highlighted on page 7 are heavily regulated in the neighbouring nations of Cuba, the United States and The Bahamas. The Bahamas Government is a signatory to many international codes of practice, conventions and cooperative agreements including MARPOL and OPRC, as well as specific maritime legislation (illustrated below). The Bahamas has its own oil spill contingency planning coordination group and is a member of the regional Caribbean coordinated response group. With such activities ongoing daily Tier III responder (where a response capability is international in both scale and quality) capability is mandated – Bahamas Petroleum Company is already a member of the Oil Spill Response Group, with access to their extensive global reach and resources. Over and above this The Bahamas Government has recently announced that it is about to place before Cabinet modernised and strengthened regulations to govern oil exploration activity. It is anticipated that these regulations will combine best practices identified in a variety of leading jurisdictions – including new procedures and equipment requirements adopted post the Gulf of Mexico incident – to reflect the most up-to-date risk management practices and mandate the use of the best technology suitable – including capping stack and/or top hat technologies. A recent Bahamian Government delegation to Havana highlights the level of cooperation between the respective Governments and the premium placed on the coordination of regulatory regimes and response activities. It is the adoption of an updated regulatory regime reflecting the attitudes of modern society, the benefits of tragic lessons learned at great human cost and the access to modern technologies that are helping pave the way for safe future operations in Bahamian waters and stimulated recent activity.

	MARPOL 73/78							
	Internationally Approved SOPEP	Waste Management Plan	COLOREG's	OPRC	The Merchant Shipping (Oil Pollution) Act	Bahamas Oil Spill Contingency Plan	Tier III Responder	Petroleum Act and Enhanced Petroleum Regulations
International oil transport	√	√	√	√	√	√	√	
Transhipment to BORCO/SRP	√	√	√	√	√	√	√	
Domestic oil transport	√	√	√	√	√	√	√	
Regional Drilling and Oil Production	√	√	√	√			√	
Bahamas Oil Exploration	√	√	√	√	√	√	√	√

MARPOL 73/78: International Convention for Prevention of Pollution of the Marine Environment
SOPEP: Ship Oil Pollution Emergency Plan
COLOREG's: Convention on the International Regulations for Preventing Collisions at Sea
OPRC: The Caribbean Island Oil Pollution Response and Cooperation Plan
Tier III Responder: Oil Spill Response Limited
BORCO: Bahamas Oil Refining Company International Limited
SRP: South Riding Point

Offshore Equipment Procedures and Plans

Minimising and Mitigating Risk

A major success factor for the safe drilling of a well is to ensure adequate control and management of well fluid pressures whilst drilling. Good well control ensures the appropriate level of pressure in the well bore fluids necessary to counter-balance the pressures experienced in the rocks being drilled through – whether they contain oil and gas or not – all being managed through the application of proper safety procedures and the use of calibrated equipment. Various mechanisms are routinely used to ensure well control and balancing of the pressures in the wellbore:

1. Analysis of the data from historical wells drilled in the region in the same or similar rocks types. Such data indicates the reservoirs in The Bahamas to be at or below ‘normal’ pressure – hydrostatic head equals pore pressure.
2. Rig crews receive extensive training on how to recognise and deal with any impending problems, like formation fluids (oil or gas) entering the wellbore, and how to respond appropriately.
3. The use of onboard fluid management systems that identify the relative flows of fluids into and out off the well bore. Nowadays equipment is capable of automatically balancing the pressures in the wellbore by increasing or decreasing the hydrostatic head in realtime. Routinely this balancing is achieved by ensuring that the mud density is carefully calculated, monitored and maintained.

Therefore, well control is customarily managed using the onboard systems. Additionally, every well is fitted with a Blow Out Preventer (BOP), situated on the seabed, which can seal off fluid flow from the well through multiple devices activated by multiple systems. In accordance with regional regulations, upgraded since the Macondo well incident in the Gulf of Mexico, and international best practices, Bahamas Petroleum Company will look to have either a Top Hat or a Capping Stack on standby, ensuring industry standard redundancy, in the unlikely event of loss of well control (Additional Well Controls – over).

"Since the 2010 incident, over 300 new wells have been licenced by the authorities to be drilled in the Gulf of Mexico"

Additional Well Controls

Since the spill in the Gulf of Mexico (after June 2010) more than 300 new wells have been approved for drilling in the Gulf.

That this is considered safe is due to the enhancement and implementation of regulations on Well Integrity and Blow Out Preventer's & Control Systems in conjunction with enhanced spill response and well containment resources based on Worst Case Discharge calculations. Additionally, all operators are now required to implement a coordinated Safety & Environmental Management System (SEMS) that had been hitherto voluntary. Additional well containment resources (pictured below) include a Capping Stack or a Top Hat.

HWCG "Top Hat" unveiled by Helix Well Solution.

HWCG – 18 /3" 15K dual ram "Capping Stack" unveiled by oil industry partners led by Exxon.

Images: Helix Well Containment Group
www.hwcg.org

Well Plan

Before operations commence, a final well plan will define the life of a well, from initial drilling to plugging and abandonment. The plan will describe in detail how the well will be drilled including all procedures associated with the drilling and dimensions (i.e. hole size, casing specifications, cement etc). A preliminary well plan has already been completed as a part of the FEED study described on page 24. High quality data 3D seismic, the shallow hazard survey, the geologic and stratigraphic assessment, historical well data detailing potential reservoir conditions (e.g. temperature and pressure) have been used in the planning of the preliminary well and will continue to assist in the final plan. All cementing operations will be a key component of this plan. Finalisation of this plan and procurement of long lead items will take in excess of a year – current long lead time items are well heads and drill steel with appropriate metallurgy, running tools and ultimately the rig contract. All this information will assist with the minimisation of possible risks and identify key mitigation processes and procedures.

Qualified International Operator

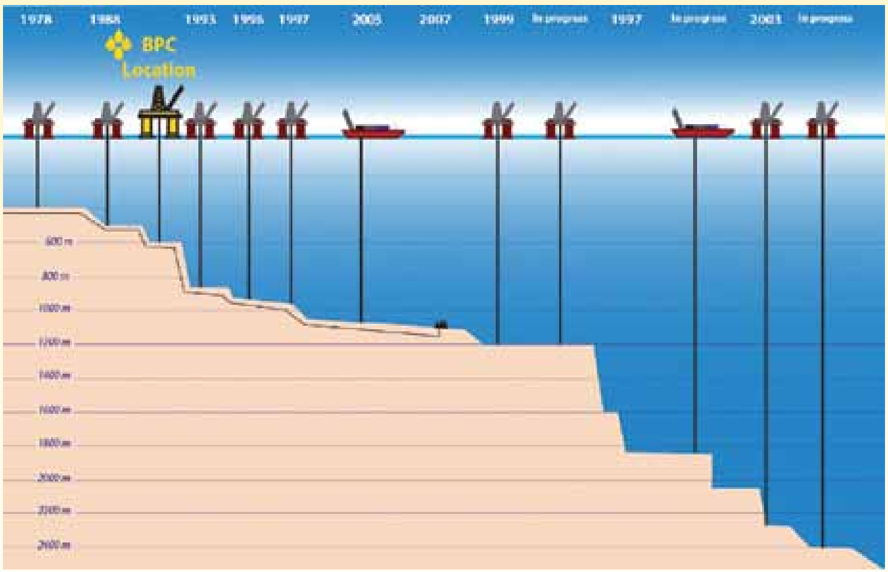
A drilling rig with advanced safety equipment, significant system redundancy and qualified/trained staff will be utilised to drill the well. Personnel on the rig must undergo intensive training and be certified and experienced in adequate "Well Control". This includes all the onshore engineering and supervisory groups. Personnel will be certified by passing a mandatory exam every two years known as the IWCF (International Well Control Forum). Persons without the certification or who fail renewals are not allowed to work in a position of significance relating to the drilling operation.

Emergency Response Plan

The Emergency Response Plan will identify and address potential emergency scenarios inclusive of well control problems, evacuations, security, spills, natural disasters, property loss, fire and/or explosions, hazardous releases, public relations, personnel, transportation and any public impacts. Regular training exercises are mandated to ensure the adequacy and relevance of the plan and the proficiency of staff in compliance with its regular implementation. Such exercises are often coordinated regionally to engage responders, the authorities and support services.

Safety Management System

The Safety & Environmental Management System (SEMS) Plan, adopted in the Gulf of Mexico, promotes safety and environmental protection by ensuring all personnel aboard a facility are familiar with and comply with the component policies, procedures and actions defined in the SEMS and that they have adequate skills and knowledge to perform their assigned duties. The SEMS programme looks to identify, address and manage safety, environmental hazards and impacts during the design, construction, start-up, operation, inspection and maintenance of mobile offshore drilling units (MODU).



Bahamas Petroleum Company drilling location in the context of the progression of drilling and production technical limits over time.

