Annual Report & Accounts

year ended 31 December 2010

BAHAMAS PETROLEUM COMPANY PLC.

A Sea of Opportunity

Corporate Directory

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

Directors
Alan Burns
Chairman, Non-Executive

Dr Paul Crevello
Chief Executive Officer

Michael Proffitt FCA
Finance Director, Non-Executive

Dursley Stott OBE
Non-Executive Director

Edward Shallcross FCIB
Non-Executive Director

Secretary
Michael Proffitt FCA

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

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

Broker
Canaccord Genuity Limited
Cardinal Place
7th Floor
80 Victoria Street
London
SW1E 5JL

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

Novus Capital Markets Limited
29/30 Cornhill
London
EC3V 3NF

Auditor's and Reporting Accountants
PricewaterhouseCoopers
Sixty Circular Road
Douglas
Isle of Man
IM1 1SA

Advocate and Solicitors to the Company as to Isle of Man Law
Laurence Keenan Advocates
Victoria Chambers
47 Victoria Street
Douglas
Isle of Man
IM1 2LD

Solicitors to the Company as to English Law
Norton Rose LLP
3 More London Riverside
London
SE1 2AQ

Solicitors to the Company as to Falklands Law
McGrigors LLP
56 John Street
Stanley
Falkland Islands

Solicitors to the Company as to Jersey Law
Mourant du Feu & Jeune
22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands

Solicitors to the Company as to Bahamas Law
Davis & Co
700 Bay Street East,
PO Box N-7940, Nassau
Bahamas

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

Competent Persons Report
Ryder Scott Company
1100 Louisiana
Suite 3800
Houston
Texas
77002-5218

Registrar
Capita Registrars (IOM) Limited
3rd Floor Exchange House
54-62 Athol Street
Douglas
Isle of Man
1M1 1JD
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UK: 0871 664 0300
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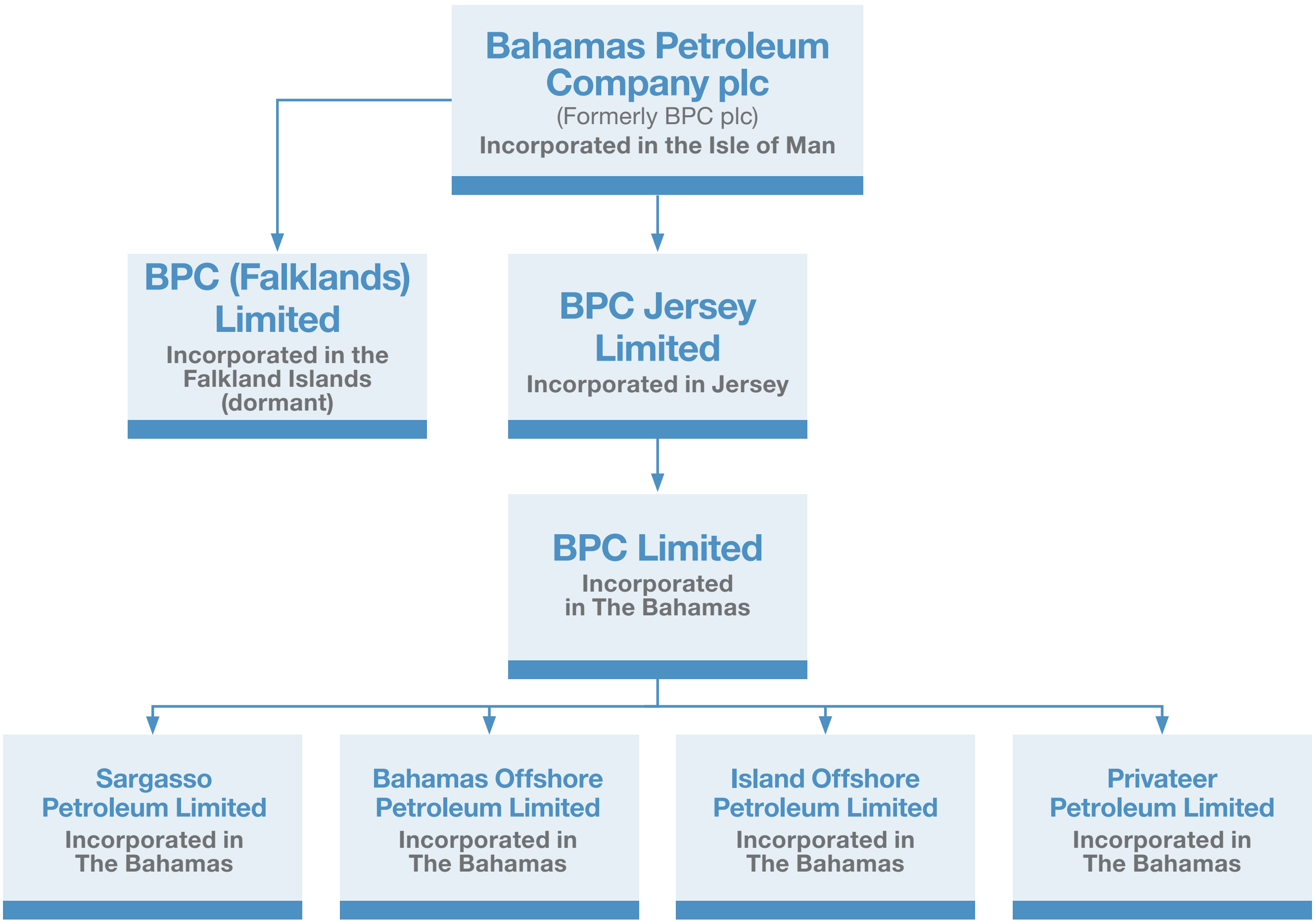
Overseas: +44 (0) 208 639 3399

Contents

Highlights

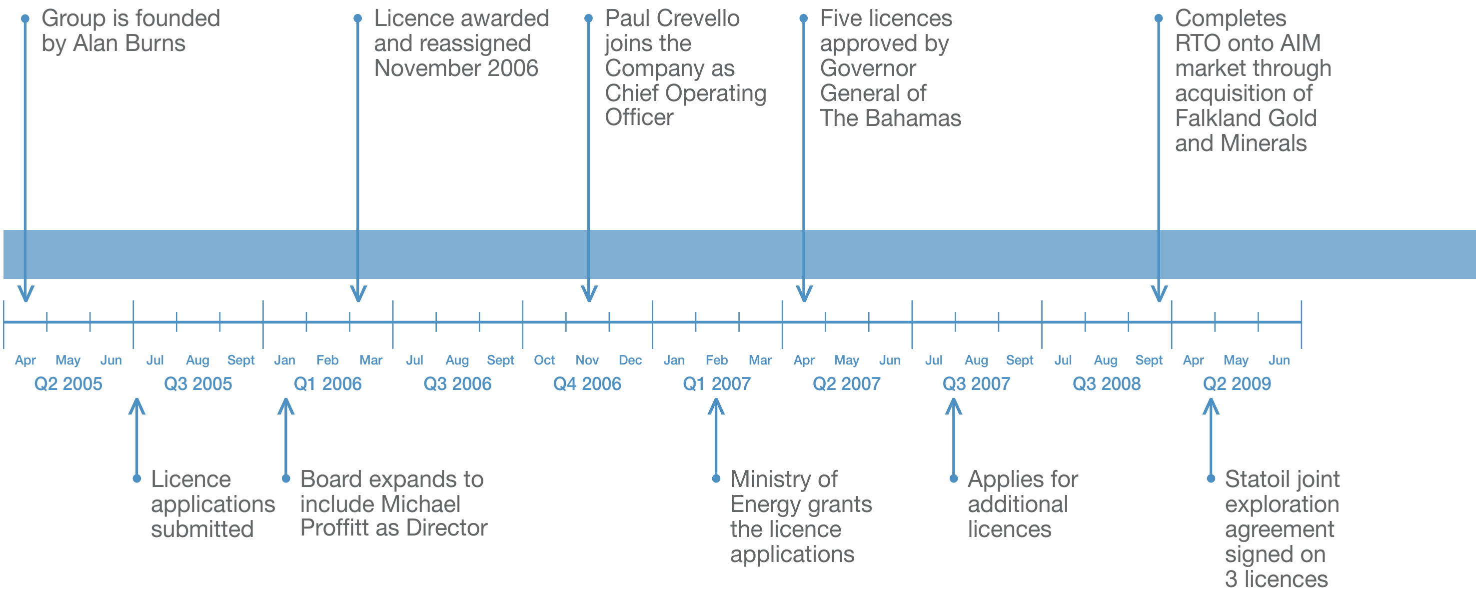
- 2010 was a busy and successful year for the Company;
- successfully shot the first modern seismic survey in the area since 1987, producing some encouraging results that indicate large structures containing hydrocarbon indicators;
- applied for two additional licences that cover approximately 6,210 km^2 (1,534,600 acres);
- strong balance sheet at the period end which has been further strengthened by equity placing post year end raising £45.6m;
- completed re-domicile of the Company to the Isle of Man;
- change of the Company's name to Bahamas Petroleum Company plc, to properly reflect the Company's focus; and
- remain on track to drill our first high impact well in 2012.

Group Structure



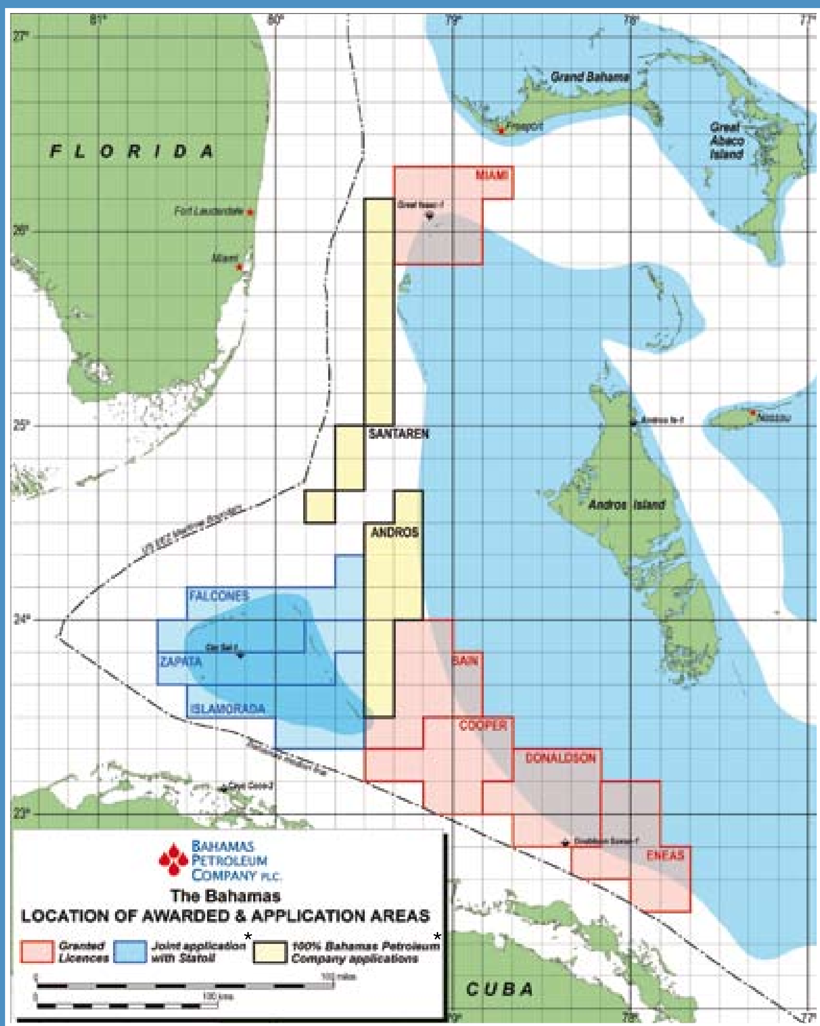
Bahamas Petroleum Company at a Glance

Corporate History – First Mover Advantage

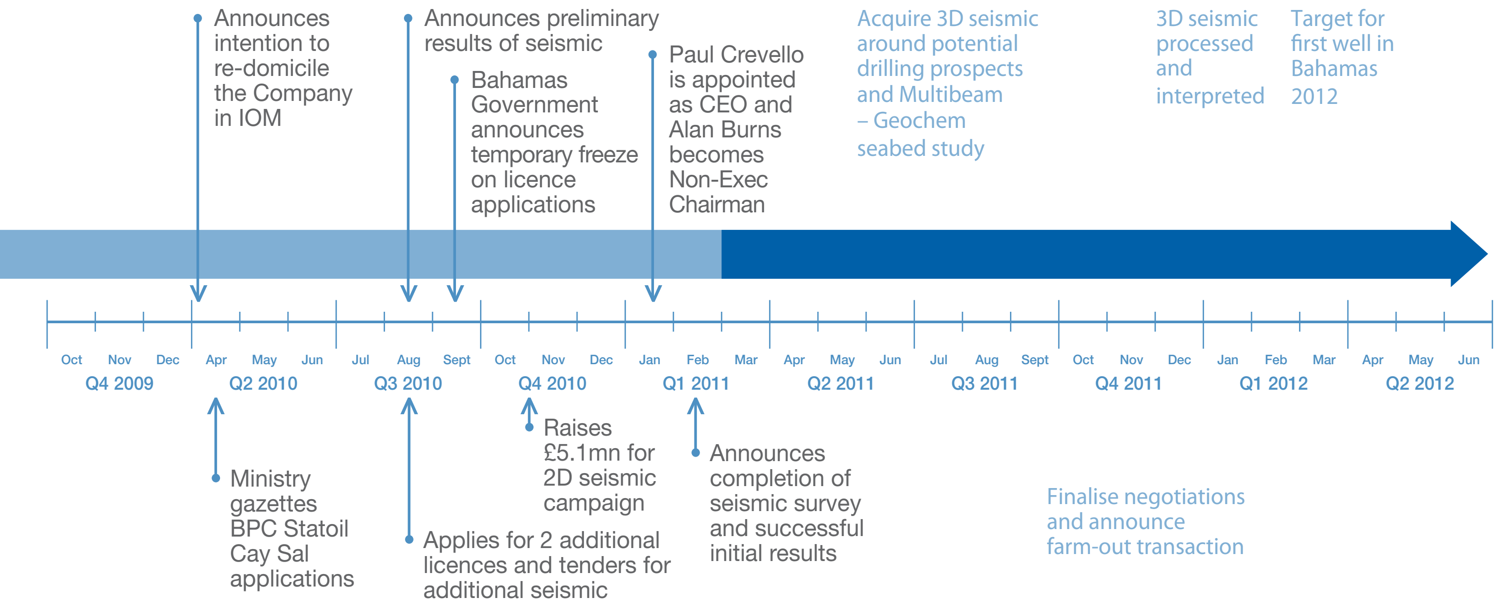


Bahamas Petroleum Company/Statoil JV Exploration Licences

> Awarded licences and licences under application. Five blocks are held 100% by the Company and are scheduled to roll-over into the next 3 year exploration phase in April 2012; 3 blocks under JV application with Statoil were applied for in 2009 over Cay Sal bank and 2 licences were applied for by the Company in July 2010 based on positive results of the June 2010 2D seismic survey.



* Cay Sal JV with Statoil and Bahamas Petroleum Company Santaren and Andros applications are contingent on government requested pre-licencing EIA and lifting of imposed application freeze.