Safety and Environmental Focus (continued)

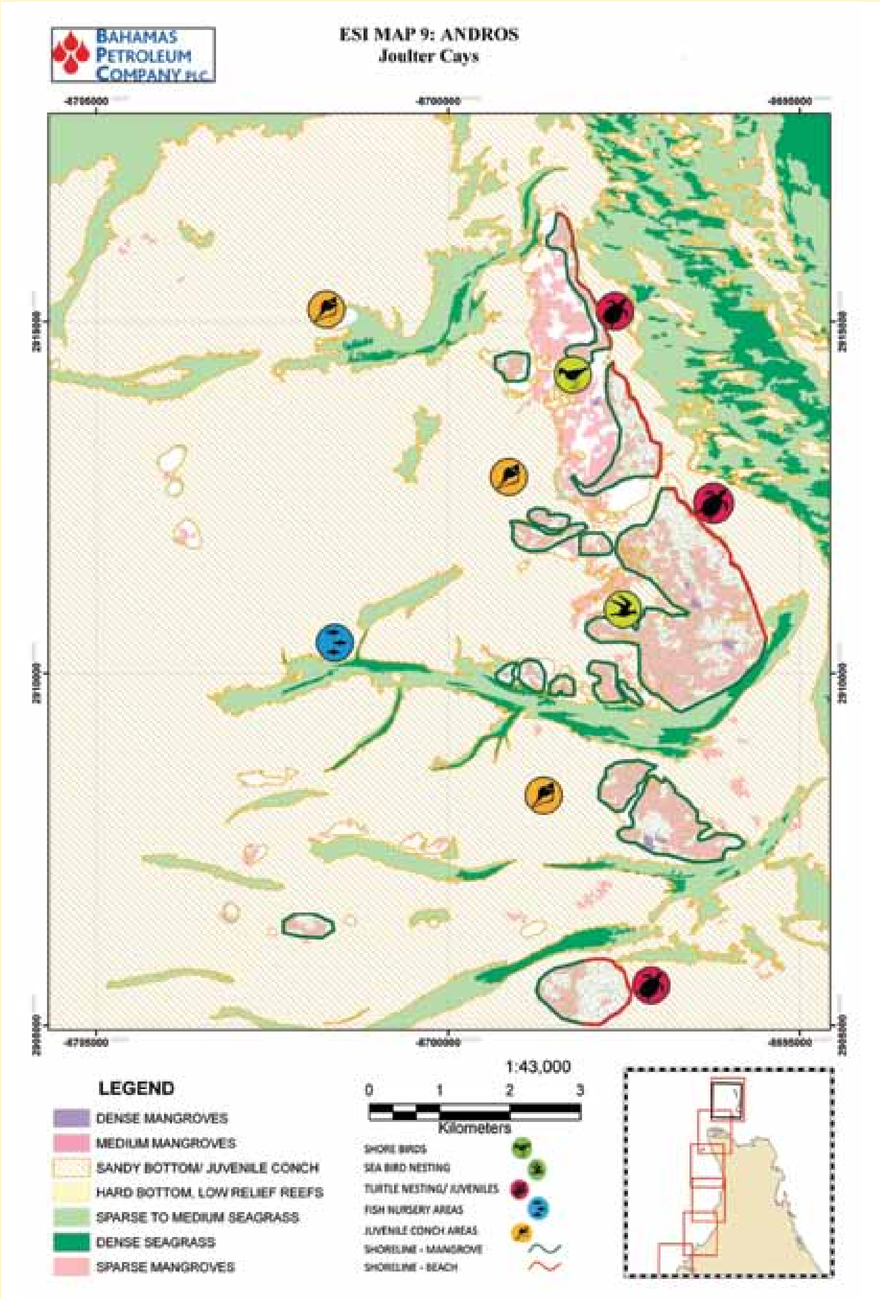
Preparedness, Preparation and Response

Spill Prevention and Response

An Oil Spill Response Plan (OSRP) is the last link in the chain for exploring safely and responsibly. The creation and maintenance of a viable spill plan adheres to international standards and complies with licence requirements. The OSRP will provide procedures and protocols on how to deal with an emergency situation involving an oil spill and will identify priorities and methods of protection. Ultimately it is a tool to condition any organisation to an effective response, defining the key actions to be implemented, by who and when. Key components of the Oil Spill Response Plan will be educated by the results of oil spill simulation studies of the worst case outcomes.

The Company has focused on environmental and safety related studies to support its response priorities. The long-term oil spill simulation already carried out by Bahamas Petroleum Company and contained in the EIA, illustrated the potential distribution of oil in the unlikely event a spill were to occur, quantifying the probability and impact of potential oil particle landings on specific locations surrounding the project area. The model incorporated the prevailing weather conditions each day over a seven-year period from January 2004 to December 2010 inclusive of ocean currents, prevailing winds, seafloor bathymetry and oil properties to predict the movement of oil particles in these all-embracing conditions. This comprehensive study concludes categorically that taking into account conceivable ambient conditions virtually no spilled oil would reach Bahamas beaches and the main focus of preparedness would need to be biased towards intervention between well site, the Cuban mainland and Cuban barrier islands – see over. This information is invaluable for pre-planning of potential cleanup response activities and in June, these results were presented to the Cuban Ambassador, followed by a visit to Cuba to facilitate coordinated response capabilities and process.

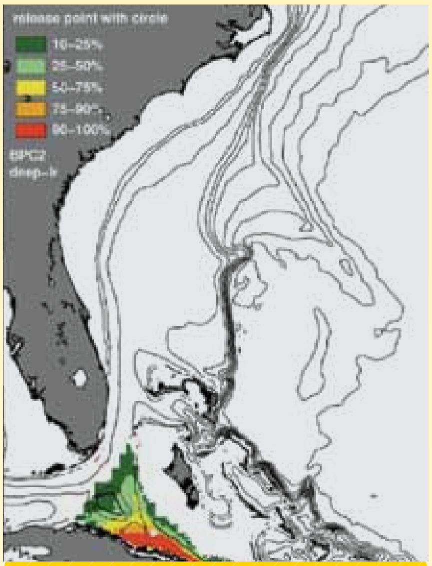
A major requirement of the OSRP is the creation of Environmental Sensitivity (ES) Maps and Environmental Sensitivity Index (ESI) Maps. The ES and ESI maps provide a concise summary of coastal resources that may be at risk if a spill were to occur having already identified biological resources, sensitive shorelines, human use resources and support infrastructure such as ports and airports. Normally, these maps are provided by Government but in this instance, Bahamas Petroleum Company has created these maps for the areas that are assessed as highly sensitive within the immediate area of the proposed drill site. The ESI maps are used to plan ahead of time by identifying vulnerable locations, establish protection priorities and identify clean-up strategies to be used by responders to meet the main objectives of reducing the environmental impacts of any spill and best directing clean-up efforts. There is a long-standing, internationally recognised system employed for categorising and structuring levels of oil spill preparedness and response. It has been developed as a means to ensure that an appropriate response capability is available to deal with oil spills commensurate with assessed risks. Consequently, in the event of any spill occurring, a managed tiered response would be implemented by the Company as outlined over:



Environmental Sensitivity Index Map for Joulter Cays, Andros.

> *"There are several examples worldwide in the industry whereby simply because a nation is a producer of fossil fuels it does not automatically mean this fuel is used domestically or electricity be generated solely from this source"*

- Tier 1 (small operational release, local in extent, small in scale) – drill rig and support vessels will maintain equipment for (containment and dispersant) and crews will be trained in the use of this equipment.
- Tier 2 (more dispersed release, regional in extent, modest in scale) – responder organisation would assist rig and support vessels with providing response equipment (Oil Spill Response Limited).
- Tier 3 (widespread release, international or to areas remote in extent, large in scale) – responder organisation would provide extensive response equipment (Oil Spill Response Limited) coordination required 'internationally'.



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

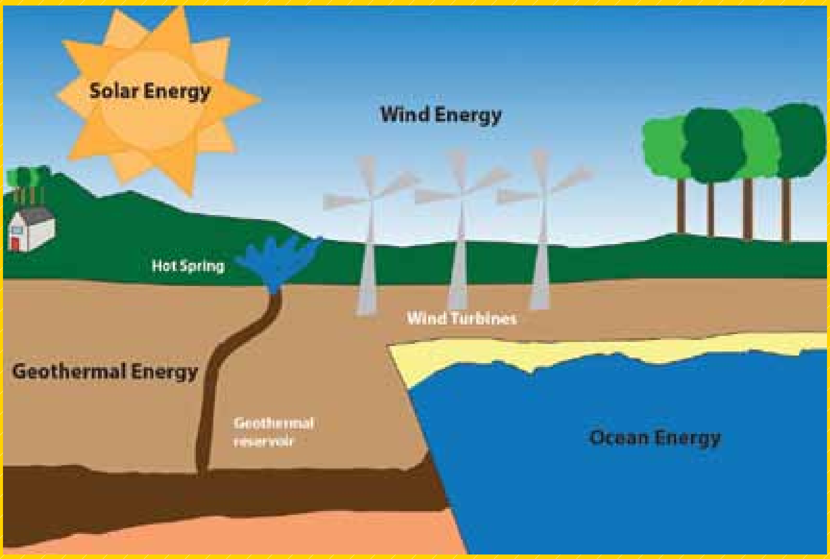
All maritime vessels will be required to have a Shipboard Oil Pollution Emergency Plan (SOPEP) as per the MARPOL 73/78 requirement under Annex I. The SOPEP describes how to tackle various oil spill scenarios that can occur off a ship, steps and procedures to contain any discharge of oil into the sea and specific alert/notification protocols.
To ensure an immediate and effective response in the event of a major oil spill, Bahamas Petroleum Company is already a member of a Tier III responders' organisation (Oil Spill Response Group – formerly Clean Caribbean Americas) that provides direct expertise, specialist personnel, equipment delivery – support and maintenance – as well as required training. The personnel and equipment can be mobilised immediately to arrive well within 24-48 hours based out of Fort Lauderdale. Additionally, each of the available vessels will be equipped with response equipment and staff trained in its use.

Additional studies/work completed or underway includes:
1. Completed assessment of sea bottom and shallow subsea drilling hazards associated with possible drill sites utilising the multi beam and 3D seismic data completed by GEMS Inc.
2. Completed Geologic and Stratigraphic Assessment of Bain, Cooper and Donaldson Licence areas Offshore Bahamas sea bottom and shallow subsea drilling hazard evaluation of possible drill sites based on the multibeam and 3D seismic data completed by GEMS Inc.
3. Completed an evaluation of the sea bottom over a large portion of our southern licence area based on the multibeam data.
4. Contracted with Acorn International to produce technical sections of the Environmental Management Plan (EMP).
5. Contracted with The Response Group to input to the Oil Spill Response Plan.