Bahamas Petroleum Company Group Overview

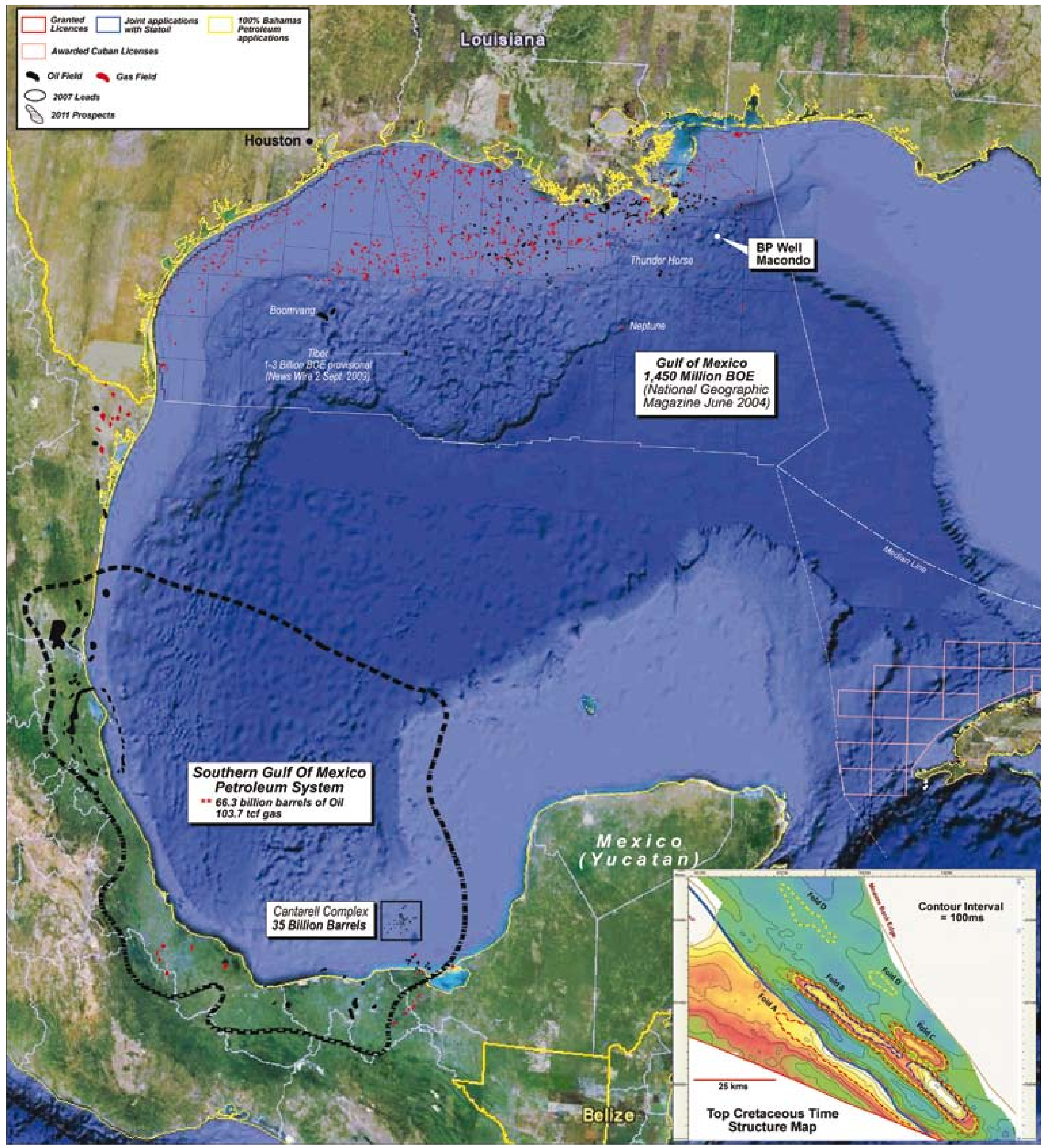
- Formed in 2005 and listed on the AIM market in Sept 2008 (reverse takeover)
  - Current market capitalisation is approx. US$357 million (GBP£218 million) as at 07/05/11 (BPC:AIM)
  - First oil company to conduct new work in the highly prospective southern Bahamas region since 1987
- First mover advantage in assembling a material portfolio of oil and gas leads in The Bahamas
  - World-class exploration with giant (500mn boe) and super-giant leads exceeding 1bn boe
  - Attractive fiscal terms: low royalty and no corporation tax
  - Adjacent to Cuban waters where an active drilling programme is due to commence
- Partial farm-out strategy to fund major costs while retaining 100% ownership in some areas
  - Maintain meaningful working interest positions while reducing exploration risk
- Size and scale of the opportunity is significant
  - Attractive to Majors and NOCs who are increasingly active in the region
- Recent results and near-term seismic and drilling programme
  - New 2D seismic >1,300 km (June 2010 and January 2011)
  - PSDM Seismic analysis defined multiple drillable prospects
  - Ryder Scott has initiated a CPR to define drillable prospects and assign resource estimates
  - 3D seismic planned for Q2 2011
  - Plans to drill projected for 2012

30
exploration leads

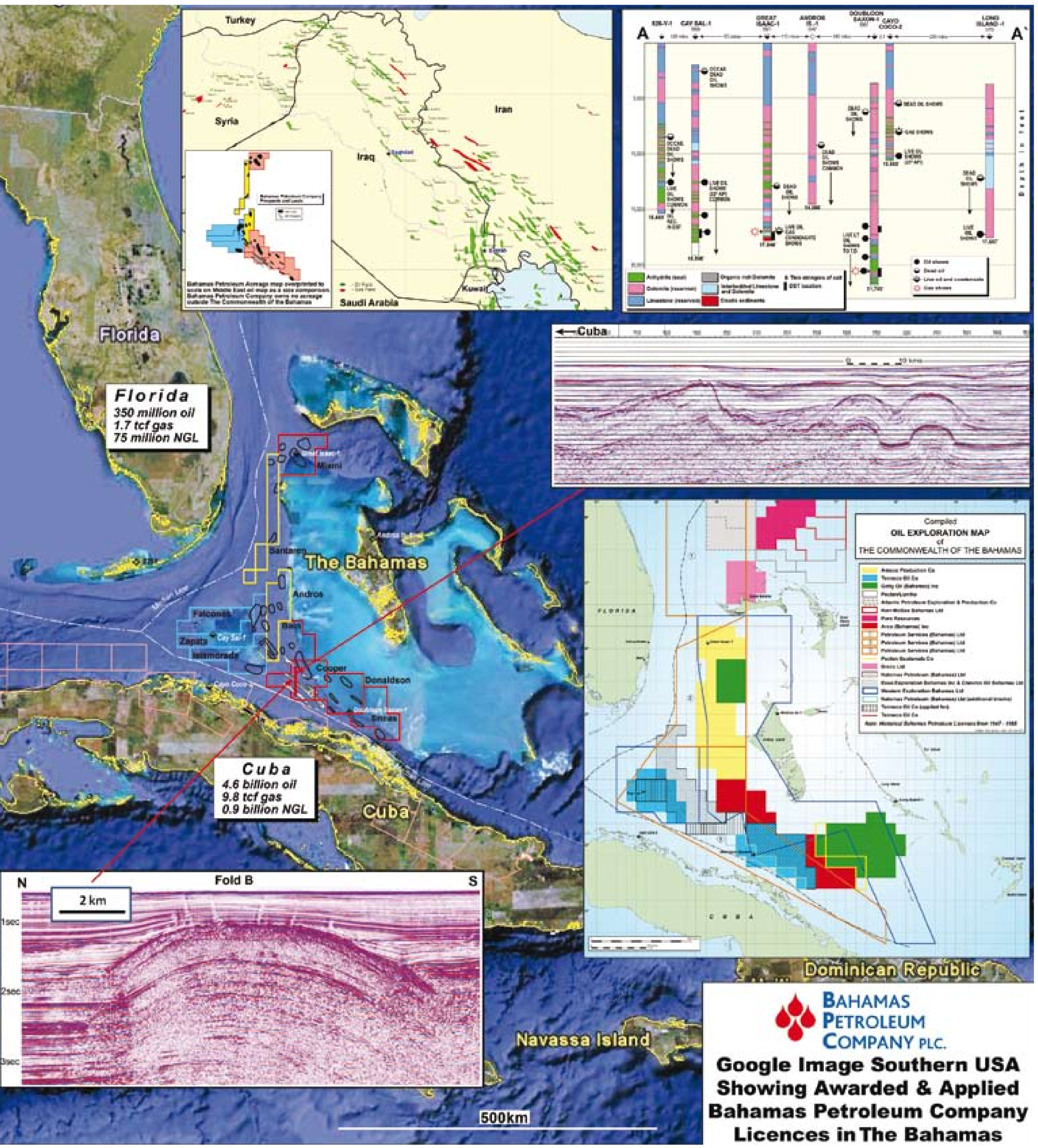
5
licences acquired

6
prospects

Google Image Showing Bahamas Petroleum Company Awarded Licences and Licence Applications



The Google Image of the entire Gulf of Mexico shows the awarded licence areas and areas under application held 100% by the Bahamas Petroleum Company plc or under JV with Statoil in the Commonwealth of The Bahamas. The 6 prospects and 30 leads of the Company are shown in the Company's licence and application areas. The newly mapped prospects of the January 2011 survey are truly giant-size structures that occur in the collision boundary, or fold belt, of the southern Bahamas. The resource potential for the regional Gulf of Mexico are shown: Cuba, Florida, the U.S. Gulf of Mexico adjacent to the Mississippi delta and the southern Gulf of Mexico region of Mexico. Billions of barrels of oil have been generated, produced and are projected yet to be discovered throughout the region. Cuban authorities have announced that offshore drilling will commence this year in the blocks adjacent to and west of the Company's licences.


Turkey
Syria
Iraq
Iran
Kuwait
Saudi Arabia
Florida
Florida
350 million oil
1.7 tcf gas
75 million NGL
The Bahamas
Santaren
Andros
Falcones
Zapata
Cay Sal-1
Islamorada
Bain
Cooper
Donaldson
Miami
Cuba
4.6 billion oil
9.8 tcf gas
0.9 billion NGL
Cuba
Dominican Republic
Navassa Island
500km
N
Fold B
S
2 km
1sec
2sec
3sec
Compiled
OIL EXPLORATION MAP
of
THE COMMONWEALTH OF THE BAHAMAS
Bahamas Petroleum Company PLC.
Google Image Southern USA
Showing Awarded & Applied
Bahamas Petroleum Company
Licences in The Bahamas

Chairman's Statement

Alan Burns

Non-Executive Chairman and Founder

2010 was a busy year for Bahamas Petroleum Company and this success has continued into 2011 with our successful equity placing in March raising £45.6 million before expenses.

Dear Shareholder,

The oil business is one of the largest industries in the world and nations are divided into those that have oil and those that do not. Whilst there are strong geophysical indications of oil in our licence areas the only proof that there are deposits is to drill to find out. Noting that, The Bahamas has been drilled in the past and there is considerable drilling scheduled for this year in Cuban waters next to four of our licence areas, which gives us great encouragement. As we would expect, following the BP Macondo oil spill in April 2010, there has been a drive to update laws and regulations. We welcome this and understand the process is underway. We would only consider a drilling campaign under accepted international standards and procedures. In order to prepare, we have already taken the initiative and are undertaking an environmental impact assessment of our southern awarded licence and Cay Sal licence application areas.

We believe there is great incentive for drilling, both in terms of the requirement for oil products locally and for the oil revenues that the successful development of any oil find would bring for The Bahamas. For instance, The Bahamas government has recently revealed that the half-year Budget recurrent revenue estimates were down by a sum greater than 1% of gross domestic product (GDP). The Commonwealth of The Bahamas is particularly susceptible to oil pricing and imported supply as it is an archipelago with a dispersed population all relying on oil to provide their connection to the wider world. The islands are also highly dependent on tourism as a source of employment, which itself would not be possible without the supply of oil and gas for powering hotels, restaurants and other key tourist-related infrastructure. Furthermore, The Bahamas has been directly engaged in the oil trade for decades, with the major storage terminals on Grand Bahama providing significant revenues for the country so exploration activity can be viewed as an extension of its participation in the oil industry.

We are pleased that we have found very promising structures in southern Bahamas waters remote from any Bahamian population and near the maritime border with Cuba. Cuba has announced that it will be drilling a number of wells in its waters adjacent to our licences and we are planning to drill our first well in 2012. While we have the right, we also have an obligation to drill our first well and are fortunate that the Commonwealth of The Bahamas is a nation with a well respected legal system, with our licences having been approved by two successive governments and signed into existence by both the Minister and the Governor General. Of course, post the Macondo blowout we would expect some improved drilling and environmental regulations to be in place prior to drilling commencing next year.

Although the probable target is as good as I have ever seen in 40 years in the oil business we cannot be certain of anything until it is drilled. If it becomes a discovery, The Bahamas' economy will be changed rapidly, bringing enormous benefits to every Bahamian. We are very enthusiastic about drilling and I thank you all for your support over the years with the many delays this extraordinary project has suffered.

On 17 January 2011, we announced that Paul Crevello would take over my role as Chief Executive and that I would move to the role of Non-Executive Chairman. This has been planned for some time but was brought forward due to my having been diagnosed with a medical condition which required surgery followed by a period of rehabilitation. I am pleased to note that we already had a succession plan in place. Paul had already been enlarging his team in The Bahamas and I had been enlarging the engineering team, readying the Company for the drilling programme. Accordingly the Company has not suffered from my illness. In addition, Mike Proffitt is taking a more active role as Finance Director.

We have been extremely fortunate in recruiting some fine young Bahamians and I feel certain they will greatly help to take the Company forwards into the future.

2011 is set to be a strong year for the Company and we look forward to updating you on our progress in due course.

In closing, I would like to thank shareholders for their support during the year and for the many best wishes I have received. I also appreciate the cooperation of the government of The Bahamas over the years and wish all Bahamians the very best for the future.

Yours sincerely,

Alan Burns
Non-Executive Chairman and Founder

We are pleased that we have found very promising structures in southern Bahamas waters remote from any Bahamian population and near the maritime border with Cuba.

Environmental Report and the Oil Industry in The Bahamas

Bahamas Petroleum Company is dedicated to environmentally responsible exploration and preserving the environment for future generations.

Photograph taken during Environmental Baseline Study
Cay Sal, June 2010

The oil industry entered the Commonwealth of The Bahamas in 1947 with the drilling of the first exploration well on Andros Island. Over the following 40 years, four more wells were drilled across the country in onshore and offshore areas. In addition, two major oil storage terminals were constructed on Freeport and the country maintains one of the largest registries of oil transport tankers by deadweight tonnage in the world as at 1 January 2007.[1]

The five exploration wells in The Bahamas and five offshore wells drilled in adjacent waters of the Florida Keys were all drilled without incident. These wells were drilled in pristine marine coral reef environments or on adjacent islands and cays, and follow-up studies showed that the drilling activities did not impact the environment or the delicate coral reef communities (USGS).[2]

Andros #1 well, drilled in 1947 by Superior Oil Company, was drilled to a total depth of 14,585 ft (4,445 m) soon after World War II when oil companies began the search for more 'Middle East' type fields.

1 Compiled by the UNCTAD secretariat on the basis of data supplied by Lloyd's Register and published in the Review of Maritime Transport, 2007.

2 Systematic Mapping of Bedrock and Habitats along the Florida Reef Tract – Central Key Largo to Halfmoon Shoal (Gulf of Mexico), USGS Professional Paper 1751 by Barbara H. Lidz, Christopher D. Reich, and Eugene A. Shinn http://pubs.usgs.gov/pp/2007/1751/professional-paper/index.html.

Environmentally Responsible Exploration

The Bahamas with their thick deposits of limestone, dolomite and anhydrite are similar to the geology of supergiant fields in the Middle East. The well encountered non-commercial gas. Cay Sal #1 was drilled in 1958 on the shallow interior of Cay Say Bank, which lies in the southwest Bahamas between Cuba and the Florida Keys. This well was an early exploration wildcat venture by George Bush Sr. and Howard Hughes' Zapata Oil Company and drilled by Gulf Oil Company. The well was drilled to 18,905 ft (5,762 m) with oil shows from near 7,000 ft (2,134 m) to total depth with no recorded impact on the environment. The well was deemed to be the first wildcat well drilled in the greater offshore waters of the Gulf of Mexico. Two wells were drilled in succession in 1970 and 1971 onshore Long Island and in offshore waters north of Great Isaac (i.e. of approximately 31 km north of Bimini). The last well to be drilled in The Bahamas was the Doubloon Saxon #1 in 1986. This well was drilled in the shallow waters of the southwest of Great Bahama Bank near Gunchos Cay. It is the deepest well drilled to date in the region with a total depth of 21,740 feet (6,626 m).

All of the wells contained indications of oil and gas. One well in the Florida Keys produced a limited amount of oil and the Great Isaac flowed limited gas and condensate to the surface.

These wells demonstrate that the carbonate (limestone and dolomite) reservoirs drilled in The Bahamas do not contain the highly pressured reservoirs that occur off the Mississippi Delta, such as the BP Macondo well. Overpressured reservoirs are not typical of carbonate reservoirs.

Alongside oil exploration, there is a long history of crude oil and refined petroleum products being shipped through Bahamian waters with the country hosting the fourth largest oil and petroleum products storage terminal in the world in Freeport, Grand Bahama. Oil loading and storage facilities were first installed in Freeport in 1968 with the construction of a refinery by Chevron Corporation. The refinery is no longer in use but the storage facility has expanded considerably. Known as The Bahamas Oil Refining Company (BORCO), the storage terminal was sold in January 2011 by First Reserve Corporation to Buckeye Partners LP. The new owner intends to add approximately 7.5 million barrels of flexible petroleum product storage to the existing 21.6 million barrel facility. The expansion and upgrades will be phased in over the next two to three years with estimates of the proposed expenditure for the 2011 upgrades ranging from $200 million to $250 million for the expansion of the jetty structure, the inland dock and berth developments and the terminal storage tanks.

Statoil ASA acquired the rights to South Riding Point terminal, 35 km east of BORCO on Grand Bahama, in 2009 for US$263 million. Statoil is investing between $200 and $250 million in a major expansion project, including upgrades and expansions of the jetty structure, the inland dock and berth developments and terminal storage tanks in 2011. Both South Riding Point and BORCO facilities are undergoing growth and upgrading.

In addition, the port authority and shipbuilding facilities in Freeport are capable of providing petroleum services support and modest marine construction. We have investigated the reality of building up compartmentalised FPSO (Floating Production Storage and Offloading) units. Freeport has the capacity for expansion of the port in the event there is growth related to the petroleum exploration industry.

In 2007, Bahamas Petroleum Company plc was granted five oil exploration licences in the territorial waters and maritime Exclusive Economic Zone of the Commonwealth of The Bahamas. The licences encompass an area of approximately 15,676 km^2 (3,873,546 acres).
As part of the Company's long-term commitment to the development of the petroleum sector in The Bahamas, the Company is working to highlight and address environmental challenges and risks associated with industrial development in the area.

Ms Roberta Quant, a Bahamian environmental scientist, joined Bahamas Petroleum Company in January 2011 to manage the environmental aspect of the Company and ensure that environmental challenges and concerns are handled in a professional and sensitive manner with the ultimate goal being to protect the environment of The Bahamas. Ms Quant has worked for the government of The Bahamas as an Environmental Regulator and Protector and has a great deal of experience in environmental protection. Her expertise complements Dr Crevello, the CEO of the Company, who graduated from the University of Miami, Rosentiel School of Marine and Atmospheric Sciences and has vast experience with assessing coral reefs and understands the fragility of the marine and coastal ecosystems.

Environmental Report and the Oil Industry in The Bahamas (continued)

In June 2010, Bahamas Petroleum Company completed an environmental baseline study of the islands and islets of Cay Sal Bank, including Cay Sal (Island), Elbow Cay and Anguilla Cay with three marine and environmental graduate students from RSMAS University of Miami, Florida State University and Kansas State. The study showed that the beaches had varying amounts of minor contamination from tar residue, but overall the presence of tar was determined not to have been a contaminant from the Deep Horizon spill in the Gulf of Mexico. Preliminary analyses indicate the tar and asphalt found were derived from natural oil seeps.

Cay Sal (Island) has less than 1% minor rocky coastline while the Anguilla shoreline is approximately 60% rocky coast and Elbow Cay has no beaches and consists entirely of rocky cliff shoreline with 1 m to 10 m high cliffs.

The Company successfully acquired 2D seismic in June 2010 and January 2011 by using the services of Spectrum ASA and Seabird Exploration (Osprey Explorer vessel) respectively.

Both companies followed the International Association of Geophysical Contractors (IAGC) and the United Kingdom Joint Nature Conservation Committee (UK JNCC) guidelines for minimising the risk of injury or disturbance to marine mammals, as well as relevant local regulations. A scout vessel patrolled ahead of the seismic vessel in the course of monitoring the area, searching for marine mammals. In addition, the crew monitored the area but no marine mammals were identified during the surveys.

Based on the positive results of the new 2D seismic the Company is progressing its exploration goals of initiating a 3D seismic survey in May 2011. A Letter of Award has been signed with CGGVeritas to use their Broadseis technology to acquire a 3D seismic survey commencing at the end of May 2011.

In late August 2010, as a result of the Deepwater Horizon rig explosion/ oil spill in the Gulf of Mexico the government of The Bahamas imposed a moratorium on the consideration of any new oil exploration licence applications in order to allow the government to review the lessons learned from the spill and to establish a regulatory regime. Bahamas Petroleum Company is supporting the government's efforts to establish regulations. The Company's exploration programme is not affected by the hold-up.

Bahamas Petroleum Company has initiated an Environmental Impact Assessment (EIA) inclusive of an Environmental Management Plan (EMP), an oil spill model study and a seabed geochemical study in addition to the 3D seismic programme. The EIA and EMP will be the first step of a series of submittals to the government to pave the way forward to a drilling campaign on schedule for 2012.

Bahamas Petroleum Company believes that exploration and the drilling of wells can be done safely in The Bahamas. The Company is dedicated to the protection of the environment for future generations and will ensure that internationally accepted drilling practices, policies and procedures are in place prior to undertaking a drilling campaign.

CEO's Report

Paul Crevello

Chief Executive Officer

2010 was an extremely positive year for Bahamas Petroleum Company and 2011 has had a very strong start with the new 2D seismic, share placing and initiation of the 3D seismic survey.

Data Room, Isle of Man

Dear Shareholder,
I am writing to you for the first time as Chief Executive of Bahamas Petroleum Company plc and have the good fortune to tell our shareholders that the past year has seen significant advances in our exploration programme.

Highlights

- The Company has experienced significant growth in shareholder value in the last quarter of 2010 based, we believe, on the positive results of our seismic programmes and the investors' belief in a sound exploration programme with very significant upside potential.

- The Company has undertaken the first modern seismic survey in the southern Bahamas since 1987. Results of our 2D seismic surveys reveal giant structures up to 70 km long, with four-way vertical closure from 100 m to substantially over a kilometre which, in the view of the Board of the Company, are very exciting prospects.

- Based on the success of the 2D seismic, the Company has applied for two additional licences that cover an approximate total of 6,210 km^2 or 1,534,600 acres. These applications are currently under review by The Bahamian government.

- The Company signed a letter of award with CGGVeritas to initiate a 3D seismic survey over the southern licences to further de-risk these prospects.

- In March and April 2011 the Company completed placings of £20.6 million and £25 million respectively before expenses which has put the Company in a strong financial position, with the necessary financing now in place to accelerate its exploration programme. This raise has expanded the Company's shareholder base with new institutions, whilst also receiving strong support from existing shareholders.

- The joint venture with Statoil is progressing well and the companies have initiated an environmental impact assessment over Cay Sal Bank as requested by The Bahamian government. This will move forward the licence application process.

- The Company is holding discussions with potential additional farm-in partners.

- The Company remains on track to drill our first well in 2012.

CEO's Report (continued)

The Company advanced its exploration programme in 2010 and the first quarter of 2011 by acquiring the first 2D seismic survey in the southern region of The Bahamas in over 25 years. The Company engaged Spectrum ASA to acquire an initial test survey of 194 km of 2D data designed to demonstrate the advances in modern seismic acquisition and technology over the vintage (1987 and older) seismic data. The vintage data was used by the Company to define the prospective 500 million barrel leads reported in the Competent Persons Report published in 2007.

The 2D seismic survey twinned selected vintage lines providing direct comparison of the new versus old seismic data. The test survey was unique in that we employed a 10 km long seismic cable versus the industry standard of 6 to 8 km. Previous vintage 1987 data was acquired using a short 4 km recording streamer. The longer cable and associated recording parameters were used because of the large size of the prospects, the broad curvature of the folds and the necessity to image deeper subsalt objectives. The Company took advantage of a seismic vessel transiting the region, resulting in significant cost savings.

The fully processed, Pre-Stack Time Migrated (PSTM) 2010 seismic data suggests that hydrocarbons are present in the southern area, indicated by what industry calls direct hydrocarbon indicators (DHI's). DHI's are interpreted indirectly by dim zones above the crest of structures, phase/polarity changes at the crest of structures or by open sea floor vents, i.e. natural sea floor seeps, which are commonly associated with oil fields. The DHI's, especially the vents, indicate an actively generating petroleum system.

Following the success of the June 2010 survey, the Company engaged SeaBird Exploration (Osprey Explorer Vessel) in January 2011 and acquired a comprehensive, closely spaced 2D seismic survey in the southern fold belt. This survey was another first for the Company and The Bahamas in that it was the only closely spaced mid-water depth (i.e. ~ 500 m deep) survey to be undertaken in the southern Bahamas designed to map prospects. The survey (5 km to 10 km grid) focused on mapping the large fold belt prospects in our southern licences. The results are significant in that they define at least six major prospects that range in aerial size from 33 km^2 (8,150 acres) to 465 km^2 (114,900 acres). Vertical 4-way closure, which is the maximum possible height for hydrocarbons to fill the structure, range from 100 m to as much as 1.5 km or more, depending on rock velocity properties. The seismic lines and associated maps clearly demonstrate the giant size and extent of the newly mapped prospects. This data is undergoing full processing through PSTM and will be passed on to Ryder Scott Consultants who will complete a resource evaluation of the prospects by the end of summer 2011.

The Company has awarded a 3D seismic contract to CGGVeritas to survey over the southern fold belt, which the Company will use to de-risk and prioritise the prospect portfolio. The Company intends to undertake a 2D survey over its northern licence where oil shows and a gas condensate reservoir were encountered in the Great Isaac #1 well.

The joint venture licence application with Statoil over Cay Sal Bank is continuing to progress. The government of The Bahamas has requested that we undertake an Environmental Impact Assessment (EIA) over the bank as part of the steps of moving the licences forward to the review and approval stage and these licences were gazetted on 22 April 2010 as part of this process. The 2010 BP Macondo oil spill created a global shock wave across the industry and caused governments to reassess their drilling policies and procedures. The government of The Bahamas requested that the EIA evaluate the potential risks of our exploration area/programme as a prerequisite to awarding the licences. We expect to have clarification on the awarding of these licences upon completion of the EIA evaluation.

At the year end, the Company had US$6.1 million in cash and has firmly raised an additional US$31.4 million (£20.6 million) before expenses in March 2011, with a further US$37.9 million (£25 million) before expenses which followed shareholder approval at an Extraordinary General Meeting held on 11 April 2011. The proceeds will go towards the acquisition of 3D seismic and 2D shallow seismic (US$35.2 million), Geochemical sniffer/multibeam (US$6.4 million) and the remainder (US$27.7 million) on working capital and other exploration costs.

All in all, 2010 was an extremely positive year for the Company and 2011 has already got off to a very strong start with the new 2D seismic, share placing and initiation of the 3D seismic survey.

Outlook

I anticipate that 2011 will see significant growth in the Company, with the potential completion of further farm-ins to best position the Company, such that we enter 2012 ready to drill our first of these giant-size prospects. The Board continues to look to the future with confidence.

Yours sincerely,

Paul Crevello,
Chief Executive Officer

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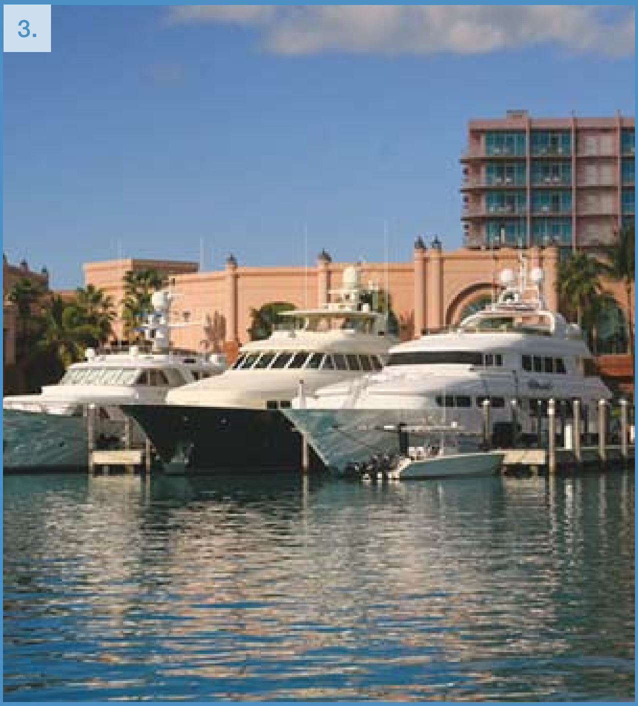


1. Bahamas Aircraft, Nassau Airport
2. Bay Street, Downtown Nassau
3. Super Yachts moored at the Atlantis Hotel, Paradise Island

Operating Review
Royalty Rates, Lease Terms

PRODUCTION LEVEL	ROYALTY RATE
Oil production, up to 75,000 bopd	12.5%
Oil production, up to 75,000 to 150,000 bopd	15.0%
Oil production, up to 150,000 to 250,000 bopd	17.5%
Oil production, up to 250,000 to 350,000 bopd	20.0%
Oil production, in excess of 350,000 bopd	25.0%
Gas production	12.5%

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

Bahamas Petroleum Company and Bahamas Petroleum Company/Statoil JV Exploration Licences

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

* Interest for all licences: 100%.
Expiry date for all awarded licences: 26 April 2012 (granted two year extension).

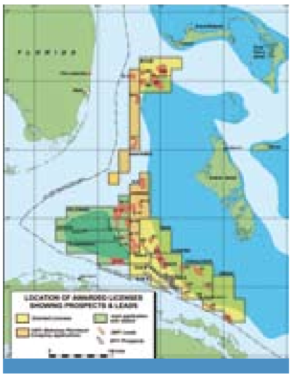
APPLICATION**	HOLDER	LICENCE AREA
The Bahamas – Islamorada Licence (offshore)	Bahamas Petroleum Company plc/Statoil	777,900 acres 3,148 km^2
The Bahamas – Zapata Licence (offshore)	Bahamas Petroleum Company plc/Statoil	776,200 acres 3,141 km^2
The Bahamas – Falcones Licence (offshore)	Bahamas Petroleum Company plc/Statoil	774,600 acres 3,135 km^2

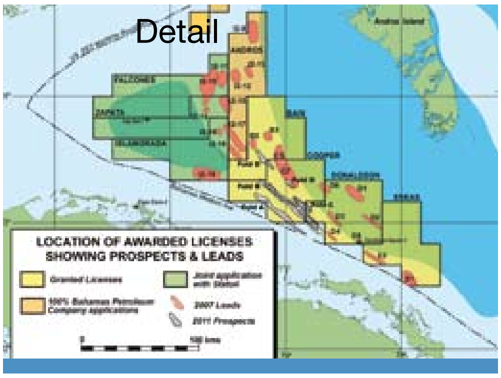
** Joint Venture Interest for all licences: Statoil – Bahamas Petroleum Company plc.

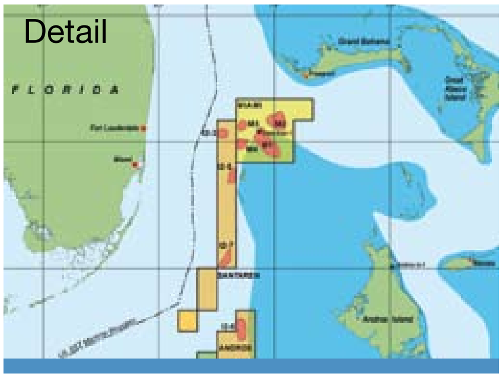
APPLICATION***	HOLDER	LICENCE AREA
The Bahamas – Santaren Licence (offshore)	Bahamas Petroleum Company	760,100 acres 3,076 km^2
The Bahamas – Andros Licence (offshore)	Bahamas Petroleum Company	774,500 acres 3,141 km^2

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

Approximate licence boundaries.
Statoil operator with majority interest.
Projected Q1 2013 to request three year renewal.