Renewables

Currently, The Bahamas generates 100% of its electricity using fossil fuels, which requires the movement of petroleum products throughout the islands – adding risk and cost to the generation of power.

Due to The Bahamas being an archipelago and having scattered and relatively small settlements, it would be more efficient to generate electricity at site where many options are available, including the harnessing of renewable energy such as solar, tide or wind. However, such options are currently extremely expensive when compared to the use of fossil fuels. But in the event of successful oil development and thence production revenues the premium cost of such energy generation could be overcome.



Governance and Disclosure

Corporate Governance

The processes of corporate governance ensures effective, coordinated and appropriate management of the goals and risk profile of the Company and ensures the sustainability of its operations. The Company benefits from transparent operations in response to scrutiny from employees, communities, stakeholders, investor groups, partners and Government bodies.

As a Bahamian International Business Company (IBC) and being admitted to trading on the London Stock Exchange's Alternative Investment Market, Bahamas Petroleum Company is required to manage its business in compliance with all laws of The Bahamas, the Isle of Man and the United Kingdom.
The Company has defined a strict Anti-Bribery and Corruption Policy consistent with these legal regimes and is committed to enabling staff to receive all necessary training to ensure full compliance with all procedures therein.

Further, as a UK traded stock, Bahamas Petroleum Company is compelled to comply with all the strict disclosure and transparency rules applied to public companies in the United Kingdom. In accordance with these rules, the Company has developed governance processes to assure the disclosure of all information that could be deemed material to the performance of the business and the interests of shareholders.

During 2012 the Company intended to commit to the production of a Corporate Social Responsibility (CSR) report based upon a further scaling up of activities in anticipation of an enhanced exploration and drilling programme. Given the slower than anticipated progress towards drilling the Company decided this was not the best use of shareholder funds at this time and resolved to complete the report at a later date commensurate with an increased level of operations.

Some questions from stakeholders answered...

Ashli Munnings Business Manager

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.

Jobeth Coleby In-house Legal Counsel

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

Bahamas Petroleum Company currently owns one hundred percent equity in five exploration licences, Bain, Cooper, Donaldson, Eneas and Miami. Upon making the licences application, the 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. The names of the licences hold no significance and run alphabetically.

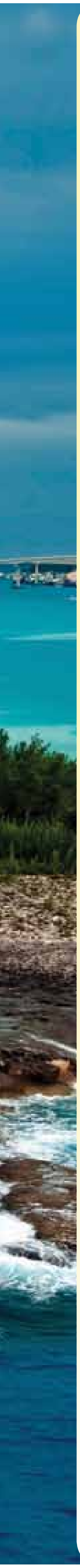
Roberta Quant Environmental Manager

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.

Governance and Disclosure (continued)

“Trading on the London Stock Exchange, the Company is compelled to comply with all the strict disclosure and transparency rules applied to public companies”



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

Bahamas Petroleum Company was awarded five licences on 26 April 2007 for a twelve (12) year term, though the currency of the licence has to be renewed every three years – consistent with the existing Act and Regulations. A two-year extension was granted to the first three-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 'three' 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 US$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.

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 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 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 Blow Out Preventer?

A Blow Out 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 known 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 well bore. 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. The Company intends to use water (seawater) as the basis for its drilling fluids. All chemicals to be used during operations will be selected on the basis that they are environmentally friendly and low toxicity being selected using the internationally recognised OSPAR classification. Under this classification all containers are colour-coded, can be tracked and accounted for. No chemicals designated as red or black will be used in the operation.

Since achieving Independence on 10 July, 1973 the following milestones have occurred:

Establishment of The Central Bank of The Bahamas on 1 June, 1974, to carry out the independent monetary policy and financial sector supervisory functions entrusted upon The Bahamas after political independence from Great Britain in 1973.

The National Insurance Board, the organisation charged with administering the social security programme, opened its doors officially on 7 October, 1974. Its primary mission was and is to provide income-replacement in respect of sickness, invalidity, maternity, retirement, death, industrial injury/disease, and involuntary loss of income.

Pictured: Clifford Darling Complex, Jumbey Village, New Providence.

Free Education for all Bahamians, run by the Ministry of Education and Culture, in which public education is freely available to children of all ages and this system makes for a literacy rate of 95% among the Bahamian population.

Establishment of The Royal Bahamas Defense Force whose "strategic mission is to defend the sovereignty of The Commonwealth of The Bahamas, assist with maintaining law and order and perform humanitarian tasks in conjunction with local and international partners".

Photo: www.bahamaslocal.com

40 Years of Independence

The Right Honourable Perry G. Christie, Prime Minister and Simon Potter.

Bahamas Petroleum Company congratulates the people and the Government of The Bahamas on the 40th anniversary of its transition from a colony to an independent nation. That The Bahamas has a stable democracy is a testament to the hard work and determination of successive Governments and its people.

The advent of universal suffrage in The Bahamas in 1962 and 10 January, 1967, being Majority Rule Day, mark milestones in the transition to independence, but it is 10 July, 1973 that is Independence Day. In the White Paper on Independence presented to Parliament on 18 October, 1972 the then Government looked to encourage foreign investment as a core part of its economic development strategy for the new nation. This has led to two major industries, that of tourism and financial services, that have now come to underpin the modern-day economy.

However, these sectors thrive or weaken on the back of the health of the global economy and in particular, given its proximity, that of the United States. For the economy to truly flourish regardless of these external factors, investment in a substantial domestic industry based upon international product prices and a truly global market needs to take place.

Now, for the first time in over 25 years a company, Bahamas Petroleum Company, has shown the interest, insight and the commitment to bring to the attention of the Government the potential for wealth creation that may well be generated from oil and gas exploration investment here in The Bahamas. Thus with the advent of oil and gas exploration investment, both of these demands international product pricing through a truly global market, could potentially be realised in this 40th year of Independence. Significant foreign investment will be required in order to execute exploration drilling and, in the event of success, the development of commercial quantities of oil. This fungible product is priced as a global resource where demand is truly international and independent of the vagaries of individual economies. The Bahamas political and social stability, the proximity of international suppliers and contractors, the adoption of an English framed legal regime and the absence of many fiscal burdens mark out The Bahamas as a 'safe haven' for such a considerable level of potential investment.

This potential new sector could add to, and indeed complement, the other great national assets that The Bahamas is blessed with. Such efforts will require a responsible approach to exploration, compliant with modernised and strengthened regulations and carried out consistent with international best practices. Success would then leave a considerable legacy to be enjoyed for generations to come.

40 BAHAMAS
"THE BRIDGE TO THE FUTURE...THE JOURNEY CONTINUES"

Board of Directors & Senior Management

1.

2.

3.

4.

5.

6.

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, 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. 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.

4. Steven Weyel
Non-Executive Director

Steve Weyel, is currently Chairman, Chief Executive Officer and Director of Enven LLC (formerly Pisces Energy LLC) a privately-held U.S. Gulf of Mexico exploration and production company. Additionally, Mr. Weyel is Founder and Chairman of Equigen LLC focused on equity investments in emerging market energy infrastructure and services. Previously, Mr. Weyel is a Founder and served as the President, Chief Operating Officer and Director of Energy XXI (Bermuda) Limited (Nasdaq: EXXI) from its inception in July 2005 until July 2010. Energy XXI was initially floated on London's AIM (Alternative Investment Market) in October of 2005. Prior, Mr. Weyel served as a Principal, President and Chief Operating Officer of EnerVen LLC, a developer and supporter of strategic ventures in the emerging energy industry, a company he co-founded in 2002. Mr. Weyel currently serves as Director of Rooster Energy Ltd, D, TSXV. Mr. Weyel 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 thirty-plus years of entrepreneurial growth and operating experience across all continents and every major energy basin in the world including billions in successful energy related transactions and financings with unequalled commodity value capture and underlying asset protection.

5. 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.

6. Paul Gucwa
Chief Operating Officer

Paul Gucwa has 39 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.

Post balance sheet Paul elected not to renew his contract to pursue faster paced opportunities.

■ Board of Directors
■ Senior Management

Chief Executive Officer's Report

Simon Potter Chief Executive Officer

Dear Shareholder,

2012 was a year of hard work for the Company which resulted in significant progress on the technical aspects of the business with considerable further de-risking of prospectivity within its southern licences. This is based upon interpretation of the pre stack depth migrated (PSDM) processed data volume that superseded the previously announced FastTrack data interpretation. Matching this enhanced dataset with existing historical well data only available through the Company data room has given us increased confidence of prospectivity and further reduced risk.

The corporate cash position remains strong whilst the process to seek a funding partner continues. Proactive cost management has ensured that the cash at hand is sufficient to manage the needs of the business for several years.

This last year has seen further delays to our exploration drilling programme plans with the continued vagueness concerning a moratorium on offshore drilling, which was enacted by the previous Government, being exacerbated by the new Government's statements that the future of oil and gas exploration would be the subject of a referendum held prior to drilling being permitted. This time, however, has not been wasted as we have been able to further de-risk the prospectivity through even more detailed seismic analysis and interpretation in-house. Following a period of uncertainty regarding the intended scope and timing of such a referendum, an update was provided by the Minister of Environment in his announcement on 10 March 2013 that a referendum would only be held once commercial hydrocarbon reserves had been established, thereby providing the Company with a mandate to commence exploration drilling once modernised and strengthened environmental regulations, which we understand to be in an advanced state, are adopted by Parliament. In a letter to the Company on 7 September 2012, the Minister noted the continued compliance of the Company with the Petroleum Act, regulations, and terms and conditions of the licence which, when coupled with acceptance by the Government of licence rental payments in the year, demonstrates the good standing of the Company and the recognition by the Government of our "licence to operate".

This recent clarification of the exploration process and timetable has already re-energised farm-in negotiations which hitherto have suffered from these commercial uncertainties notwithstanding the significant interest expressed by numerous parties over the Company's technical prospects. The farm-in process is live, active and on-going.