Bahamas Petroleum Company Technical Team, Consultants

- Dr Paul Crevello has over thirty years' experience in US domestic and international exploration in more than 40 countries
  - University of Miami (Master of Science in Marine Geology) and Colorado School of Mines (Doctor of Philosophy in Geology)
  - Marathon Oil (1978–1994) directed worldwide carbonate geologic exploration research
  - Founded SE Asia's first university petroleum studies programme in 1994 and founded Petrex Asia in 1997, developing it into a leading technical consulting firm
  - Numerous awards and distinctions from international societies for authorship and invited papers on carbonate and sandstone reservoirs, AAPG International Distinguished Speaker, Chairman of JOIDES Ocean Drilling Programme and served on numerous committees and ancillary societies
  - Conducted research exploration in The Bahamas since 1975

- Standing US and UK Consultants
  - Mr Michael Coulthard, Subsea Completion Engineer
  - Mr Jock Drummond, Seismic Processing Expert
  - Dr James Edwards, Explorationist
  - Mr James Ehrets, Reservoir Geologist and Engineer, Exploration Manager
  - Dr Richard Inden, Carbonate Exploration and Sedimentology expert
  - Dr Howard Johnson, Regional Exploration and Sedimentology expert
  - Dr Charles Kerans, Carbonate Stratigrapher
  - Dr Jon Kirtpatrick, Geophysicist and Seismic Specialist in Carbonate Exploration and Exploitation
  - Prof. Dr Paul Olsen, Triassic-Jurassic Atlantic Rift Basin Expert
  - Mr Paul Ozanich, Geophysicist and Interpreter
  - Dr Mark Rowan, Structural Geologist, Expert in Gulf of Mexico and Fold and Thrust Belts
  - Mr Ian Thomson, Drilling Engineer
  - Dr Douglas Waples, Organic Geochemistry and Basin Modelling Expert

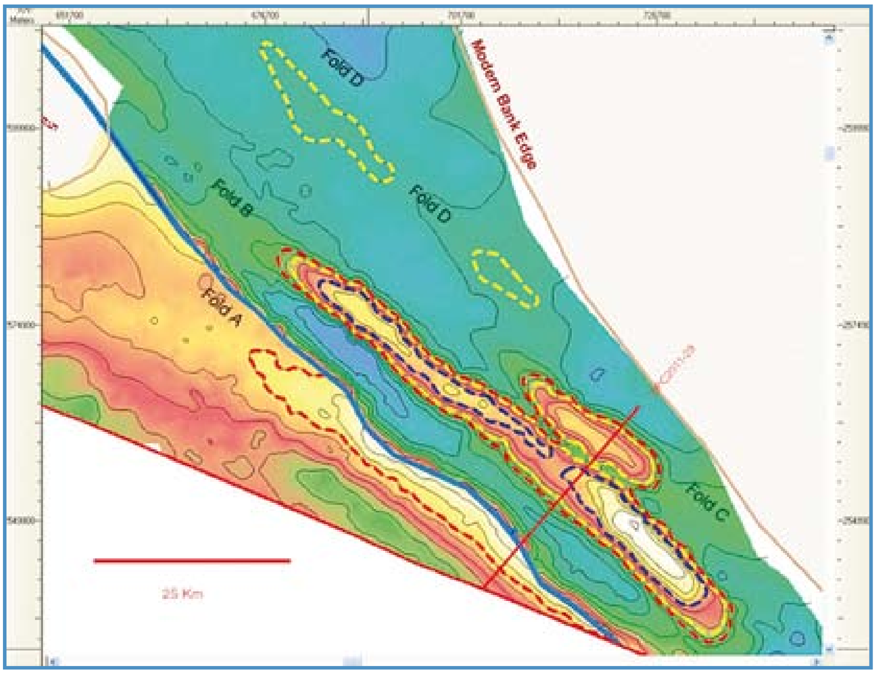
- University Industrial Programmes
  - University of Texas, Bureau of Economic Geology RCLR
  - University of Utah, EGI

Operating Review (continued)

Giant Prospects – Bahamas Petroleum Company Map Structure Top of Cretaceous – PSTM Data

The Cretaceous map shown was generated from the PSTM (Pre-Stack Time Migration) fully processed data. The horizon that the map is based on is the orange horizon shown in the underlying seismic cross-section. The bright areas on the map represent the highs on the horizon and the dark cool colours show that the horizon is very deep. The red and orange dashed lines outline the prospects.

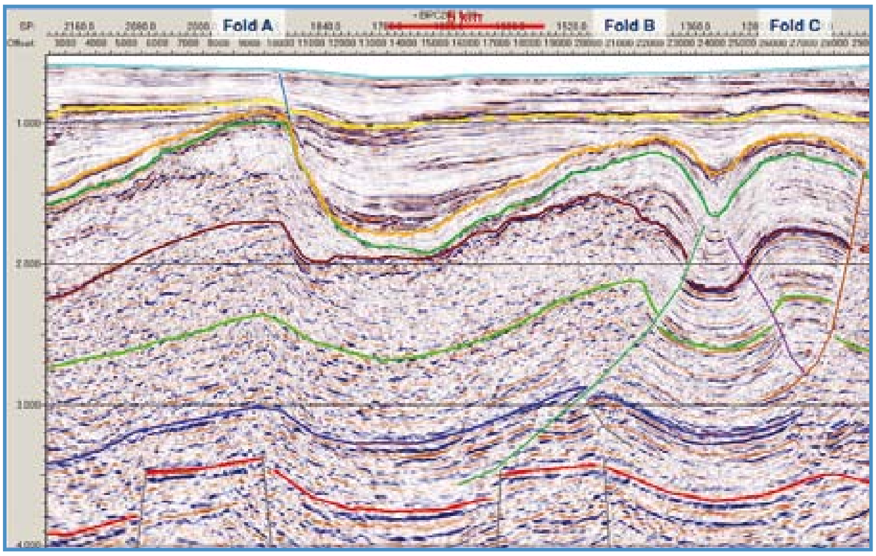
The map illustrates four large structural folds that trend parallel to each other in a WNW ESE orientation. The folds, or anticlines, are separated by low synclines. Hydrocarbons are typically trapped in the crest of the anticlines. The structures range from 10 to 75 km long. The vertical four-way closure, which is the height to which oil can fill the structure, ranges from less than 50 to 750 milliseconds in time. This is about 100 m to over 1.5 km thick. The seismic map demonstrates the prospects are indeed supergiant. Near term exploration will focus on 3D seismic and sea bed geochemistry over these prospects and 2D seismic in the Miami licence.



Description: 2011-2D Seismic showing top of Cretaceous orange horizon mapped during survey to define structures

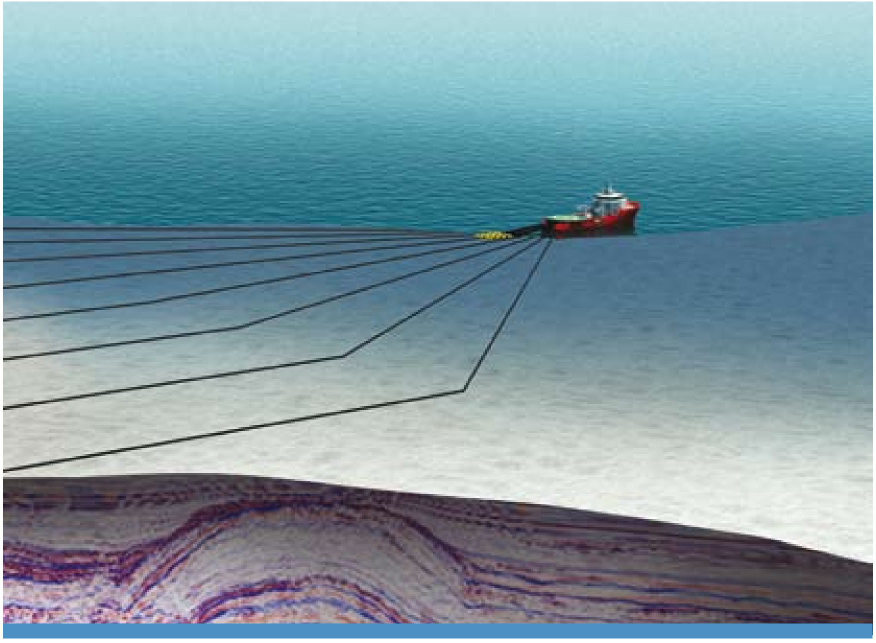
2011-2D PSTM Seismic Showing Top of Cretaceous Orange Horizon Mapped with the Newly Processed Data

The processed PSTM (Pre-Stack Time Migration) such as the one shown here required several months to process with complex mathematical algorithms. These major structures were initially mapped during shipboard acquisition and verified the giant 4-way closure. The newly processed data confirms the size and closure of the initial shipboard interpretations and this table shows the exceptional size of each prospect.



3D Seismic Vessel Exploration Scenario

A seismic vessel acquiring 3D seismic over the southern fold belt. The vessel is towing six receiver cables shown in grey and an array of air guns (yellow). The cables can vary from 6 to 10 km long and separated by 100 m. The air gun array is towed immediately behind the vessel near the compressed air supply.



6-10 km

Cables can vary from 6 to 10 km long

Size of Prospects Identified by January 2011 2D Survey

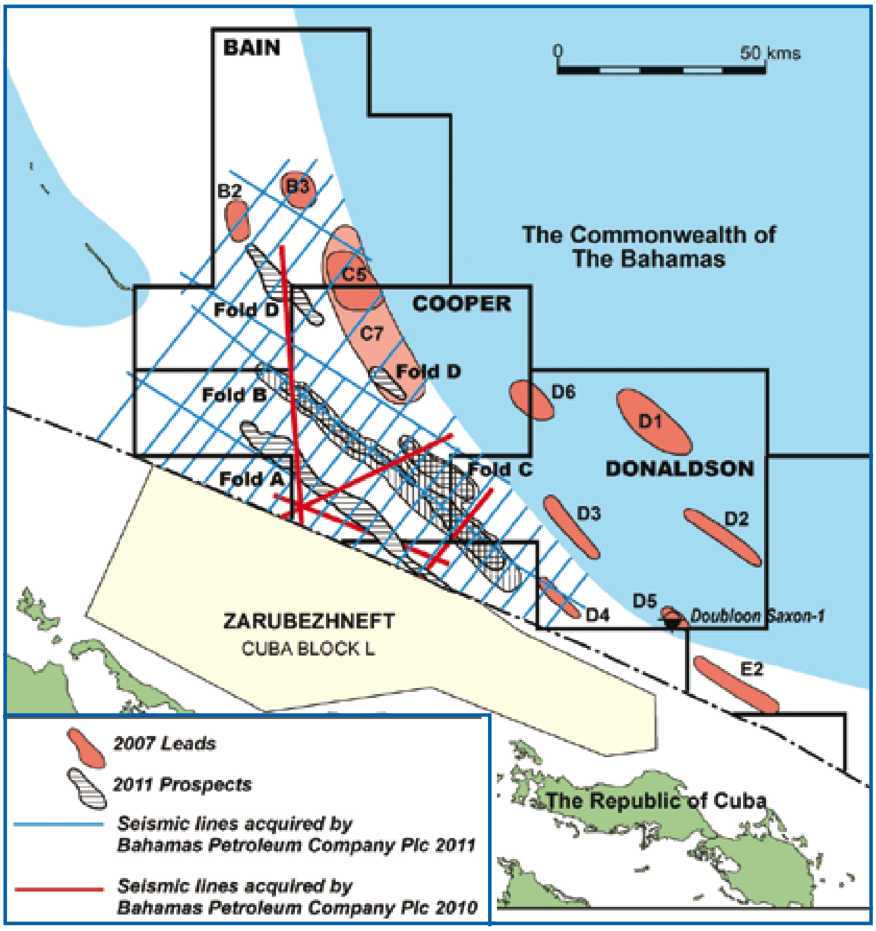
Top Cretaceous
Polygons Based on Lowest Closed 50 ms Contour, May 2011

SURFACE	FOLD	LENGTH (KM)	SQ KM	ACRES	CLOSURE 2 – WAY TIME	COMMENT	COLOUR
Top Cret.	A	59	205	50,600	150-200ms	Based on 1.200 contour	Red
Top Cret.	B & C	75	524	129,400	400-750ms	Based on 1.650 contour	Red
Top Cret.	B	71	350	86,400	200-650ms	Based on 1.550 contour	Yellow
Top Cret.	B-N	37	76	18,800	150ms	Based on 1.300 contour	Blue
Top Cret.	B-S	24	97	24,000	400ms	Based on 1.300 contour	Blue
Top Cret.	C	19	72	17,800	300ms	Based on 1.550 contour	Yellow
Top Cret.	D-N	24	76	18,800	<50ms	Based on 1.900 contour	Yellow
Top Cret.	D-S	10	24	6,000	<50ms	Based on 1.850 contour	Yellow

Operating Review (continued)

2011 2D Seismic grid and Mapped Prospects

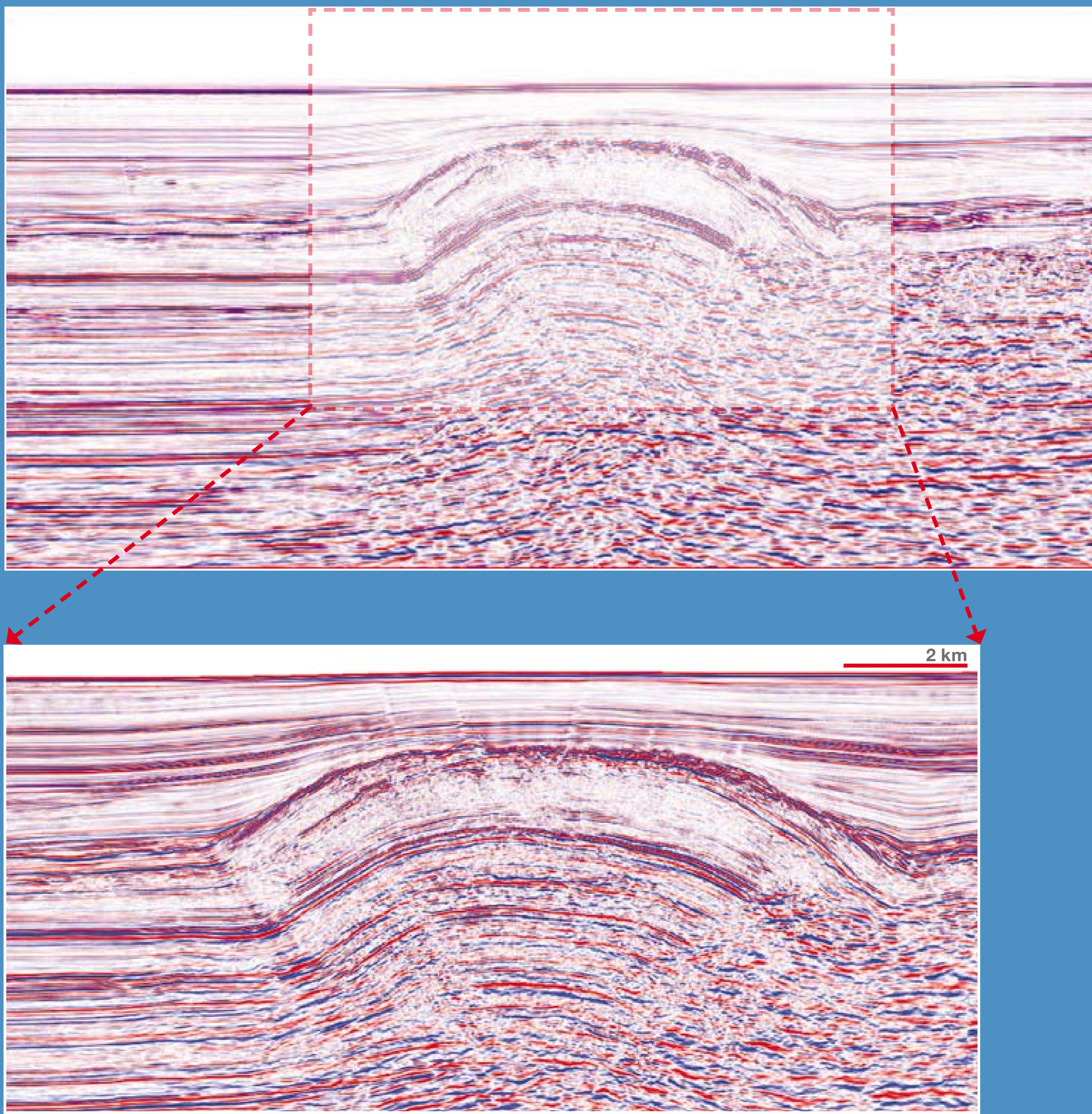
Seismic grid plan undertaken by Norwegian seismic companies SeaBird Exploration (www.sbexp.com) in 2011 and Spectrum ASA (www.spectrumasa.com) in 2010. Following various negotiations with other oil companies, it is expected that an additional partner will join our project post the structural definition and potential volumetrics determined by this more detailed survey.



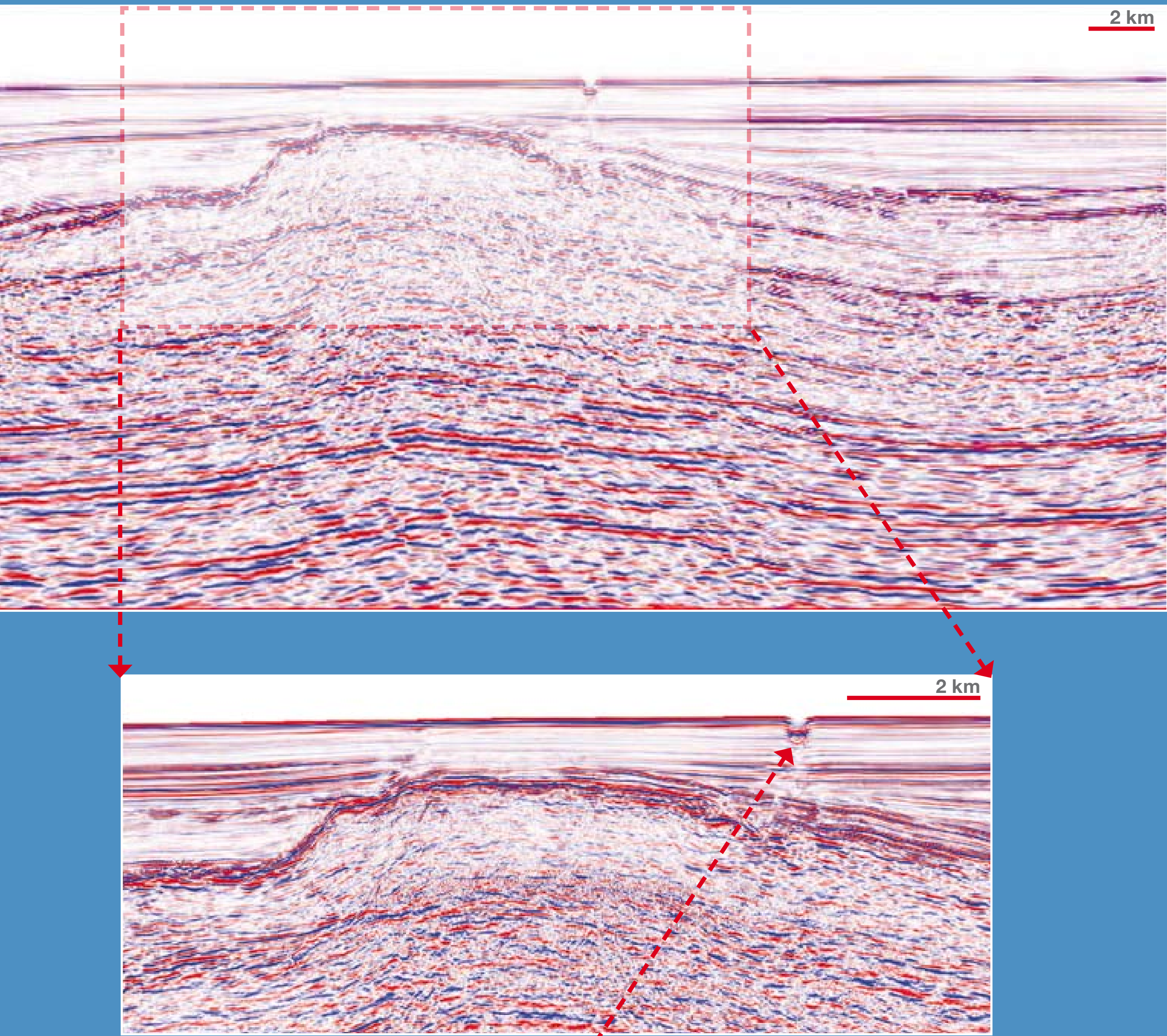
It is expected that one or more partners will join our project post the Company's completion of its structural and prospect evaluation and post the CPR resource evaluation by Ryder Scott.

1. Clifton Pier Power Station, Nassau
2. The Bahamas fishing community
3. Cruise ships docked in Nassau Harbour

Bahamas Petroleum Seismic Line June 2010 Survey



Reservoir and seals present across the northern field



Seafloor Seep or vent seen on the ocean bottom

The 2D seismic line was acquired in June 2010 across the southern licences of Bahamas Petroleum Company plc. The 2D line shows two major folds that are approximately 10 km across and over 1 second of apparent vertical closure. These structures were mapped as prospects in the January 2011 2D survey with the left fold over 70 km long and with > 1.5 km of vertical 4-way closure, i.e., 1.5 km of fill potential. The right fold is about 50 km long and ranges from 100 to 300 m of vertical 4-way closure.

The enlarged views of both folds show lateral continuity of strata across the width of the structures and, importantly, the lack of faults in the core of the structure. The right flank shows indirect evidence of an active hydrocarbon system by the presence of the sea floor vent or open hole. Preservation of the vent indicates that hydrocarbons are currently being generated today. These features are common in areas of oil fields. The Company will undertake a seabed geochemistry study to evaluate these sea floor features.

Operating Review (continued)

The Bahamas office staff
Left to right: Paul Crevello, Roberta Quant, Ashli Munnings, Jobeth Coleby

The Company is pleased to announce that it has recently employed three Bahamian members of staff who are based at the Nassau office with the CEO, Paul Crevello.

Ashli Munnings is the Executive Assistant to the CEO. She has previously worked in Capital Markets and Prime Brokerage Sales in New York and brings a wealth of experience to the Company.

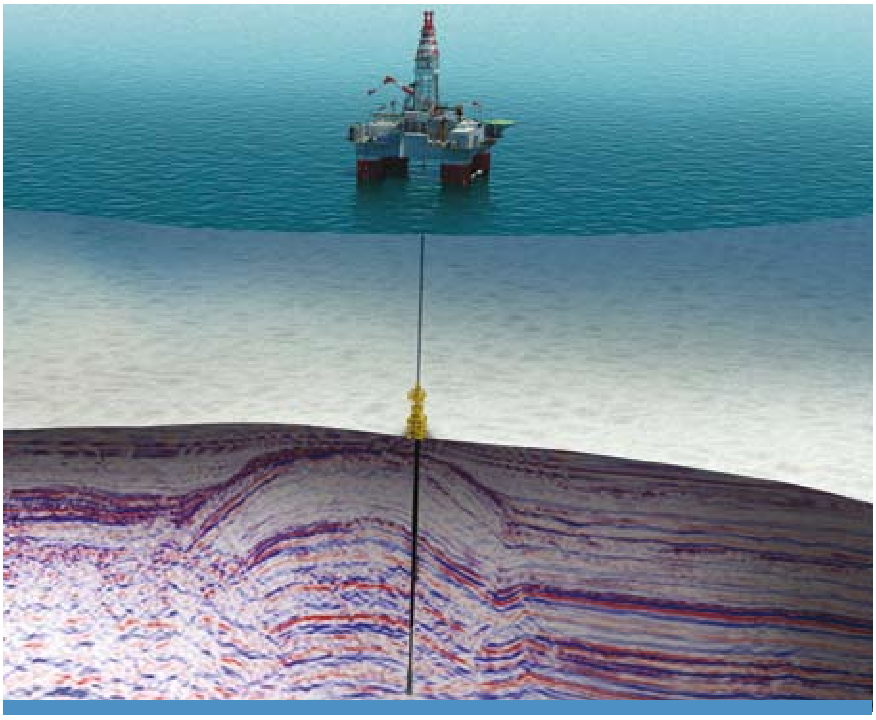
Roberta Quant is the Environmental Scientist whose responsibilities are to ensure that health, safety and environmental policies are maintained to the highest international standards, promote activities of the Company throughout The Bahamas and engage petroleum and investment sectors. Roberta has worked with the Bahamas Environment, Science and Technology Commission (BEST) where she provided advice to the government of The Bahamas in the areas of environmental issues and policy development.

Jobeth Coleby's role is that of in-house Corporate Lawyer. She gained her dual Bachelor of Law degree with Business Management at Keele University, UK and completed her bar vocational course at Nottingham Trent University. She has worked for Bank of Nova Scotia as a contracted Compliance Officer, working alongside Bank Lawyers and the Financial Services Commission (FSC) to ensure organisations were efficiently and effectively adhering to laws and regulations. She was responsible for commercial customers of the Bank, carrying out due diligence, risk management and inspections of their operations for compliance with the financial policy of the FSC. This has enabled her to have a strong knowledge of Anti-Money Laundering laws, The Companies Act and regulations of the Country. Jobeth has an excellent knowledge of the legal system in The Bahamas and works closely with the management team to advise on legal and commercial risks associated with day to day business operations. She is also building a good working relationship with The Bahamas government.

Inter-Island Mailboat, Bahamas

Exploration Drilling Scenario

The diagram is of a dynamically positioned (DP) Semi-Submersible drilling the Bahamas Petroleum Company exploration well Perseverance #1 in a large four-way closure prospect of the southern fold belt. The well is shown with the drill bit in the Lower Cretaceous reservoir interval. Dynamic positioning enables the drill ship to maintain position in mid water depths without the need for anchors or seabed tethers. The water depth is 500 m (1,640 feet). The BOP (Blow Out Preventer) is shown connected at the seabed through a riser to the semi-sub. Several strings of casing have been set with drill string and the drill bit is shown drilling at several thousand metres below the sea bed in the Lower Cretaceous interval.



Operating Review (continued)

Why The Bahamas?

Overview

- A politically stable country with an uninterrupted parliamentary democracy of over 275 years
- Excellent fiscal terms and English-based Rule of Law
- Benefits from proximity to extensive oil field service and infrastructure providers in US Gulf of Mexico
- Close proximity to energy-hungry US market, both in the GoM and along the US Atlantic coast

Commonwealth of The Bahamas

Population:	**310,426**
GDP (US$ Bn):	**7.38**
GDP per capita (US$):	**28,600**
Unemployment rate (%):	**14%**
Median age (years):	**29.9**
Literacy:	**96%**

Key industries: Tourism, banking, cement, oil transhipment, salt, rum, aragonite, pharmaceuticals.

Source: CIA World Fact Book, Bahamas Department of Statistics – 29/12/2010

Industry in The Bahamas

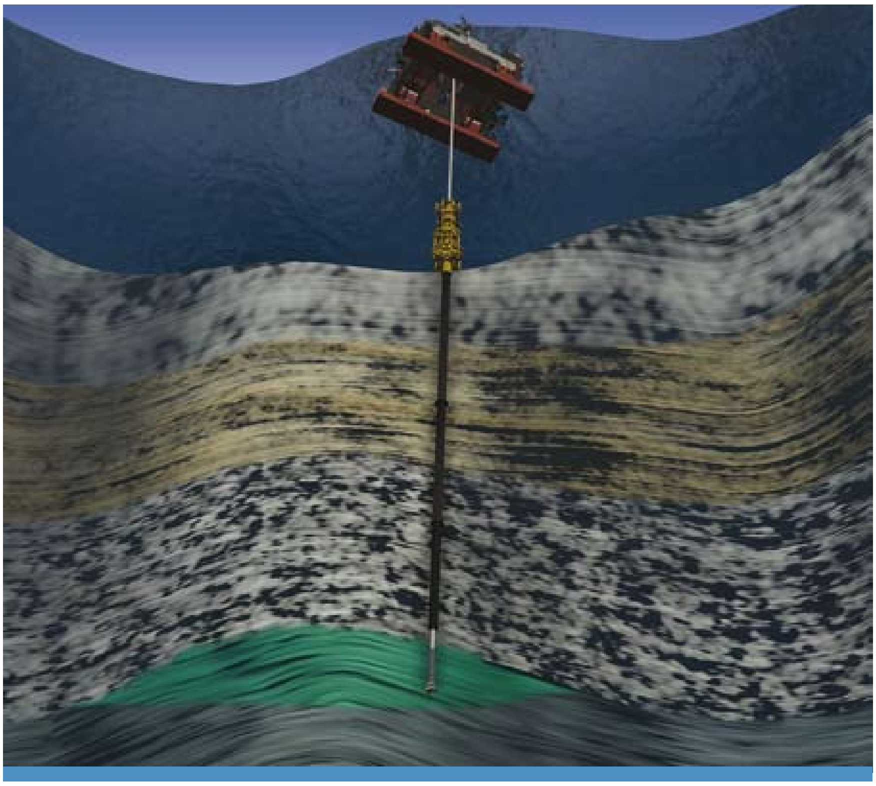
- Freeport is the major industrial centre of The Bahamas, with container facilities, oil off-loading terminals, dry dockage and an oil storage terminal.
  - – BORCO is the largest storage terminal in the Caribbean. Buckeye Partners completed its acquisition of 100% interest in BORCO in February 2011 and plans to extend the existing 21.6 million barrel facility to 29.1 million barrels over the next two to three years.
  - – Statoil recently acquired South Riding Point Terminal for approximately $263 million and have committed to several hundred million dollars in upgrades to the facility and job growth.
- Ship registration under The Bahamas flag is the world's fifth largest fleet and the world's largest registry for oil tankers with several thousand vessels.
  - – Many of the most respected international ship-owning companies fly the Bahamian flag, including Exxon International, Maersk Line, Teekay Shipping and Chevron. Registered luxury vessels include the ships of Norwegian Cruise Lines and Holland-America Cruises along with cargo steamers, frigates, freighters, tankers and tugboats.

BORCO Oil Storage Terminal at Freeport Industrial Port, The Bahamas

World shipping traffic including oil tankers near and through The Bahamas

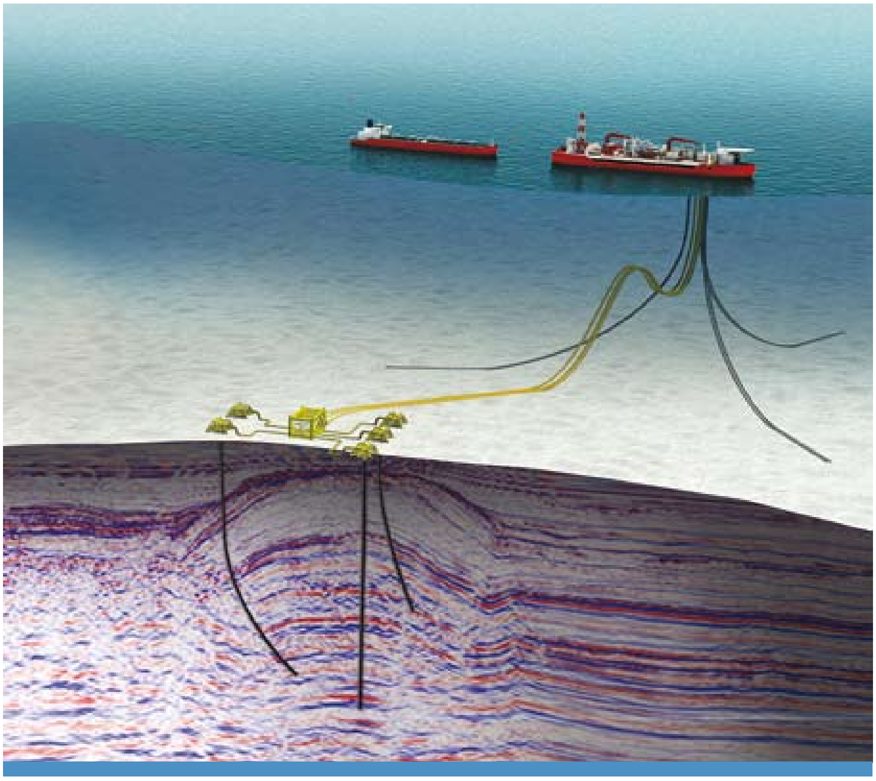
Semi-Submersible – Exploration Drilling Scenario

Perspective of the semi-submersible from below shown penetrating rock layers and encountering oil in the folded strata.



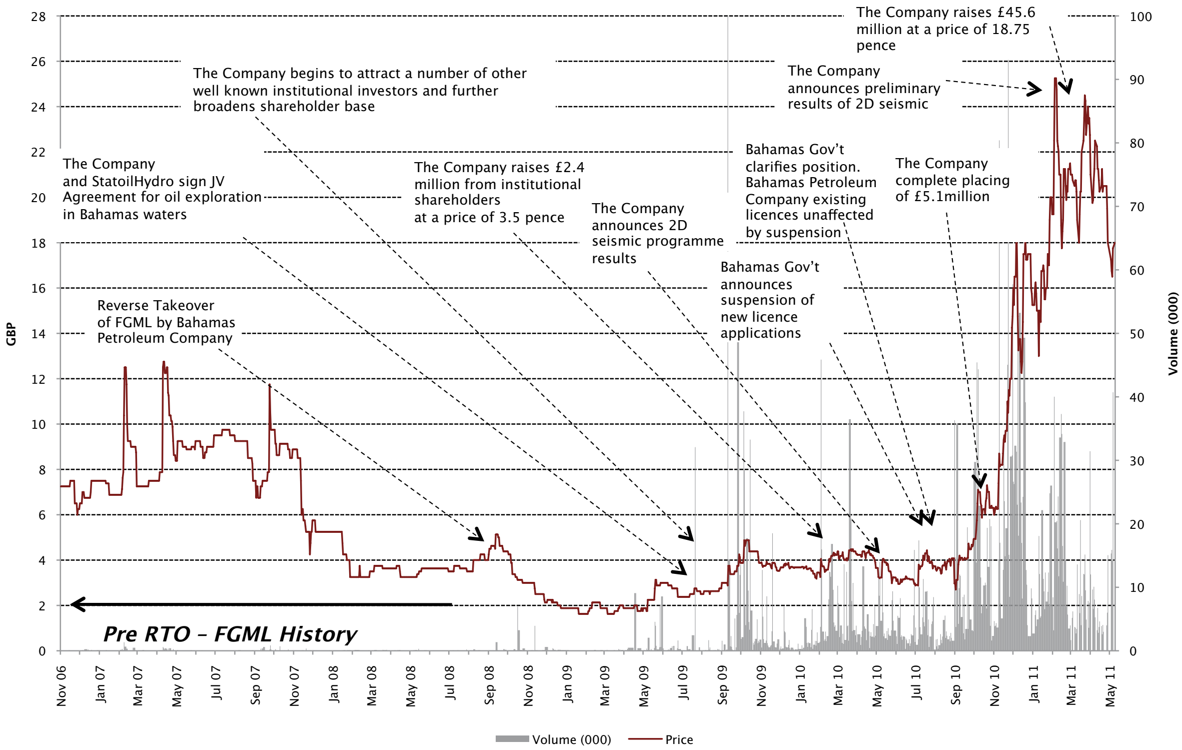
FPSO and Subsea Completion Scenario

The diagram shows a Floating Production, Storage and Offloading (FPSO) unit and a shuttle tanker on location over the subsea wells on the sea bed. Three producing wells are shown penetrating various levels of the Lower Cretaceous. The producing wells are connected through tubing to the subsea manifold at the sea bed for commingling before flowing up the risers to the FPSO for processing and storage. The shuttle tankers pull alongside the FPSO to offload produced oil for delivery to point of sales.