The Company's BISX listing, which has also experienced delays arising from these uncertainties, continues to be progressed with the requisite approvals from the Securities Commission and Central Bank being sought. This process will also be significantly assisted by the recent Government clarification on the proposed referendum conditions precedent.

Technical work to date continues to confirm the primary target for drilling to be the lower Aptian and older, deeper section (16-18,000 feet and below) where interbedded anhydrites (seal) high porosity/permeability dolomites (reservoir) and source rock are interpreted to exist with a high degree of probability.

Since the PSDM data volume was delivered in August of 2012, delays resolving regulatory/Governmental issues have provided the time to allow a much fuller in-house interpretation of this data volume. These data are of high quality and represent our best image of the subsurface. Using these data the regional control on the stratigraphic framework has been established; a comprehensive seismic facies analysis has been completed; key horizons from the intra Jurassic to the intra Tertiary have been remapped; and the Doubloon Saxon well petrophysics and lithology has been carefully tied into the overall interpretation. This work has advanced understanding of the geologic history and hydrocarbon potential. Specifically the assessed seal risk has been considerably reduced and the hydrocarbon potential increased in the lower stratigraphic horizons of both Folds B and C.

With regard to seal risk, the seismic facies mapping has identified an Upper Albian starved basin mudstone that covers Fold C and most of Fold B. This mudstone would likely be an effective seal and would not have been penetrated in the previously drilled wells. In addition, petrophysical work involving the Doubloon Saxon #1 well logs and a synthetic seismic tie to the 3D gives us a high degree of confidence in identifying anhydrite intervals in the Lower Cretaceous evidenced in this well. These regionally extensive anhydrite beds are now mapped from as shallow as approximately 13,000 feet.

New data has allowed the mapping of intervals below base Aptian with confidence. The Lower Cretaceous/Upper Jurassic section should be considered highly prospective but was never considered in the Ryder Scott Competent Persons Report (CPR). Indeed it is this horizon that is now considered the primary target – hence planned drilling depths past 20,000 feet. These units consist of interbedded reservoir (dolomite), seal (anhydrite) and source rock repeating units. The top of this interval ties to the anhydrite interval already seen and mapped in the base of the Doubloon Saxon #1 well from logs, chippings and core where evaporites are interbedded with reservoir quality dolomite – a conclusion also supported by seismic inversion analysis. The detachment surface that accommodates the major thrust faulting is readily mappable and occurs below the base Lower Cretaceous in what we interpret to be the organic rich shales of the Upper Jurassic – this would act as the link between this active source below in the Jurassic and the reservoir rocks above.

In summary this deeper section has the source, faulted migration pathways, reservoir and seal in juxtaposition – all of which point towards potentially successful commercial oil exploration. Most of this deeper section is below the intervals assessed in the CPR released in 2011 and is the section indicated therein as having 'significant unevaluated potential'. As regards the potential resource volumes that are indicated in the CPR additional seal encouragement exists with the identification of the Albian mudstones. As currently mapped, the closure of the overall Fold B structure extends some 78 kilometres along strike with a vertical closure of over 850 metres.

The Company derived sufficient confidence from the FastTrack results of the initial seismic interpretation to proceed with an initial Front End Engineering Design (FEED) to construct a well plan, including a review of the previously drilled wells and specific new plans for the drilling of a 22,500 feet deep exploration well estimated to take up to 120 days to drill and log (P_{50} case). This target depth and interpretation has been reinforced by the interpretation of the PSDM dataset. Ultimate well cost is highly dependent on spread rate but is still anticipated to be in the US$100-US$120 million range.

The Company opened a data room for the period of May 2012 and received a number of offers to farm-in to its licences, none of which were accepted, as they were deemed to be heavily discounted due to commercial uncertainties. Discussions remain ongoing with a number of interested parties, but the basis for these discussions has benefited significantly from the renewed clarity provided by the Government.

In support of drilling preparedness, the Environmental Impact Assessment (EIA) submitted in October 2011 has been made a public document open to review, scrutiny and comment by all agencies, though there continues to be no schedule for any public consultation. The Company has continued work on the subsequent and related Environmental Management Plan (EMP) elements of which are 60% complete. This plan includes the Oil Spill Contingency Plan (OSCP), and the Emergency Response Plan (both based upon a simulated worst-case discharge calculation). Another major component of the EMP are a series of environmental sensitivity index maps identifying areas of high impact put together by the Company based upon extensive public consultation. In this context the Company has also taken the proactive step of joining the Oil Spill Response Group – previously Clean Caribbean Americas (CCA) – which places a significant amount of equipment at the disposal of the Company in order to mitigate the impact of any potential incident. A prerequisite for any drilling campaign will be the establishment of new environmental regulations by the Government. The new administration continues to work on this task and the Company has offered its encouragement and assistance, having already incorporated international best practices and standards within its EIA document submission. With respect to the new licences currently under joint application with Statoil, the operator has submitted its Environmental Feasibility Study and a final response from the Government is still awaited.

During the year, Repsol, Petronas and PDVSA have each completed exploratory wells in adjacent Cuban acreage. Whilst all wells were plugged and abandoned, each of the latter two wells were said to have demonstrated a working hydrocarbon system, albeit not commercial at the drilled location. Both wells would have barely tested the uppermost Cretaceous section and neither well would have been capable of interrogating the intended Bahamas Petroleum Company target intervals. Finally, Zarubezhneft commenced drilling in December 2012 approximately 12 miles from The Bahamas – Cuba border. There has been little news of progress to date, though recently it has been reported that repairs to critical equipment have constrained drilling progress.

On the financial results, the operating loss for the year of US$6.3 million represents a 39% decrease on 2011, largely due to cost reductions made during late 2011 and early 2012. This is underpinned by a 50% reduction in employee related expenses year-on-year. Cash expenditure in the year of US$8.6 million on intangible exploration assets comprises predominantly 3D seismic processing costs and brings the total capitalised exploration expenditure to US$45.7 million at the year end. With no further non-drilling exploration expenditure commitments, the closing cash balance of US$21.3 million places the Company in a strong financial position going forward. The outlook for Bahamas Petroleum Company is encouraging as we gear up for drilling, expected to start between mid-year 2014 at the earliest but potentially closer to the end of 2014. A key priority this year will be to close the farm-out discussions as soon as possible and review options over drilling rig selection. Ongoing work will continue with a greater focus on drilling as we progress with designing and planning the exploration well in the context of the new environmental regulations which we wholly support. We will be progressing with the BISX listing and continuing to build our technical team to best manage the exciting transition from wholly subsurface to drilling activities. With the initial pre-drill data gathering and analysis phase transiting to an engineering focus and potentially a more partner-driven operational phase as we gear up for exploration drilling, we look forward to the next year with excitement and confidence.

Yours sincerely,
Simon Potter
Chief Executive Officer
12 April 2013

Corporate Governance

The UK Corporate Governance Code

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

The workings of the Board and its Committees

The Board of Directors

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

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

Record of Board Meetings

There were six 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	6	6
Adrian Collins	6	6
Dursley Stott (resigned 30 April 2012)	1	2
Edward Shallcross	6	6
Steven Weyel	5	6
Ross McDonald (appointed 3 April 2012)	4	4

Audit Committee

The Audit Committee comprises Edward Shallcross (Chairman) and Ross McDonald (appointed 30 April 2012, formerly Dursley Stott). The Audit Committee will meet at least four times a year and 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 Adrian Collins (Chairman) (appointed 30 April 2012, formerly Dursley Stott) and Edward Shallcross. The Remuneration Committee has met twice in the year and 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. The Nomination Committee has met once in the year and the role of the Nomination Committee is to assist the Board in fulfilling its responsibilities in the search for and evaluation of potential new Directors and ensuring that the size, composition and performance of the Board is appropriate for the scope of the Company's activities. It is recognised that shareholders of the Company have the ultimate responsibility for determining who should represent them on the Board.

Health 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 2014 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.

Contents

Accounts

46-77

46 Directors' Report
48 Statement of Directors' Responsibilities
49 Independent Auditor's Report
50 Consolidated Statement of Comprehensive Income
51 Consolidated Balance Sheet
52 Consolidated Statement of Changes in Equity
53 Consolidated Cash Flow Statement
54 Notes to the Consolidated Financial Statements
70 Parent Company Independent Auditor's Report
71 Parent Company Balance Sheet
72 Parent Company Statement of Changes in Equity
73 Parent Company Cash Flow Statement
74 Notes to the Parent Company Financial Statements

Other Information

78-IBC

78 Glossary
IBC Corporate Directory

Directors' Report

Your Directors present their report and audited Financial Statements of the Company and the consolidated Group (referred to hereafter as the "Group) consisting of Bahamas Petroleum Company plc (the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2012.

Directors

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

Simon Potter
Adrian Collins
Dursley Stott – Resigned 30 April 2012
Edward Shallcross
Steven Weyel
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 & gas exploration in The Commonwealth of The Bahamas.

Results and dividends

The results of the Group for the year are set out on page 50 and show a loss for the year ended 31 December 2012 of $6,299,686 (2011: loss of $10,139,145). The total comprehensive loss for the year of $6,299,686 (2011: $10,139,145) has been transferred to reserves.

The Directors do not recommend payment of a dividend (2011: $nil).

Review of operations

In the prior year the Company submitted an Environmental Impact Assessment (EIA) for the proposed southern licence area exploration well to The Bahamas Environment, Science and Technology (BEST) Commission. Following incorporation into the EIA of recommendations made by BEST, the EIA was published on the BEST website for public consultation on 17 October 2012.

On 3 April 2012 the Company appointed Ross McDonald, a resident of The Bahamas, to the Board of Directors.

During the year the Company completed the processing of the results of the 3D seismic data acquired over the southern licence areas. Interpretation of this data to ascertain a greater understanding of the structures, potential drill hazards and ideal well design was commenced in the year and remains on-going.