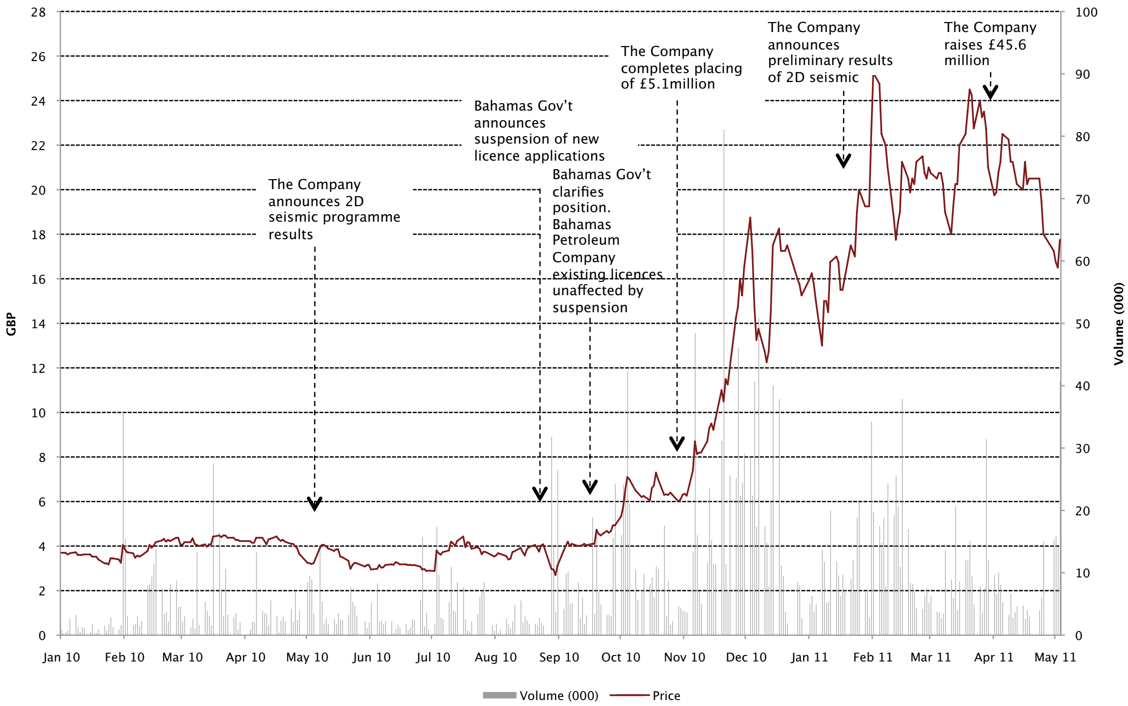
Operating Review (continued)

5 Year Share Price



Past performance is not a guide to future performance

1 Year Share Price



Past performance is not a guide to future performance

Board of Directors

1. Alan Burns:
Non-Executive Chairman

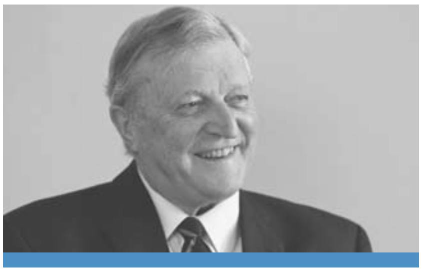
Alan Burns is founder of the BPC Group and has a successful 39 year career in the oil business as Managing Director or Chairman of successful oil exploration and development companies. Alan has been involved in 28 new oil and gas field discoveries and developments including original discovery in Uganda.

2. Dr Paul Crevello:
Chief Executive Officer

Dr Paul Crevello is a carbonate reservoir oilfield expert and has wide international experience in the discovery of major oilfields. Paul also has considerable experience in Bahamas geological investigation.

3. Michael Proffitt:
Finance Director, Non-Executive

Michael Proffitt, a chartered accountant, is formerly an international hotel and resorts developer. Mike is a former resident of The Bahamas and well known in the Bahamian business world.



4. Dursley Stott OBE:
Non-Executive Director

Dursley Stott has played an important part in the Isle of Man's financial growth during the last 50 years and was the chairman of a successful stockbroking firm on the Island. He is also an experienced international businessman.

5. Edward Shallcross:
Non-Executive Director

Eddie Shallcross is a Fellow of the Chartered Institute of Bankers and has over 40 years of experience in the financial sector. He has held non-executive directorships in a number of major international companies.

Corporate Governance

The UK Corporate Governance Code (formerly the Combined Code)

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

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, the Non-Executive Finance Director and two 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
Alan Burns	6
Paul Crevello	6
Michael Proffitt	6
Dursley Stott	6
Edward Shallcross (appointed 1 February 2011)	0

Audit Committee

The Audit Committee comprises Edward Shallcross (Chairman) and Dursley Stott. The Audit Committee is primarily responsible for ensuring that the financial performance of the Company is properly reported on and monitored, and for reviewing the Auditor's reports relating to the accounts and internal controls. A Charter of the Audit Committee has been approved and adopted which formally sets out the membership, roles and responsibilities of the Audit Committee.

Remuneration Committee

The Remuneration Committee comprises Dursley Stott (Chairman) and Edward Shallcross. A Charter of the Remuneration Committee has been approved and adopted which formally sets out the membership, roles and responsibilities of this committee.

Nomination Committee

The Nomination Committee comprises Alan Burns and Michael Proffitt, and is chaired by Alan Burns. It will meet at least twice a year and assist the Board in fulfilling its responsibilities in the search for and evaluation of potential new Directors and ensuring that the size, composition and performance of the Board is appropriate for the scope of the Company's activities. It is recognised that shareholders of the Company have the ultimate responsibility for determining who should represent them on the Board.

Health and Safety Committee

The Company has also established a Health and Safety Committee which comprises Alan Burns and Paul Crevello.

Internal Control

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

Going Concern

The Directors consider that the Company has adequate financial resources to enable it to meet its financial obligations through to the end of 2012 from existing liquid cash resources. For this reason they continue to adopt the going concern basis of preparing the financial statements. Further information regarding the appropriateness of the use of the going concern assumption in the basis of preparation can be found in note 2.1 to the financial statements.

Directors' Report

Your Directors present their report on the consolidated entity (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 2010.

Directors

The following persons were Directors of the Parent Company during the whole of the financial year and up to the date of this report unless otherwise stated:

Alan Burns
Paul Crevello
Michael Proffitt
Dursley Stott
Edward Shallcross – Appointed 1 February 2011

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 consists of oil and gas exploration in the Commonwealth of The Bahamas.

Results and dividends

The results of the Group for the year are set out on page 34 and show a loss for the year ended 31 December 2010 of $5,318,458 (2009: loss of $2,425,421).

The Directors do not recommend payment of a dividend (2009: nil).

Review of operations

During the year the Group underwent a Scheme of Arrangement which saw the redomicile of the Group from the Falkland Islands to the Isle of Man. The Scheme of Arrangement is described in greater detail in note 21 of the consolidated financial statements.

The Group undertook two placements of ordinary shares during the year, issuing a total of 189,842,860 ordinary shares and raising a total of $10,959,806 in funds net of fees.

The Group also saw the exercise of all outstanding share options during the year, resulting in the issue of 7,896,398 ordinary shares to option holders and raising $574,882 in funds.

Exploration work undertaken in the year has included the conducting of an environmental baseline survey in the Cay Sal region in June and the shooting of 2D seismic data in July. Analysis of the data acquired has allowed the Group to advance its understanding of the potential resource in the southern licence areas and has allowed the targeting of a more extensive seismic survey completed in January 2011. Preliminary results of shipboard analysis have proved positive with final results of the detailed analysis expected by the end of summer 2011.

Subsequent to the year end, on 16 March 2011 the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. It is intended that the proceeds of this placement be used to advance the Group's technical work programme in its licence areas.

Risks and uncertainties

Details of the Group's financial risks are set out in note 3 of the consolidated financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

	2010 $
Funds raised through placement of ordinary shares	**11,534,688**

Directors' Report (continued)

Reporting currency

The consolidated financial statements are presented in United States Dollars, which is the functional and presentation currency of the Company, as this is the currency of the primary economic environment in which the Group operates.

Substantial shareholdings

The following table represents shareholdings of 3% or more as at 31 December 2010.

Name	Number of shares	% of shareholding
Fidelity	52,445,300	5.31%
Morgan Stanley Investment Management	50,769,469	5.14%
TD Waterhouse Investor Services	49,992,579	5.06%
Hargreaves Lansdown Asset Management	47,931,939	4.85%
Barclays Wealth	44,209,500	4.48%
Halifax Share dealing	44,130,915	4.47%
Majedie Asset Management	36,949,086	3.74%
JM Finn & Co	30,685,717	3.11%

Directors' interests

The interests in the Group at the balance sheet date of all Directors who served on the board of the Parent Company during the year are stated below.

Shareholdings

Name	Number of shares 31 December 2010	Percentage of total issued share capital	Number of shares 31 December 2009	Percentage of total issued share capital
Alan Burns	34,820,000	3.53%	44,820,000	5.22%
Paul Daniel Crevello[1]	33,030,000	3.35%	33,030,000	3.84%
Michael Proffitt[o]	12,500,000	1.27%	18,360,000	2.14%
Dursley Stott	315,000	0.03%	–	–

[o] 12,350,000 shares held beneficially for Michael Proffitt through Gumbo Investments Limited, 150,000 shares held by Virginia Proffitt, spouse of Michael Proffitt.

[1] Total beneficial shareholding of Paul Crevello. 17,730,000 of these shares are held by Petroleum Geoscience International LLC (2009: 17,730,000) and 15,300,000 are held by Petrexasia Consulting LLC (2009: 15,300,000).

Options

The Group did not have any share options in issue to any Director serving during the years ended 31 December 2010 and 2009. Subsequent to the year end the Company issued share options to Directors of the Company, see post balance sheet events note below.

Details of share options in issue during the year are found in note 17 of the consolidated financial statements.

Directors' emoluments

	31 December 2010 Group $	31 December 2009 Group $
Directors' fees and salaries	**1,718,987**	586,637

Company's policy on payment of creditors

Liabilities are recognised for amounts to be paid in the future for goods or services rendered. Trade accounts are normally settled within 30 days.

Post balance sheet events

On 17 January 2011 the Company announced the retirement of Alan Robert Burns as Chief Executive Officer of the Group and the appointment of Paul Daniel Crevello to this role. Mr Burns continues to serve the Group as Non-Executive Chairman.

Overview Business Review Corporate Governance Accounts

On 3 February 2011 the Group completed the acquisition of 1,100 km of 2D seismic lines in its southern licence areas. Detailed analysis results are expected by the end of summer 2011.

On 16 March 2011 the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. It is intended that the proceeds of this placement be used to advance the Group's technical work programme in its licence areas.

On 30 March 2011 the Company signed a Letter of Award with CGG Veritas to carry out the 3D seismic survey across the Company's southern licence area.

On 12 April 2011 the Company issued 18 million share options to Directors, staff and consultants. The options have an expiry period of five years, an exercise price of 21.25p and are split into two tranches, 50% vesting on grant and 50% vesting when the share price of the Company reaches 50 pence. Details of options granted to Directors are as below:

	Number of options granted	Exercise price per ordinary share	Total number of ordinary shares held under option
Paul Crevello	4,000,000	21.25p	4,000,000
Alan Burns	3,000,000	21.25p	3,000,000
Mike Proffitt	2,500,000	21.25p	2,500,000
Dursley Stott	1,500,000	21.25p	1,500,000
Edward Shallcross	1,500,000	21.25p	1,500,000
Total	**12,500,000**		**12,500,000**

Auditor and disclosure of information to auditor

The Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

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

Michael Proffitt
Finance Director, Non-Executive
27 April 2011

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards as adopted by the European Union (IFRS).

Isle of Man Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company financial statements in accordance with IFRS. The financial statements are required by law to give a true and fair view of the financial position of the Group and Parent Company and the financial performance of the Group for that period. In preparing those Group and Parent Company financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- State that the Group and Parent Company financial statements comply with IFRS, subject to any material departures disclosed and explained in the financial statements; 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, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Group and Parent Company financial statements.

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

Michael Proffitt
Finance Director, Non-Executive
27 April 2011

Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying Group financial statements of Bahamas Petroleum Company plc which comprise the consolidated balance sheet as of 31 December 2010 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 Group 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 group 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 group 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 Group 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 Group 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 Group financial statements give a true and fair view of the financial position of the Group as of 31 December 2010, 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 Group financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

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

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

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
27 April 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 Group $	2009 Group $
Continuing operations:			
Employee benefit expense	6	**(2,006,305)**	(924,056)
Depreciation and amortisation expense	11	**(38,779)**	(92,056)
Loss on disposal of property, plant and equipment		**–**	(13,147)
Other expenses	7	**(3,335,161)**	(1,400,188)
Operating loss		**(5,380,245)**	**(2,429,447)**
Finance income	5	**–**	4,026
Loss before income tax		**(5,380,245)**	**(2,425,421)**
Income tax credit	8	**61,787**	–
Loss for the year		**(5,318,458)**	**(2,425,421)**
Other comprehensive income:			
Currency translation differences		**106,615**	(231,913)
Other comprehensive income for the year, net of tax		**106,615**	(231,913)
Total comprehensive income for the year		**(5,211,843)**	**(2,657,334)**
Loss per share for loss attributable to equity holders of the Company:			
Basic and diluted earnings per share (expressed in cents per share)	9	**(0.61)**	(0.31)

The notes on pages 38 to 52 form part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2010

	Note	2010 Group $	2009 Group $
ASSETS			
Non-current assets			
Cash not available for use	10	**325,046**	119,555
Property, plant and equipment	11	**189,779**	18,706
Intangible exploration and evaluation assets	12	**5,024,331**	4,063,824
		5,539,156	4,202,085
Current assets			
Cash and cash equivalents	13	**6,068,558**	1,337,885
Other receivables	14	**896,246**	469,677
		6,964,804	1,807,562
Total assets		**12,503,960**	**6,009,647**
LIABILITIES			
Current liabilities			
Trade and other payables	15	**364,980**	271,817
Total liabilities		**364,980**	**271,817**
EQUITY			
Ordinary shares	16	**29,359**	23,242
Share premium reserve	16	**8,037,595**	–
Merger reserve	16	**77,130,684**	73,639,708
Reverse acquisition reserve		**(53,846,526)**	(53,846,526)
Share-based payments reserve	17	**425,666**	347,361
Other reserves		**–**	(106,615)
Retained earnings		**(19,637,798)**	(14,319,340)
Total equity		**12,138,980**	**5,737,830**
Total equity and liabilities		**12,503,960**	**6,009,647**

The financial statements on pages 34 to 52 were approved and authorised for issue by the Board of Directors on 27 April 2011 and signed on its behalf by:

Paul Crevello
Director

Michael Proffitt
Finance Director, Non-Executive

The notes on pages 38 to 52 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Other reserves $	Retained earnings $	Total equity $
At 1 January 2009 – as previously reported	**28,764**	**73,634,186**	**–**	**(53,846,526)**	**300,139**	**125,298**	**(11,893,919)**	**8,347,942**
Reorganisation – Scheme of Arrangement	(5,522)	(73,634,186)	73,639,708	–	–	–	–	–
At 1 January 2009 – after reorganisation	23,242	–	73,639,708	(53,846,526)	300,139	125,298	(11,893,919)	8,347,942
Total comprehensive income for the year	–	–	–	–	–	(231,913)	(2,425,421)	(2,657,334)
Share options – value of services	–	–	–	–	47,222	–	–	47,222
Balance at 31 December 2009 – after reorganisation	**23,242**	**–**	**73,639,708**	**(53,846,526)**	**347,361**	**(106,615)**	**(14,319,340)**	**5,737,830**
Balance at 1 January 2010 – after reorganisation	23,242	–	73,639,708	(53,846,526)	347,361	(106,615)	(14,319,340)	5,737,830
Total comprehensive income for the year	–	–	–	–	–	106,615	(5,318,458)	(5,211,843)
Share options – value of services	–	–	–	–	78,305	–	–	78,305
Issue of ordinary shares	6,117	8,037,595	3,490,976	–	–	–	–	11,534,688
Balance at 31 December 2010 – after reorganisation	**29,359**	**8,037,595**	**77,130,684**	**(53,846,526)**	**425,666**	**–**	**(19,637,798)**	**12,138,980**

The notes on pages 38 to 52 form part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2010

	Note	2010 Group $	2009 Group $
Cash flows from operating activities			
Payments to suppliers and employees	18	**(5,422,619)**	(2,823,096)
Net cash used in operating activities		**(5,422,619)**	**(2,823,096)**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(209,852)**	–
Proceeds from sale of property, plant and equipment		**–**	4,619
Payments for exploration and evaluation assets	12	**(960,507)**	(8,237)
Deposit (payments)/repayments for bank guarantees	10	**(205,491)**	1,085,061
Interest received	5	**–**	4,026
Net cash (used in)/generated by investing activities		**(1,375,850)**	**1,085,469**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	16	**11,534,688**	–
Net cash generated from financing activities		**11,534,688**	**–**
Net increase/(decrease) in cash and cash equivalents		**4,736,219**	**(1,737,627)**
Cash and cash equivalents at the beginning of the year	13	**1,337,885**	3,004,451
Effects of exchange rate changes on cash and cash equivalents		**(5,546)**	71,031
Cash and cash equivalents at end of year	**13**	**6,068,558**	**1,337,855**

The notes on pages 38 to 52 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

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

The Company is a limited liability company incorporated and domiciled in the Isle of Man. The address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man.

The Company has two directly and five indirectly 100% owned subsidiaries as follows:

Name	Country of incorporation	Holding
BPC Jersey Limited	Jersey	100% Direct
BPC (Falklands) Limited	Falklands	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

The names of the Directors in office for the parent entity Bahamas Petroleum Company plc at any time during or since the end of the year are:

Alan Burns	Non-Executive Chairman	
Paul Crevello	Chief Executive Officer	
Michael Proffitt	Finance Director, Non-Executive	
Dursley Stott	Non-Executive Director	
Edward Shallcross	Non-Executive Director	(appointed 1 February 2011)

The Directors continue in office to the date of this report unless otherwise stated.

The loss of the Group for the year ended 31 December 2010 amounted to $5,318,458 (31 December 2009: $2,425,421) arising from the Group's corporate expenditure as well as expenditure in administering the five oil and gas exploration licences.

The sources of liquidity for the Group during 2010 have been the placing of new ordinary shares. The commitments of the Group are set out in note 19 and it is the intention of the Group that the main source of liquidity for operations and commitments for the next twelve months will be from existing cash balances and further placement of ordinary shares.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 27 April 2011.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Bahamas Petroleum Company plc reflect the results and financial position of the Group for the year ended 31 December 2010 and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have been prepared under the historical cost convention.

On 15 June 2010, the Company underwent a Scheme of Arrangement which resulted in the redomicile of the Company from the Falkland Islands to the Isle of Man. The Scheme of Arrangement is explained in greater detail in note 21.

The Scheme of Arrangement falls outside the scope of IFRS 3 "Business Combinations". Accordingly, following the guidance regarding the selection of appropriate accounting policies provided by IAS 8 "Accounting policies, changes in accounting estimates and errors", the Scheme of Arrangement has been accounted for in these financial statements using the principles of merger accounting. This policy reflects the economic substance of the Scheme of Arrangement. Although the Scheme of Arrangement did not become effective until 15 June 2010, the consolidated financial statements for the year ended 31 December 2010 are presented as if the Scheme of Arrangement had been effective on 1 January 2009. In accordance with the requirements of merger accounting, the comparative information in these consolidated financial statements has been extracted from the BPC Limited consolidated financial statements for the year ended 31 December 2009. Those consolidated financial statements incorporated the results of BPC (Falklands) Limited and its subsidiary undertakings for the financial year ended 31 December 2009. Earnings per share are unaffected by the Scheme of Arrangement.

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

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities as and when they fall due for the foreseeable future.

The Directors have prepared cash flow forecasts that indicate that the Group will be able to meet its financial obligations through to the end of 2012 from its existing liquid cash resources and post year end placements of ordinary shares.

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

However, the Group's ability to meet its obligations beyond 2012 is dependent on either further fund raising, completion of the Statoil farm in agreement or the agreement of further farm in arrangements of the Group's licences.

a) Standards, amendments and interpretations relevant to the Group which became effective in 2010

- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'. Effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11,'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

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

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

The Directors do not anticipate that the adoption of these standards in future periods will have a material impact on the Group's or the Company's results.

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 Segment reporting

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

2.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the 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 lives, as follows:

– Computer hardware	3 years
– Computer software	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 (note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'Loss on disposal of fixed assets' in the consolidated statement of comprehensive income.

2.6 Impairment of assets

Tangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

Exploration expenditure for each area of interest, other than that acquired from the purchase of another entity, is carried forward as an asset 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; and
- 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 expenditure which fails to meet at least one of the conditions outlined above is written off. Costs incurred in drilling exploration wells that fail to encounter significant hydrocarbons are written off in the year of failure.

2 Summary of significant accounting policies (continued)

Exploration assets acquired are reassessed on a regular basis and related costs are carried forward provided that at least one of the conditions outlined above is met.

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

2.8 Financial assets

Other receivables

Other receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an 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. Other receivables are included in the balance sheet (note 14).

2.9 Cash and cash equivalents

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

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 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 compensation

The Group operates a share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(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.

2.13 Revenue recognition

Interest income

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

2.14 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 income statement on a straight line basis over the period of the lease.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to some 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. The Company's activities are also exposed to risks through its investments in subsidiaries and accordingly are exposed to similar financial and capital risks as the Group.

Risk management is carried out by the Finance Director under policies approved by the Board of Directors. The Finance Director 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 risks and investing excess liquidity.

(i) Liquidity risk

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

Financial liabilities

The Group's financial liabilities comprise entirely of trade and other payables which all fall due within one 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 various currency exposures. The exposure to foreign exchange risk is managed by ensuring that the majority of the Group's major assets, liabilities and expenditures are held or incurred in US Dollars. At 31 December 2010 the Group held $945,777 of cash in Sterling (2009: $276,063) and an immaterial amount of trade and other payables denominated in Sterling.

At 31 December 2010, 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 $95,000 (2009: reduced/increased by $28,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling-denominated bank balances. Losses are more sensitive to movement in currency exchange rates in 2010 than 2009 due to larger amounts of UK Sterling currency held for corporate working capital purposes.

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 2010 and 2009 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.

(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.

3.2 Capital risk management

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 exposed to macroeconomic risks including, but not limited to, the strength of capital markets, the oil price and the risk of joint venture or supplier default, all of which could adversely affect the availability of future financing.

Notes to the Consolidated Financial Statements (continued)

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 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 for the foreseeable future.

The Directors have prepared cash flow forecasts that indicate that the Group will be able to meet its financial obligations through to the end of 2012 from its existing liquid cash resources and post year end placements of ordinary shares.

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

However, the Group's ability to meet its obligations beyond 2012 is dependent on either further fund raising, completion of the Statoil farm-in agreement or the agreement of further farm-in arrangements of the Group's licences.

(b) Carrying value of exploration expenditure

Expenditure of $5,024,331 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been carried forward on the balance sheet at 31 December 2010 (31 December 2009: $4,063,824).

The consultancy expenditure incurred related to the gathering of historical data and the commencement of interpretation of this data.

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

(c) Prepayments

Prepayments comprise application fees paid to the government 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 accounts to write down the carrying value of these prepayments in the event that the applications are unsuccessful.

5 Finance income

	2010 Group $	2009 Group $
Finance income – interest income on short-term bank deposits	**–**	**4,026**

6 Employee benefit expense

	2010 Group $	2009 Group $
Wages and salaries	**1,816,403**	915,932
Social security costs	**93,415**	915
Pension costs – defined contribution	**6,714**	7,209
Other staff costs	**89,773**	–
	2,006,305	**924,056**

Average number of employees	**5**	5
Split between:		
Executive	**2**	3
Non-executive	**2**	2
Administrative	**1**	–
Total	**5**	**5**

7 Other expenses

	2010 Group $	2009 Group $
Travel and accommodation	**627,396**	303,097
Operating lease payments (note 19)	**173,426**	102,161
Premises relocation costs	**64,377**	47,281
Legal and professional	**1,146,944**	710,224
Auditor's remuneration:		
– Current year audit of Parent Company and consolidated financial statements	**60,000**	67,577
– Prior year audit (over)/under provision	**(14,417)**	60,113
– Other services pursuant to legislation	**–**	56,925
– Taxation services	**2,354**	–
– Other services	**20,535**	–
Net foreign exchange loss/(gain)	**112,161**	(336,964)
Management and administration fees	**385,515**	143,959
Other	**756,870**	245,815
Total other expenses	**3,335,161**	**1,400,188**

8 Income tax

Until 31 December 2008 the Company was resident in both the UK and the Falkland Islands for tax purposes. Following the reverse takeover on 1 September 2008 all UK based operations and activities have ceased and therefore the Company migrated its tax residency to Jersey, effective 31 December 2008. This migration was subject to HMRC approval and a bank guarantee of £75,000 was provided to HMRC during the year ended 31 December 2008 pending finalisation of any remaining tax liability. During the current year, a further £75,000 was placed into the bank guarantee at the request of the Supreme Court of the Falkland Islands as a condition of the completion of the Scheme of arrangement (note 21), bringing the total USD balance to $232,211 (2009: $119,555). The Directors are of the opinion that any final tax liability arising from the UK or the Falkland Islands will be £nil.

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.

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

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

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

Notes to the Consolidated Financial Statements (continued)

8 Income tax (continued)

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

9 Basic and diluted loss per share

(a) Basic

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

	2010 Group	2009 Group
Loss attributable to equity holders of the Company	**$(5,318,458)**	$(2,425,421)
Weighted average number of ordinary shares in issue	**876,109,553**	789,639,838
Basic loss per share (US cents per share)	**(0.61)**	(0.31)

(b) Diluted

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

All outstanding share options were exercised in 2010. Subsequent to the year end the Company has issued share options to the Directors, employees and certain consultants (see note 22).

	2010 Group	2009 Group
Total share options in issue (see note 17)	**–**	**7,896,398**

The effect of the above share options at 31 December 2009 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

10 Cash not available for use

	2010 Group $	2009 Group $
Bank deposits	**325,046**	**119,555**

Bank deposits include amounts held by Barclays Bank Plc as security for a guarantee provided to 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 (note 21). These amounts are now due for release to the Company pending receipt of consent from HMRC.

Also included in bank deposits is the amount of £60,000 held as security for a company credit card facility.

11 Property, plant and equipment

Group	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
Year ended 31 December 2009				
Opening net book amount	37,761	79,516	–	117,277
Foreign currency exchange difference	–	2,542	–	2,542
Additions	–	–	–	–
Disposals	–	(9,057)	–	(9,057)
Depreciation charge	(34,145)	(57,911)	–	(92,056)
Closing net book amount	**3,616**	**15,090**	**–**	**18,706**
At 31 December 2009				
Cost	102,434	146,364	–	248,798
Accumulated depreciation	(98,818)	(131,274)	–	(230,092)
Net book amount	**3,616**	**15,090**	**–**	**18,706**
Year ended 31 December 2010				
Opening net book amount	**3,616**	**15,090**	**–**	**18,706**
Additions	**29,010**	**108,985**	**71,857**	**209,852**
Depreciation charge	**(3,616)**	**(27,978)**	**(7,185)**	**(38,779)**
Closing net book amount	**29,010**	**96,097**	**64,672**	**189,779**
At 31 December 2010				
Cost	**131,444**	**255,349**	**71,858**	**458,651**
Accumulated depreciation	**(102,434)**	**(159,252)**	**(7,186)**	**(268,872)**
Net book amount	**29,010**	**96,097**	**64,672**	**189,779**

12 Intangible assets

Group	Exploration and evaluation assets* $	Geological, geophysical and technical analysis* $	Total $
Year ended 31 December 2009			
Opening net book amount	1,218,750	2,836,837	4,055,587
Additions	–	8,237	8,237
Closing net book amount	**1,218,750**	**2,845,074**	**4,063,824**
At 31 December 2009			
Net book amount	**1,218,750**	**2,845,074**	**4,063,824**
Year ended 31 December 2010			
Opening net book amount	**1,218,750**	**2,845,074**	**4,063,824**
Additions	**575,000**	**385,507**	**960,507**
Closing net book amount	**1,793,750**	**3,230,581**	**5,024,331**
At 31 December 2010			
Net book amount	**1,793,750**	**3,230,581**	**5,024,331**

* **Exploration and evaluation assets and geological, geophysical and technical analysis**
Ultimate recoupment of exploration and evaluation assets carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas (note 2.7). These assets are reviewed for impairment 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.

Notes to the Consolidated Financial Statements (continued)

13 Cash and cash equivalents

	2010 Group $	2009 Group $
Cash at bank and in hand	**6,068,558**	**1,337,885**

Cash at bank and in hand

The 2010 balance includes interest bearing accounts at rates between 0% and 1% (2009: 0% to 1%).

14 Other receivables

	2010 Group $	2009 Group $
Other receivables (note (a))	**113,298**	73,850
Prepayments (note (b))	**782,948**	395,827
	896,246	**469,677**

(a) Other receivables

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

(b) Prepayments

Prepayments include $500,000 (2009: $300,000) in applications fees paid to the government 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.

15 Trade and other payables

	2010 Group $	2009 Group $
Other payables and accruals	**364,980**	271,817
	364,980	**271,817**

16 Share capital and premium

Group		Number of shares	Issue price US$	Ordinary shares US$	Share premium reserve US$	Merger Reserve US$	Total US$
At 1 Jan 2009 and 2010		**789,639,838**		**28,764**	**73,634,186**	**–**	**73,662,950**
16 March 2010	Placing	69,842,860	0.05	2,056	3,490,976	–	3,493,032
15 June 2010	Scheme of Arrangement	–	–	(5,522)	(77,125,162)	77,130,684	–
6 October 2010	Placing	120,000,000	0.07	3,811	7,462,963	–	7,466,774
11 October 2010	Options exercised	2,500,000	0.07	80	180,726	–	180,806
10 November 2010	Options exercised	2,500,000	0.07	80	183,213	–	183,293
23 November 2010	Options exercised	2,896,398	0.07	90	210,693	–	210,783
At 31 December 2010		**987,379,096**		**29,359**	**8,037,595**	**77,130,684**	**85,197,638**

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

On 15 June 2010, the Group underwent a Scheme of Arrangement which saw the shares in the then Parent Company BPC Limited replaced with shares in Bahamas Petroleum Company plc (then BPC plc) incorporated in the Isle of Man which became the new Parent Company of the Group (note 21).

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

Share options totalling 7,896,398 were exercised during the year.

The total authorised number of ordinary shares at 31 December 2010 and 2009 was 5 billion shares with a par value of 0.002p per share.

All issued shares are fully paid.

Subsequent to the year end the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. On 12 April 2011 the Company issued 18 million share options to Directors, staff and consultants (note 22).

17 Share-based payments

Share options are granted to Directors, selected employees and consultants to the Company. The exercise price of the granted options is equal to the fair value of the shares on the date of the grant. The options granted to the Company's Nominated Advisor on 2 September 2008 are exercisable in whole or in part at any time during a period of three years from the grant date. These were fully exercised during 2010.

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:

	31 December 2010 12 months		31 December 2009 12 months	
	Average exercise price per share	No. options	Average exercise price per share	No. options
At beginning of year/period	**4.55p**	**7,896,398**	4.55p	7,896,398
Exercised	**4.55p**	**(7,896,398)**	–	–
At end of year/period	**–**	**–**	**4.55p**	**7,896,398**

No share options were granted during the year. Subsequent to the year end the Company has issued share options to the Directors, employees and certain consultants (see note 22).