On 7 September 2012 the Group was informed by the Government of The Bahamas that a national referendum on an oil & gas industry would be held prior to any exploration drilling being permitted in Bahamian waters.

On 10 March 2013, the Government of The Bahamas announced that any referendum on oil & gas would be deferred until commercial reserves had been established and that, consequently, all hydrocarbon explorers within the country would be permitted to engage in exploration drilling activities once draft regulations governing such were approved by parliament. Following this decision, the future recoverability of the Group's intangible assets has become contingent on both the discovery of commercial reserves and a positive referendum result for the extraction and exploitation of hydrocarbons.

The formal terms of the Group's exploration licences require the spudding of one well in the southern licence area and one well in the Miami licence area by 26 April 2013. The Directors are of the opinion that, due to the articulation of a drilling moratorium in 2010 by the Bahamian Government, lifted pending adoption of revised environmental regulations, and Government references to a potential referendum, this requirement will be extended to allow the safe and timely design and execution of the Group's exploration drilling programme. This position is consistent with the Government mandate for future oil exploration activities and a number of public statements made by the Minister for Environment to this effect.

Substantial shareholdings

The following table represents shareholdings of 3% or more notified to the Company as at 31 December 2012:

Name	Number of shares	% of shareholding
TD Waterhouse	105,686,547	8.59%
Hargreaves Landsdown	84,643,181	6.88%
Barclays Stockbrokers	71,710,777	5.83%
HSDL Stockbrokers	61,871,880	5.03%
Selftrade	48,799,275	3.97%
Standard Life Investments	41,309,652	3.36%
HSBC Private Bank	38,635,587	3.14%
Majedie Asset Management	38,590,886	3.14%
Interactive Investor	37,163,212	3.02%

Directors' interests

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

Shareholding and options

Name	Number of shares 31 December 2012	Number of share options 31 December 2012	Number of shares 31 December 2011	Number of share options 31 December 2011
Simon Potter	**1,000,000**	**39,000,000**	–	4,000,000
Adrian Collins	**200,000**	**1,000,000**	–	1,000,000
Edward Shallcross	**120,000**	**1,500,000**	120,000	1,500,000
Steven Weyel	**–**	**1,000,000**	–	1,000,000
Ross McDonald	**250,000**	**1,000,000**	–	–

No options were exercised during the year. Options held by Directors who resigned in the year, amounting to 1,500,000 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 in office and will be reappointed without resolution in accordance with section 12(2) of the Companies Act 1982.

By order of the Board

Benjamin Proffitt
Company Secretary
12 April 2013

Statement of Directors' Responsibilities

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

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

In preparing these Financial Statements the Directors are required to:

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and to enable them to ensure that the Financial Statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the Isle of Man governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

By order of the Board

Edward Shallcross
Director
12 April 2013

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 consolidated Financial Statements of Bahamas Petroleum Company plc and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these 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 opinion 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 Financial Statements are free from material misstatement.

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

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

Opinion

In our opinion:

- the consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the consolidated Financial Statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Emphasis of Matter

We draw attention to note 4(b) to the consolidated Financial Statements which describes the uncertainty related to the future recoverability of the Group's intangible assets which are contingent upon the adoption of revised environmental regulations by the Bahamian parliament, the discovery of commercial reserves and a positive outcome in a future referendum on the extraction and exploitation of hydrocarbons. Our opinion is not qualified in respect of this matter.

Matters on which we are required to report by exception

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

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

Other Matters

We have reported separately on the parent company Financial Statements of Bahamas Petroleum Company plc for the year ended 31 December 2012. That report includes an emphasis of matter.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
12 April 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 Group $	2011 Group $
Continuing operations			
Employee benefit expense	7	**(2,468,680)**	(4,970,950)
Depreciation expense	12	**(153,492)**	(156,153)
Other expenses	8	**(3,721,786)**	(5,078,092)
Operating loss		**(6,343,958)**	**(10,205,195)**
Finance income	6	**44,272**	66,050
Loss before tax		**(6,299,686)**	**(10,139,145)**
Taxation	9	**–**	–
Total comprehensive loss for the year		**(6,299,686)**	**(10,139,145)**
Loss per share for loss attributable to owners of the Company:			
Basic and diluted loss per share (expressed in cents per share)	10	**(0.51)**	(0.87)

The notes on pages 54 to 69 form part of these consolidated Financial Statements.

Consolidated Balance Sheet
As at 31 December 2012

	Note	2012 Group $	2011 Group $
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	13	**45,716,502**	38,927,378
Property, plant and equipment	12	**223,708**	491,342
Restricted cash	11	**161,738**	239,654
Total non-current assets		**46,101,948**	**39,658,374**
Current assets			
Other receivables	15	**999,904**	967,794
Restricted cash	11	**–**	231,995
Cash and cash equivalents	14	**21,311,937**	34,976,049
Total assets		**68,413,789**	**75,834,212**
LIABILITIES			
Current liabilities			
Trade and other payables	16	**1,278,152**	2,680,478
Total liabilities		**1,278,152**	**2,680,478**
EQUITY			
Share capital	17	**37,253**	37,253
Share premium reserve	17	**78,185,102**	78,185,102
Merger reserve	17	**77,130,684**	77,130,684
Reverse acquisition reserve		**(53,846,526)**	(53,846,526)
Share-based payment reserve	18	**1,705,753**	1,424,164
Retained earnings		**(36,076,629)**	(29,776,943)
Total equity		**67,135,637**	**73,153,734**
Total equity and liabilities		**68,413,789**	**75,834,212**

The Financial Statements on pages 50 to 69 were approved and authorised for issue by the Board of Directors on 12 April 2013 and signed on its behalf by:

Adrian Collins
Director

Edward Shallcross
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share-based payment reserve $	Retained earnings $	Total equity $
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 loss 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**
Balance at 1 January 2012		**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,424,164**	**(29,776,943)**	**73,153,734**
Comprehensive income:								
Total comprehensive loss for the year		–	–	–	–	–	(6,299,686)	(6,299,686)
Transactions with owners								
Share options – value of services	18	–	–	–	–	281,589	–	281,589
Total transactions with owners		–	–	–	–	281,589	–	281,589
Balance at 31 December 2012		**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,705,753**	**(36,076,629)**	**67,135,637**

The notes on pages 54 to 69 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 2012

	Note	2012 Group $	2011 Group $
Cash flows from operating activities			
Cash used in operating activities	19	**(5,542,651)**	(8,359,760)
Net cash used in operating activities		**(5,542,651)**	**(8,359,760)**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(97,640)**	(457,716)
Proceeds from disposal of property, plant and equipment		**32,966**	–
Payments for exploration and evaluation assets	13	**(8,646,839)**	(32,045,332)
Decrease/(increase) in restricted cash	11	**318,735**	(154,398)
Interest received	6	**44,272**	66,050
Net cash used in investing activities		**(8,348,506)**	**(32,591,396)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**–**	70,155,401
Net cash generated from financing activities		**–**	**70,155,401**
Net (decrease)/increase in cash and cash equivalents		**(13,891,157)**	**29,204,245**
Cash and cash equivalents at the beginning of the year	14	**34,976,049**	6,068,558
Effects of exchange rate changes on cash and cash equivalents		**227,045**	(296,754)
Cash and cash equivalents at the end of the year	14	**21,311,937**	**34,976,049**

The notes on pages 54 to 69 form part of these consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 General information

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

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

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 periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated Financial Statements of Bahamas Petroleum Company plc (the Financial Statements) reflect the results and financial position of the Group for the year ended 31 December 2012, have been prepared in accordance with International Financial Reporting standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations. These Financial Statements have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

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

Going concern

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

Adoption of new and revised Standards

a) New and amended standards adopted by the Group

There are no new or amended standards or interpretations that were effective for the first time for financial periods beginning on 1 January 2012 that have had a material impact on the Group's consolidated results.

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

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

IAS 1 (Amended), 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to fully assess IAS 1's impact.

2 Summary of significant accounting policies (continued)

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 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 assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

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 does not expect IFRS 10 to impact the Group and the Group will adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014, the date it has been endorsed for by the EU.

IFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to 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 therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IFRS 11 is not expected to impact the Group and the Group intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014, the date it has been endorsed for 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 does not expect IFRS 12 to impact the Group and the Group will adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014, the date it has been endorsed for by the EU.

Amendments to IFRSs 10, 11 and 12 on transition guidance provides additional transition relief to IFRS's 10,11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Group is yet to fully assess the full impact of these amendments and intends to adopt the amendments to IFRS's 10,11 and 12 no later than the accounting period beginning on or after 1 January 2013, the date it has been endorsed for 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 IFRS. The requirements, which are largely aligned between IFRS 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 IFRS or US GAAP. The adoption of IFRS 13 on 1 January 2013 has not had a significant impact on the Group.

Annual improvements 2011 (issued May 2012), effective 1 January 2013, were issued by the IASB as part of the 'annual improvements process' resulting in amendments to five standards. The improvements have not had a significant impact on the Group.

IAS 27, 'Separate Financial Statements' (revised 2011), effective 1 January 2013, includes the requirements relating to separate Financial Statements, following the issue of IFRS 10. The Group is yet to fully assess IAS 27's impact and intends to adopt IAS 27 no later than the accounting period beginning on or after 1 January 2014, the date it has been endorsed for by the EU.

IAS 28 (revised 2011), 'Associates and joint ventures' effective 1 January 2013, includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. The Group is yet to fully assess IAS 28's impact and intends to adopt IAS 28 no later than the accounting period beginning on or after 1 January 2014, the date it has been endorsed for by the EU.

Notes to the Consolidated Financial Statements (continued)

2 Summary of significant accounting policies (continued)

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.

2.3 Operating segments

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

2.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

2.5 Property, plant and equipment

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

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

2.6 Intangible assets – exploration and evaluation assets

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

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

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

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

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

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

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

2.7 Impairment

In accordance with IFRS 6, 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 2012 and 2011 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 2012 and 2011 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 period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the Consolidated Financial Statements (continued)

2 Summary of significant accounting policies (continued)

2.9 Cash and cash equivalents

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

2.10 Share capital

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

2.11 Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Bonuses

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

(iv) Pension obligations

For defined contribution plans, the Group pays contributions to 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 and when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.12 Interest income

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

2.13 Leases

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

3 Financial risk management in respect of financial instruments

3.1 Financial risk factors

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

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

(i) Liquidity risk

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

No profit to date

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

Future funding requirements

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

Financial liabilities

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

(ii) Market risk

Foreign exchange risk

The Group operates internationally and therefore is exposed to foreign exchange risk arising from currency exposures, primarily with regard to UK Sterling. The exposure to foreign exchange risk is managed by ensuring that the majority of the Group's assets, liabilities and expenditures are held or incurred in US Dollars, the functional currency of all entities in the Group. At 31 December 2012 the Group held $4,178,400 of cash in UK Sterling (December 2011: $6,811,742) and had an immaterial amount of trade and other payables denominated in UK Sterling.

At 31 December 2012, 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 $418,000 (31 December 2011: reduced/increased by $681,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling denominated bank balances.

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

Interest rate risk

The Group's exposure to interest rate risk relates to the Group's cash deposits which are linked to short-term deposit rates and therefore affected by changes in bank base rates. At 31 December 2012 and 2011 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.

3.2 Capital risk management

Capital is defined by the Group as all equity reserves, including share capital and share premium. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to support the Group's business operations and maximise shareholder value. The Group is not subject to any externally imposed capital requirements.

Notes to the Consolidated Financial Statements (continued)

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.

The Directors are of the opinion that the Group has more than adequate financial resources to meet its working capital needs through to the end of 2014 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 2014 is dependent on the level of exploration and appraisal activities undertaken. The next step in the Group's asset development programme requires the drilling of an exploration well on its prospects. The ability of the Group to discharge this obligation is contingent on the successful completion of a farm-in arrangement or equity raise.

(b) Carrying value of exploration expenditure

Expenditure of $45,716,502 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2012 (2011: $38,927,378).

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

On 7 September 2012 the Group was informed by the Government of The Bahamas that a national referendum on an oil & gas industry would be held prior to any exploration drilling being permitted in Bahamian waters.

On 10 March 2013, the Government of The Bahamas announced that any referendum on oil & gas would be deferred until commercial reserves had been established and that, consequently, all hydrocarbon explorers within the country would be permitted to engage in exploration drilling activities once draft regulations governing such were approved by parliament. Following this decision, the future recoverability of the Group's intangible assets has become contingent on both the discovery of commercial reserves and a positive referendum result for the extraction and exploitation of hydrocarbons.

The formal terms of the Group's exploration licences require the spudding of one well in the southern licence area and one well in the Miami licence area by 26 April 2013. The Directors are of the opinion that, due to the articulation of a drilling moratorium in 2010 by the Bahamian Government, lifted pending adoption of revised environmental regulations, and Government references to a potential referendum, this requirement will be extended to allow the safe and timely design and execution of the Group's exploration drilling programme. This position is consistent with the Government mandate for future oil exploration activities and a number of public statements made by the Minister for Environment to this effect.

(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 therein are set out in note 18.

The charge for share-based payments 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.

5 Segment information

The Company is domiciled in the Isle of Man. The total of non-current assets other than financial instruments located in the Isle of Man as at 31 December 2012 is $14,080 (31 December 2011: $136,098), and the total of such non-current assets located in The Bahamas is $45,926,130 (31 December 2011: $39,282,622).

6 Finance income

	2012 Group $	2011 Group $
Finance income – interest income on short-term bank deposits	44,272	66,050

7 Employee benefit expense

	2012 Group $	2011 Group $
Directors and employees salaries and fees (including bonuses)	**1,648,897**	2,273,294
Cessation of service fees and benefits (see note 21)	**–**	1,363,259
Social security costs	**54,025**	84,394
Pension costs – defined contribution	**129,608**	14,436
Share-based payments (see note 18)	**281,589**	998,498
Other staff costs	**354,561**	237,069
	2,468,680	4,970,950

8 Other expenses

	2012 Group $	2011 Group $
Travel and accommodation	**370,886**	928,333
Operating lease payments	**546,645**	464,251
Legal and professional	**2,045,470**	2,369,081
Net foreign exchange (gain)/loss	**(214,861)**	305,755
Loss on disposal of fixed assets	**74,049**	–
Other	**668,117**	864,236
Fees payable to the Company's auditor for the audit of the parent company and consolidated Financial Statements	**135,676**	77,581
Fees payable to the Company's auditors for other services:		
– Audit of the parent company's subsidiaries pursuant to legislation	***12,759***	*–*
– Audit related assurance services	***56,094***	*32,936*
– Tax advisory services	***19,756***	*35,919*
– Other non-audit services	***7,195***	*–*
Total auditor's remuneration	***231,480***	*146,436*
Total other expenses	3,721,786	*5,078,092*

9 Taxation

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 parent company's 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 0%.

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.

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

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 owners of the Group by the weighted average number of ordinary shares in issue during the year.

	2012 Group	2011 Group
Loss attributable to owners of the Company (US$)	**(6,299,686)**	(10,139,145)
Weighted average number of ordinary shares in issue (number)	**1,230,479,096**	1,169,713,891
Basic loss per share (US Cents per share)	**(0.51)**	(0.87)

(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 Group 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 Group'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:

	2012 Group	2011 Group
Total share options in issue (number) (see note 18)	**69,500,000**	**21,500,000**

The effect of the above share options at 31 December 2012 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

11 Restricted cash

	2012 Group $	2011 Group $
Non-current assets		
Bank deposits	**161,738**	239,654
Current assets		
Bank deposits	–	231,995

Bank deposits as at 31 December 2011 included $231,995 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 in 2010. These amounts were released to the Company following receipt of consent from HMRC during year ended 31 December 2012.

Included in non-current bank deposits as at 31 December 2012 is the amount of $161,738 held as security for Company credit card facilities (31 December 2011: $239,654).

12 Property, plant & equipment

Group	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
At 1 January 2011				
Cost	131,444	255,349	71,858	458,651
Accumulated depreciation	(102,434)	(159,252)	(7,186)	(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**
Year ended 31 December 2012				
Opening net book amount	–	241,855	249,487	491,342
Additions	20,057	77,583	–	97,640
Disposals – cost	–	(177,202)	(104,767)	(281,969)
Depreciation charge	(3,147)	(113,738)	(36,607)	(153,492)
Disposals – accumulated depreciation	–	70,187	–	70,187
Closing net book amount	**16,910**	**98,685**	**108,113**	**223,708**
At 31 December 2012				
Cost	85,427	319,309	183,035	587,771
Accumulated depreciation	(68,517)	(220,624)	(74,922)	(364,063)
Net book amount	**16,910**	**98,685**	**108,113**	**223,708**

Disposals in the prior 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 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**
Year ended 31 December 2012			
Opening cost/net book amount	1,793,750	37,133,628	38,927,378
Additions	287,500	6,501,624	6,789,124
Closing cost/net book amount	**2,081,250**	**43,635,252**	**45,716,502**

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

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

14 Cash and cash equivalents

	2012 Group $	2011 Group $
Cash at bank	**21,311,937**	**34,976,049**

The 2012 balance includes interest bearing accounts at rates between 0% and 1% (2011: 0% to 1%).

15 Other receivables

	2012 Group $	2011 Group $
Other receivables (note (a))	**143,948**	135,617
Prepayments (note (b))	**855,956**	832,177
	999,904	**967,794**

(a) Other receivables
As at 31 December 2012, these amounts predominantly consist of VAT recoverable. In the prior year these amounts included funds advanced to the resident management office in The Bahamas for forthcoming local expenditure.

(b) Prepayments
As at 31 December 2012 prepayments include $500,000 (2011: $500,000) in application 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 consolidated Financial Statements to write down the carrying value of these prepayments in the event that the applications are unsuccessful, see also note 4(b).

16 Trade and other payables

	2012 Group $	2011 Group $
Exploration and evaluation liabilities	–	1,857,715
Accruals	**500,170**	335,547
Trade payables	**769,124**	481,624
Other payables	**8,858**	5,592
	1,278,152	**2,680,478**

17 Share capital, share premium and merger reserve

Group		Number of shares	Issue price $	Ordinary shares $	Share premium reserve $	Merger reserve $
At 1 January 2011		**987,379,096**		**29,359**	**8,037,595**	**77,130,684**
17 March 2011	Placing	110,000,000	0.30	3,537	31,445,689	–
13 April 2011	Placing	133,100,000	0.31	4,357	38,701,818	–
At 31 December 2011 and 31 December 2012		**1,230,479,096**	**–**	**37,253**	**78,185,102**	**77,130,684**

The total authorised number of ordinary shares at 31 December 2012 and 2011 was 5,000,000,000 shares with a par value of 0.002p per share.

All issued shares are fully paid.

On 16 March 2011 the Company announced the placement of 243,100,000 new ordinary shares at 18.75 pence per share, raising $70,155,401 in net proceeds (net of $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.

18 Share-based payments

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

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

	2012 Group		2011 Group	
	Average exercise price per share	No. Options	Average exercise price per share	No. Options
At beginning of year	**16.10p**	**21,500,000**	–	–
Granted	**18.51p**	**48,000,000**	16.10p	21,500,000
Exercised	**–**	**–**	–	–
At end of year	**17.77p**	**69,500,000**	**16.10p**	**21,500,000**
Exercisable at end of year	**21.25p**	**6,750,000**	**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 five years. Half of the options became exercisable immediately on grant with the remaining half becoming exercisable should the Company share price reach 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 five years and become exercisable should the Company share price reach 18.75 pence per share. All 8,000,000 options require the option holder to remain in office. 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.

On 2 April 2012 the Company granted 48,000,000 share options to Directors and management. 1,000,000 options have an exercise price of 7.4 pence, an expiry period of five years and become exercisable should the Company share price reach 18.75 pence per share. The remaining 47,000,000 options carry the following terms:

- 14,000,000 become exercisable on (a) the conclusion of a suitable farm-in agreement to allow the drilling of an exploration well or (b) the securing of independent finance to drill an exploration well;
- 9,000,000 become exercisable following the spudding of the first exploration well;
- 24,000,000 become exercisable in the event of a corporate sale of the Company at a price per share equal to or exceeding 37.5 pence; and
- All 47,000,000 options have an exercise price of 18.75 pence and an expiry period of five years.

All 48,000,000 options require the option holder to remain in office. 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.

Notes to the Consolidated Financial Statements (continued)

18 Share-based payments (continued)

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 and the prior year are as follows:

Date of Grant	12 April 2011	27 October 2011	2 April 2012			
			Tranche 1	Tranche 2	Tranche 3	Tranche 4
Number of options granted	13,500,000	8,000,000	1,000,000	14,000,000	9,000,000	24,000,000
Share price at date of grant	21.25p	7.4p	10.75p	10.75p	10.75p	10.75p
Exercise price	21.25p	7.4p	7.4p	18.75p	18.75p	18.75p
Expected volatility	61%	36%	25%	25%	25%	25%
Expected life	2 years	1.5 years	1.1 years	1.1 years	1.1 years	indeterminate
Risk free return	1.34%	1.34%	1.08%	1.08%	1.08%	1.08%
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Hurdle rate	50p*	18.75p	18.75p	n/a	n/a	37.5p
Fair value per option – tranche 1	7.31p	0.16p	0.17p	0.02p	0.02p	indeterminate
Fair value per option – tranche 2	4.6p*	n/a	n/a	n/a	n/a	n/a

*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 2012 is 4.0 years (31 December 2011: 4.2 years).

The tranche four options granted in the year only vest and become exercisable in the event of a corporate sale of the Company at a price per share equal to or exceeding 37.5 pence. As the likelihood of such a transaction cannot be deemed to be probable at the reporting date, the number of options expected to vest has been assessed as zero and therefore no charge for this tranche has been recognised in these Financial Statements. Consequently, no expected life or fair value for these options has been determined.

Expenses arising from share-based payment transactions

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

	2012 Group $	2011 Group $
Expense in relation to options issued	**281,589**	**998,498**

19 Cash used in operating activities

	2012 Group $	2011 Group $
Loss after income tax	**(6,299,686)**	(10,139,145)
Adjustments for:		
– Depreciation (note 12)	**153,492**	156,153
– Share-based payment (note 18)	**281,589**	998,498
– Finance income (note 6)	**(44,272)**	(66,050)
– Loss on disposal of fixed assets	**74,049**	–
– Non-cash staff benefits (note 21)	**104,767**	–
– Foreign exchange (gain)/loss on operating activities (note 8)	**(214,861)**	305,755
Changes in working capital:		
– Other receivables	**(22,870)**	(71,548)
– Trade and other payables	**425,141**	456,577
Cash used in operating activities	**(5,542,651)**	**(8,359,760)**

20 Contingencies and commitments

(i) Contingencies

As at 31 December 2012, the Group had entered into a contract with Royal Fidelity Merchant Bank and Trust Limited for services in connection with the creation of a Bahamian Depository Receipt facility. Fees payable under this contract totalling $285,000 are contingent on completion of the facility, which had not taken place as at 31 December 2012. Consequently, this contingent liability has not been recognised in these Financial Statements.

(ii) Expenditure commitments

As at 31 December 2012 the Group had discharged all of its work obligations under the terms of the existing exploration licence period.

The formal terms of the Group's exploration licences require the spudding of one well in the southern licence area and one well in the Miami licence area by 26 April 2013. The Directors are of the opinion that, due to the articulation of a drilling moratorium in 2010 by the Bahamian Government, lifted pending adoption of revised environmental regulations, and Government references to a potential referendum, this requirement will be extended to allow the safe and timely design and execution of the Group's exploration drilling program. This position is consistent with the Government mandate for future oil exploration activities and a number of public statements made by the Minister for Environment to this effect.

(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.

During the year the Group renewed its exploration licences for a further three years. Rentals for each of the five licences in the three year period of renewal are as follows; Year 1 is $57,500, Year 2 is $86,250 and Year 3 is $115,000. Rentals for the current year have been paid in the year and are consequently recognised in these Financial Statements.

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:

	2012 Group $	2011 Group $
No later than 1 year	**543,300**	174,171
Later than 1 year and no later than 5 years	**860,850**	–
	1,404,150	**174,171**

On 28 January 2013 the Group signed a two year lease to sublet a portion of the Nassau office building, which had been unutilised, for $48,000 per annum. The above minimum lease payment obligations are shown gross of this income source.

21 Related party transactions

Key Management Personnel

Details of key management personnel are as follows:

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

Notes to the Consolidated Financial Statements (continued)

21 Related party transactions (continued)

Key Management Compensation

	2012 Group $	2011 Group $
Short-term employee benefits	**1,734,780**	2,418,662
Cessation of service fees and benefits	–	1,363,259
Share-based payments (see note 18)	**57,154**	867,703
	1,791,934	**4,649,624**

During the year, amounts totalling $167,424 (31 December 2011: $84,341) were reimbursed to Simon Potter for relocation costs and expat benefits following his appointment as CEO of the Company. These amounts have been included above under short-term employee benefits.

During the year, ownership of a Company vehicle, which had been purchased in the prior year for $104,767, was transferred to Simon Potter for $nil consideration as part of his remuneration package.

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

- Annual salary of $1,000,000 with minimum CPI indexation.
- Mr Potter is entitled to receive pension contributions from the Company equal to 10% of his annual salary.
- The term of the contract is four 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, Simon Potter was provided with housing in Nassau, The Bahamas for his exclusive use at a cost to the Company of $172,000. These amounts have been recognised in the Financial Statements as premises expenses under the categorisation "other costs".

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

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

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

During the prior year amounts totalling $3,000 were paid by the Company for the maintenance of residential property in the United States of America belonging to Paul Crevello.

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

During the prior year, amounts totalling $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 prior year, Paul Crevello was provided with housing in Nassau, The Bahamas for his exclusive use at a cost to the Company of $187,000. These amounts have been recognised in the Financial Statements as premises expenses under the categorisation "other costs".

21 Related party transactions (continued)

Directors' remuneration

	2012 Group $	2011 Group $
Simon Potter;		
– Salary	***1,000,000***	*704,301*
– Pension benefits accrued	***120,834***	–
– Local housing and travel costs	***301,195***	*84,341*
Total	**1,422,029**	788,642
Adrian Collins	**100,868**	22,471
Ross McDonald	**49,840**	–
Dursley Stott	**26,075**	74,093
Edward Shallcross	**79,062**	69,476
Steven Weyel	**56,906**	24,415
Alan Burns	**–**	609,471
Michael Proffitt	**–**	409,801
Paul Crevello	**–**	1,783,552
Total	**1,734,780**	**3,781,921**

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	35,000,000	18.75p	2 April 2012
Ross McDonald	1,000,000	7.40p	2 April 2012

Share options granted to Directors during the prior 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
Michael 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.

Other related party transactions

During the year, $50,000 was paid to Royal Fidelity Merchant Bank & Trust as an engagement fee for the provision of depository services relating to the Company's future Bahamian Depository Receipt programme. Ross McDonald, a director of the Company, is also a director of Royal Fidelity Merchant Bank & Trust.

During the year the Company opened banking facilities with RBC Royal Bank (Bahamas) Limited in Nassau, The Bahamas. Ross McDonald, a director of the Company, is also a director of RBC Royal Bank (Bahamas) Limited. As at 31 December 2012, $329,316 was held on deposit with RBC Royal Bank (Bahamas) Limited (31 December 2011: $nil).

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 parent company Financial Statements of Bahamas Petroleum Company plc which comprise the balance sheet as at 31 December 2012 and the parent company statement of changes in equity and parent company cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion:

- the parent company Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and
- the parent company Financial Statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Emphasis of Matter

We draw attention to note 3 to the parent company Financial Statements which describes the uncertainty related to the future recoverability of the parent company's investment in subsidiaries and loans to Group undertakings which are contingent upon the adoption of revised environmental regulations by the Bahamian parliament, the discovery of commercial reserves and a positive outcome in a future referendum on the extraction and exploitation of hydrocarbons. Our opinion is not qualified in respect of this matter.

Matters on which we are required to report by exception

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

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

Other Matter

We have reported separately on the consolidated Financial Statements of Bahamas Petroleum Company plc for the year ended 31 December 2012. That report includes an emphasis of matter.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
12 April 2013

Parent Company Balance Sheet
As at 31 December 2012

	Note	2012 Company $	2011 Company $
ASSETS			
Non-current assets			
Investment in subsidiary	7	**29,560,456**	29,560,456
Other receivables	8	**48,190,260**	35,549,439
Property, plant and equipment	6	**14,081**	136,098
Restricted cash	5	**161,738**	239,654
		77,926,535	**65,485,647**
Current assets			
Other receivables	8	**271,109**	310,766
Restricted cash	5	**–**	231,995
Cash and cash equivalents	9	**20,988,272**	34,976,049
		21,259,381	**35,518,810**
Total assets		**99,185,916**	**101,004,457**
LIABILITIES			
Current liabilities			
Trade and other payables	10	**1,025,460**	822,762
Total liabilities		**1,025,460**	**822,762**
EQUITY			
Share capital	11	**37,253**	37,253
Share premium reserve	11	**78,185,102**	78,185,102
Other reserve	11	**29,535,159**	29,535,159
Share-based payments reserve	12	**1,335,709**	1,054,120
Retained earnings		**(10,932,767)**	8,629,939)
Total equity		**98,160,456**	**100,181,695**
Total equity and liabilities		**99,185,916**	**101,004,457**

The Financial Statements on pages 71 to 77 were approved and authorised for issue by the Board of Directors on 12 April 2013 and signed on its behalf by:

Adrian Collins
Director

Edward Shallcross
Director

Parent Company Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Share capital $	Share premium $	Other reserve $	Share-based payment reserve $	Retained earnings $	Total equity $
Balance at 1 January 2011		**29,359**	**8,037,595**	**29,535,159**	**55,622**	**(643,104)**	**37,014,631**
Comprehensive income:							
Total comprehensive loss for the year	4	–	–	–	–	(7,986,835)	(7,986,835)
Transactions with owners							
Issue of ordinary shares	11	7,894	70,147,507	–	–	–	70,155,401
Share options – value of service	12	–	–	–	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**
Balance at 1 January 2012		**37,253**	**78,185,102**	**29,535,159**	**1,054,120**	**(8,629,939)**	**100,181,695**
Comprehensive income:							
Total comprehensive loss for the year	4	–	–	–	–	(2,302,828)	(2,302,828)
Transactions with owners							
Share options – value of service	12	–	–	–	281,589	–	281,589
Total transactions with owners		–	–	–	281,589	–	281,589
Balance at 31 December 2012		**37,253**	**78,185,102**	**29,535,159**	**1,335,709**	**(10,932,767)**	**98,160,456**

The accompanying notes on pages 74 to 77 form part of these Financial Statements.

Parent Company Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 Company $	2011 Company $
Cash flows from operating activities			
Cash used in operations	13	**(1,936,196)**	(6,293,801)
Net cash used in operating activities		**(1,936,196)**	**(6,293,801)**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,784)**	(110,943)
Proceeds from disposal of property, plant and equipment		**2,966**	–
Interest received		**44,272**	66,050
Decrease/(increase) in restricted cash		**318,735**	(154,397)
Advances to and payments on behalf of group companies		**(12,640,821)**	(34,458,065)
Net cash used in investing activities		**(12,278,632)**	**(34,657,355)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	70,155,401
Net cash flows from financing activities		**–**	**70,155,401**
Net (decrease)/increase in cash and cash equivalents		**(14,214,828)**	**29,204,245**
Cash and cash equivalents at the beginning of the year		**34,976,049**	6,068,558
Effects of exchange rate changes on cash and cash equivalents		**227,051**	(296,754)
Cash and cash equivalents at the end of the year		**20,988,272**	**34,976,049**

The accompanying notes on pages 74 to 77 form part of these Financial Statements.

Notes to the Parent Company Financial Statements

1 General information

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

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

The accounting reference date of the Company is 31 December.

2 Accounting policies

2.1 Basis of preparation

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

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

Going concern

The Directors have, at the time of approving the Financial Statements, determined that the Company has more than adequate financial resources and therefore these Financial Statements have been prepared on a going concern basis, which assumes that the Company will 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 Critical accounting estimates and assumptions

Investment in subsidiary and loans to Group undertakings

The investment in the Company’s direct subsidiary BPC Jersey Limited and loans to Group undertakings at 31 December 2012 stood at \$29,560,456 (2011: \$29,560,456) and \$48,190,260 (2011: \$35,549,439) respectively.

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

On 7 September 2012 the Group was informed by the Government of The Bahamas that a national referendum on oil & gas exploration would be held prior to any exploration drilling being permitted in Bahamian waters.

On 10 March 2013, the Government of The Bahamas announced that any referendum on oil & gas would be deferred until commercial reserves had been established and that, consequently, all hydrocarbon explorers within the country would be permitted to engage in exploration drilling activities once draft regulations governing such were approved by parliament. Following this decision, the future recoverability of the Company’s investments in subsidiaries and loans to Group undertakings have become contingent on both the discovery of commercial reserves and a positive referendum result for the extraction and exploitation of hydrocarbons.

The formal terms of the Group’s exploration licences require the spudding of one well in the southern licence area and one well in the Miami licence area by 26 April 2013. The Directors are of the opinion that, due to the articulation of a drilling moratorium in 2010 by the Bahamian Government, lifted pending adoption of revised environmental regulations, and Government references to a potential referendum, this requirement will be extended to allow the safe and timely design and execution of the Group’s exploration drilling programme. This position is consistent with the Government mandate for future oil exploration activities and a number of public statements made by the Minister for Environment to this effect.

Overview
Business Review
Corporate Governance
Accounts
Other Information

4 Loss attributable to members of the parent company

The loss dealt with in the Financial Statements of the Company for the year to 31 December 2012 is $2,302,828 (2011: $7,986,835). As permitted by part 1 section 3(5) of the Isle of Man Companies Act 1982, the Company has elected not to present its own statement of comprehensive income for the year.

5 Restricted cash

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

6 Property, plant and equipment

Company	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
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**
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 2012				
Cost	29,010	49,659	–	78,669
Accumulated depreciation	(29,010)	(35,578)	–	(64,588)
Net book amount	**–**	**14,081**	**–**	**14,081**
Year ended 31 December 2012				
Opening net book amount	–	31,331	104,767	136,098
Additions	–	3,784	–	3,784
Disposals – cost	–	(8,402)	(104,767)	(113,169)
Depreciation charge	–	(15,627)	–	(15,627)
Disposals – accumulated depreciation	–	2,995	–	2,995
Closing net book amount	**–**	**14,081**	**–**	**14,081**

7 Investment in subsidiary

	2012 Company $	2011 Company $
Investment in BPC Jersey Limited	**29,560,456**	**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 $nil in these Financial Statements.

Notes to the Parent Company Financial Statements (continued)

8 Other receivables

	2012 Company $	2011 Company $
Non-current assets		
Amount owing by Group undertakings	**48,190,260**	**35,549,439**
Current assets		
Prepayments	**129,131**	210,370
Trade and other receivables	**141,978**	100,396
	271,109	**310,766**

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.

9 Cash and cash equivalents

	2012 Company $	2011 Company $
Cash at bank	**20,988,272**	**34,976,049**

The 2012 and 2011 balances include interest bearing accounts at rates between 0% and 1%.

10 Trade and other payables

	2012 Company $	2011 Company $
Accruals	**247,474**	335,547
Trade payables	**769,124**	481,624
Other payables	**8,862**	5,591
	1,025,460	**822,762**

11 Share capital, share premium and other reserve

Company		Number of shares	Issue price $	Ordinary shares $	Share premium reserve $	Other reserve $	Total $
At 1 January 2011		**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 and 2012		**1,230,479,096**		**37,253**	**78,185,102**	**29,535,159**	**107,757,514**

All issued shares are fully paid.

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

On 16 March 2011 the Company announced the placement of 243,100,000 new ordinary shares at 18.75 pence per share, raising $70,155,401 in net proceeds (net of $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.

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

12 Share-based payments

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

13 Cash used in operating activities

	2012 Company $	2011 Company $
Loss before income tax	**(2,302,828)**	(7,986,835)
Adjustments for:		
– Depreciation (note 6)	**15,627**	45,703
– Finance income	**(44,272)**	(66,050)
– Foreign exchange (gain)/loss on operating activities	**(214,924)**	305,823
– Share-based payment (consolidated Financial Statements note 18)	**281,589**	998,498
– Loss on disposal of fixed assets	**2,441**	–
– Non-cash staff benefits (consolidated Financial Statements note 21)	**104,767**	–
Changes in working capital:		
– Other receivables	**48,960**	(130,650)
– Trade and other payables	**172,444**	539,710
Cash used in operating activities	**(1,936,196)**	**(6,293,801)**

14 Related party transactions

During the year, goods and services totalling $12,629,865 (2011: $34,442,708) 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 $10,956 (2011: $15,357) 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

Basement The rocks below a sedimentary platform or cover, or more generally any rock below sedimentary rocks or sedimentary basins that are metamorphic or igneous in origin. In the same way the sediments and/or sedimentary rocks on top of the basement can be called a "cover" or "sedimentary cover"

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 (CaCO3) and dolomites (CaMg(CO3)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)

Fetch An area of the sea surface over which seas are generated by a wind having a constant speed and direction. The length of the fetch area, measured in the direction of the wind in which the seas are generated. Also known as generating area.

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

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

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

km² Square kilometres

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

OCS Outer Continental Shelf

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

Notes

Notes

Corporate Directory

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

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

Secretary
Benjamin Proffitt

Registered Office and Corporate Headquarters
IOMA House
Hope Street
Douglas
Isle of Man
IM1 1AP

Bahamas Headquarters
Building 3 Western Road
Western New Providence Commercial Centre
Mount Pleasant Village
P.O. Box SP-64135
Nassau, Bahamas

Registrar
Capita Registrars (IOM) Limited
3rd Floor, Exchange House
54-62 Athol Street
Douglas
Isle of Man
IM1 1JD

Auditor
PricewaterhouseCoopers LLC
Sixty Circular Road
Douglas
Isle of Man
IM1 1SA

Solicitors
Lawrence Keenan Advocates & Solicitors
Victoria Chambers
47 Victoria Street
Douglas
Isle of Man
IM1 2LD

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

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

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

Brokers
Canaccord Genuity
88 Wood Street
London
EC2V 7QR
United Kingdom

FirstEnergy Capital LLP
4th Floor, 85 London Wall
London
EC2M 7AD
United Kingdom

FSC www.fsc.org
MIX
Paper from responsible sources
FSC® C023105

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)131 220 7990

BAHAMAS PETROLEUM COMPANY PLC.

Visit us online at

www.bpcplc.com

BAHAMAS

"THE BRIDGE TO THE FUTURE...THE JOURNEY CONTINUES"