Expenses arising from share-based payments transactions

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

	2010 Group $	2009 Group $
Expense in relation to options issued to Nominated Advisor, included as part of legal and professional expense	**78,305**	47,222
	78,305	**47,222**

Notes to the Consolidated Financial Statements (continued)

18 Cash used in operating activities

	2010 Group $	2009 Group $
Loss after income tax	**(5,318,458)**	(2,425,421)
Adjustments for:		
– Depreciation	**38,779**	92,056
– Loss on disposal of property, plant and equipment	**–**	13,147
– Share-based payment (note 17)	**78,305**	47,222
– Finance income (note 5)	**–**	(4,026)
– Foreign exchange loss/(gain) on operating activities (note 7)	**112,161**	(336,964)
– Tax credits	**(61,787)**	–
Changes in working capital		
– Other receivables	**(426,569)**	37,716
– Trade and other payables	**154,950**	(246,826)
Cash used in operating activities	**(5,422,619)**	**(2,823,096)**

19 Contingencies and commitments

i) Contingencies
The Group has no contingent liabilities as at 31 December 2010.

ii) Expenditure commitments
As at 31 December 2010 and 2009, the Group has discharged all of its work obligations under the terms of the exploration licences and there is no requirement for the Group to commit to further exploration/evaluation activities in order to maintain the good standing of the licences.

On 30 March 2011 the company signed a Letter of Award with CGG Veritas to carry out the 3D seismic survey across the Group's southern licence area.

iii) Annual rental commitments
The Group is required under the exploration licences to remit annual rentals in advance to the government of The Bahamas in respect of the licenced areas. By letter dated 20 March 2008, the government of The Bahamas has approved a two year extension to the existing three year licence period which now expires on 26 April 2012. Although not specified, management has assumed that the annual rental for the licences during the two year extension period will be the same as the third year's rental.

Rental payments on licence areas were resumed in the year due to the lifting of the Bahamian government requested halt on exploration activities.

	31 December 2010 Group $	31 December 2009 Group $
No later than 1 year	**575,000**	575,000
Later than 1 year and no later than 5 years	**575,000**	1,150,000
Later than 5 years	**–**	–
	1,150,000	**1,725,000**

iv) Operating lease commitments
The Group leases various office 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:

	31 December 2010 Group $	31 December 2009 Group $
No later than 1 year	**86,200**	8,000
Later than 1 year and no later than 5 years	**–**	–
Later than 5 years	**–**	–
	86,200	**8,000**

20 Related party transactions

Key management personnel
Details of key management personnel are as follows:

Alan Burns	Non-Executive Chairman
Paul Crevello	Director and Chief Executive Officer
Dursley Stott	Non-Executive Director
Michael Proffitt	Finance Director, Non-Executive
Edward Shallcross	Non-Executive Director

Key Management Compensation	31 December 2010 Group $	31 December 2009 Group $
Alan Burns	**783,558**	132,634
Paul Crevello	**802,618**	350,000
Michael Proffitt	**78,298**	52,045
Dursley Stott	**54,513**	4,776
Mark Savage	**–**	12,632
Timothy Jones	**–**	20,847
Robert Carroll	**–**	13,703
Salaries and other short term benefits	**1,718,987**	**586,637**

During the year, Alan Burns was reimbursed for the purchase by the Company of two vehicles with a total value of $70,140. These vehicles have been provided to staff and their cost has been expensed in full in the current year.

During the year, administration services totalling $40,870 were procured from Albert Technologies Limited, a company owned by Alan Burns.

Mr M Proffitt and Mr A Burns are both Directors and shareholders of Renewable Energy Holdings Plc (REH). During the year, management and administration fees totalling $116,531 were paid to REH.

During the year, accountancy and other financial consultancy services were procured from BDP Orbita Limited, a company in which Benjamin and Daniel Proffitt, relatives of Michael Proffitt, are Directors. Fees totalling $331,629 were paid to BDP Orbita Limited for these services.

During the year, accountancy services were procured from Daniel Proffitt, a relative of Michael Proffitt, totalling $4,198.

Subsequent to the year end the Company has issued share options to the Directors, employees and certain consultants (see note 22).

Notes to the Consolidated Financial Statements (continued)

21 Scheme of Arrangement

On 15 June 2010 Bahamas Petroleum Company plc (formerly BPC plc) ("BPC plc"), a company incorporated in the Isle of Man, became the Parent Company of BPC (Falklands) Limited (formerly BPC Limited) pursuant to a Scheme of Arrangement approved by the Chief Justice of the Falkland Islands and the shareholders of BPC (Falklands) Limited, the then AIM listed holding company of the BPC Group (the "Scheme of Arrangement"). Pursuant to the Scheme of Arrangement, ordinary shares, each having a nominal value of £0.00002, of BPC Limited ("BPC Limited Ordinary Shares") were exchanged, on a one for one basis, for ordinary shares, each having a nominal value of £0.00002, of BPC plc ("BPC plc Ordinary Shares").

As a result of the Scheme of Arrangement, BPC (Falklands) Limited is now a wholly owned subsidiary of BPC plc. The BPC plc Ordinary Shares carry substantially the same rights as did the BPC Limited Ordinary Shares. The Scheme of Arrangement did not involve any cash payment for the BPC plc Ordinary Shares. Immediately after the Scheme of Arrangement became effective, BPC plc had the same Board of Directors, management and corporate governance arrangements as BPC Limited had immediately prior thereto. The consolidated assets and liabilities of BPC plc immediately after the effective time of the Scheme of Arrangement are the same as the consolidated assets and liabilities of BPC (Falklands) Limited immediately prior thereto.

BPC plc was incorporated on 25 August 2009. Prior to 15 June 2010 BPC plc was held in trust for the Group. The Group at the time maintained full control over the economic decisions of BPC plc.

All BPC Limited share options that were in existence immediately prior to the Scheme of Arrangement were exchanged on a one for one basis for share options in BPC plc with no change in terms or conditions.

On 29 December 2010, the Directors and shareholder of BPC (Falklands) Limited authorised a dividend in specie to be paid to the Parent Company, Bahamas Petroleum Company plc. As consideration for the dividend, BPC (Falklands) Limited transferred all of its net assets to Bahamas Petroleum Company plc, including its 100% holding in BPC Jersey Limited.

22 Events after the balance sheet date

On 17 January 2011 the Company announced the retirement of Alan Robert Burns as Chief Executive Officer of the Group and the appointment of Paul Daniel Crevello to this role. Mr Burns continues to serve the Group as Non-Executive Chairman.

On 3 February 2011 the Group completed the acquisition of 1,100 km of 2D seismic lines in its southern licence areas. Detailed analysis results are expected by the end of summer 2011.

On 16 March 2011 the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. It is intended that the proceeds of this placement be used to advance the Group's technical work program in its licence areas.

On 30 March 2011 the Company signed a Letter of Award with CGG Veritas to carry out the 3D seismic survey across the Group's southern licence area.

On 12 April 2011 the Company issued 18 million share options to Directors, staff and consultants. The options have an expiry period of five years and are split into two tranches, 50% vesting on grant and 50% vesting when the share price of the Company reached 50 pence. Details of options granted to Directors are as below:

	Number of options granted	Exercise price per ordinary share	Total number of ordinary shares held under option
Paul Crevello	4,000,000	21.25p	4,000,000
Alan Burns	3,000,000	21.25p	3,000,000
Mike Proffitt	2,500,000	21.25p	2,500,000
Dursley Stott	1,500,000	21.25p	1,500,000
Edward Shallcross	1,500,000	21.25p	1,500,000
Total	**12,500,000**		**12,500,000**

Parent Company Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bahamas Petroleum Company plc ("the Parent Company") which comprise the balance sheet as of 31 December 2010 and the statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of the Parent Company as of 31 December 2010, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and
- The Parent Company financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931-2004.

Matters on which we are required to report by exception

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

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

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
27 April 2011

Parent Company Balance Sheet
As at 31 December 2010

	Note	2010 Company $
ASSETS		
Non-current assets		
Cash not available for use	11	**325,046**
Property, plant and equipment	5	**70,858**
Investments in subsidiaries	6	**29,560,456**
		29,956,360
Current assets		
Cash and cash equivalents	12	**6,068,558**
Other receivables	4	**1,271,559**
		7,340,117
Total assets		**37,296,477**
LIABILITIES		
Current liabilities		
Trade and other payables		**281,846**
		281,846
Total liabilities		**281,846**
EQUITY		
Ordinary shares	7	**29,359**
Share premium reserve	7	**8,037,595**
Other reserves	7	**29,535,159**
Share-based payments reserve	8	**55,622**
Retained earnings	9	**(643,104)**
Total equity		**37,014,631**
Total equity and liabilities		**37,296,477**

The financial statements on pages 54 to 61 were approved and authorised for issue by the Board of Directors on 27 April 2011 and signed on its behalf by:

Paul Crevello
Director

Michael Proffitt
Finance Director, Non-Executive

The accompanying notes form an integral part of these financial statements.

Parent Company Statement of Changes in Equity

	Note	Share capital $	Share premium $	Merger reserve $	Share based payments $	Retained earnings $	Total equity $
Comprehensive income:							
Total comprehensive income for the period	3	–	–	–	–	(643,104)	(643,104)
Transactions with owners:							
Issue of ordinary shares	7	29,359	8,037,595	29,535,159	–	–	37,602,113
Share options – value of service		–	–	–	55,622	–	55,622
Balance at 31 December 2010		**29,359**	**8,037,595**	**29,535,159**	**55,622**	**(643,104)**	**37,014,631**

The accompanying notes form part of these financial statements.

Overview

Business Review

Corporate Governance

Accounts

Parent Company Cash Flow Statement

	Note	25 August 2009 to 31 December 2010 Company $
Cash flows from operating activities		
Payments to suppliers and employees		(3,922,435)
Net cash used in operating activities	10	**(3,922,435)**
Cash flows from investing activities		
Purchase of property, plant and equipment		(77,111)
Advances to group companies		(1,091,374)
Net cash used in investing activities		**(1,168,485)**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares		8,041,657
Advances received from group companies		3,324,809
Increase in restricted cash		(206,988)
Net cash flows from financing activities		**11,159,478**
Net increase in cash and cash equivalents		**6,068,558**
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at end of period		**6,068,558**

The accompanying notes form part of these financial statements.

Notes to the Parent Company Financial Statements

1 General information

The separate financial statements of Bahamas Petroleum Company plc (the 'Company') are presented as required by the Isle of Man Companies Acts 1931 to 2004.

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

The names of the Directors in office at any time during or since the end of the year are:

Alan Burns	Non-Executive Chairman	(appointed 25 August 2009)
Paul Crevello	Chief Executive Officer	(appointed 30 November 2009)
Michael Proffitt	Finance Director, Non-Executive	(appointed 25 August 2009)
Dursley Stott	Non-Executive Director	(appointed 23 October 2009)
Edward Shallcross	Non-Executive Director	(appointed 1 February 2011)

2 Accounting policies

2.1 Basis of preparation

The accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and have been prepared under the historical cost convention.

The Company's accounting policies are in line with those of the Group, as detailed in note 2 of the consolidated financial statements.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future.

The Directors have prepared cash flow forecasts that indicate that the Company will be able to meet its financial obligations through to the end of 2012 from its existing liquid cash resources and post year end placements of ordinary shares.

Additional cash resources may become available to the Company following the granting of three new exploration licences in the Bahamas resulting in the completion of the farm in agreement with Statoil and receipt of consideration funds thereof.

However, the Company's ability to meet its obligations beyond 2012 is dependent on either further fund raising, completion of the Statoil farm in agreement or the agreement of further farm in arrangements of the Group's licences.

3 Loss attributable to members of the Parent Company

The loss dealt with in the financial statements of the Parent Company for the 16 months ended 31 December 2010 is $643,104. As permitted by part 1 section 3(5) of the Isle of Man Companies Act 1982, the Company has elected not to present its own statement of comprehensive income for the period.

Notes to the Parent Company Financial Statements (continued)

4 Other receivables

	2010 Company $
Prepayments	**180,185**
Amount owing by group undertakings	**1,091,374**
	1,271,559

5 Property, plant and equipment

Company	Leasehold improvements $	Furniture, fittings and equipment $	Total $
Net book value as at 25 August 2009	–	–	–
Additions	29,010	48,101	77,111
Depreciation charge	–	(6,253)	(6,253)
Net book value as at 31 December 2010	**29,010**	**41,848**	**70,858**

As at 31 December 2010			
Cost	**29,010**	**48,101**	**77,111**
Accumulated depreciation	**–**	**(6,253)**	**(6,253)**
Net book value	**29,010**	**41,848**	**70,858**

6 Investments in subsidiaries

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

Investment in BPC Jersey Limited	
At beginning of the period	**–**
Dividend in specie	**29,560,456**
At 31 December 2010	**29,560,456**

On 15 June 2010 the Company acquired 100% of shares in issue in BPC (Falklands) Limited (formerly BPC Limited) through a Scheme of Arrangement resulting in the issue of 859,382,698 new ordinary shares to the existing shareholders of BPC (Falklands) Limited. The cost of investment in BPC (Falklands) Limited has been recorded as the value of the net assets of BPC (Falklands) Limited immediately prior to the Scheme of Arrangement of $29,560,456 which comprised of its investment in BPC Jersey Limited. The Scheme of Arrangement is explained in greater detail in note 21 of the consolidated financial statements.

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

Overview

Business Review

Corporate Governance

Accounts

7 Share capital and premium

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

Allotted, called up and fully paid shares are detailed below:

		Number of shares	Share capital	Share premium reserve	Other reserve	Total
Incorporation – 25 August 2009		**2**	**$4**	**$nil**	**$nil**	**$4**
12 April 2010	Reclassification	100,000	–	–	–	–
15 June 2010	Scheme of Arrangement	859,382,698	$25,298	–	$29,535,159	$29,560,457
6 October 2010	Placement	120,000,000	$3,811	$7,462,963	–	$7,466,774
11 October 2010	Options exercised	2,500,000	$80	$180,726	–	$180,806
10 November 2010	Options exercised	2,500,000	$80	$183,213	–	$183,293
23 November 2010	Options exercised	2,896,398	$90	$210,693	–	$210,783
At 31 December 2010		**987,379,096**	**$29,359**	**$8,037,595**	**$29,535,159**	**$37,602,113**

Subsequent to the year end the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011 (note 14).

8 Share-based payments

On 15 June 2010 the Company underwent a Scheme of Arrangement which saw 7,896,398 share options in BPC (Falklands) Limited cancelled and replaced with 7,896,398 share options in the Company. The new share options were granted under identical terms to the pre-existing share options in BPC (Falklands) Limited with expiry on 2 September 2011. IFRS 2 charges relating to these share options have been made to the Company's reserves since the above date.

During the period, all share options outstanding were exercised. No share options were granted during the period.

Subsequent to the year end the Company has issued share options to the Directors, employees and certain consultants (see note 14).

9 Retained earnings

	16 months ended 31 December 2010 Company $
Balance at beginning of period	–
Loss for the period	**(643,104)**
Balance at end of period	**(643,104)**

10 Cash used in operating activities

	16 months ended 31 December 2009 Company $
Loss before income tax	(643,104)
Adjustments for:	
– Depreciation and amortisation	6,253
– Intercompany payables written back	(3,442,867)
– Share-based payment	55,622
– Other receivables	(180,185)
– Trade and other payables	281,846
Cash used in operating activities	**(3,922,435)**

Notes to the Parent Company Financial Statements (continued)

11 Cash not available for use

	2010 Company $
Bank deposits	**325,046**

Bank deposits include amounts held by Barclays Bank Plc as security for a guarantee provided to HMRC. The guarantee was required to be in place prior to migrating the UK tax residency of the company's subsidiary, BPC (Falklands) Limited (incorporated in the Falkland Islands) to Jersey in 2008 and was required to be increased by the Supreme Court of the Falkland Islands as a condition of the completion of the Scheme of Arrangement. These amounts are now due for release to the Company pending receipt of consent from HMRC.

Also included in bank deposits is the amount of £60,000 held as security for a company credit card facility.

12 Cash and cash equivalents

	2010 Company $
Cash at bank and in hand	**6,068,558**

Cash at bank and in hand
The 2010 balance includes interest bearing accounts at rates between 0% and 1%.

13 Related party transactions
Key management personnel

Details of key management personnel are as follows:

Alan Burns	Non-Executive Chairman
Paul Crevello	Director and Chief Executive Officer
Dursley Stott	Non-Executive Director
Michael Proffitt	Finance Director, Non-Executive
Edward Shallcross	Non-Executive Director

Key management compensation

	31 December 2010 Company $
Salaries and other short term benefits	**916,369**

During the period, Alan Burns was reimbursed for the purchase of two vehicles for staff use with a total value of $70,140.

During the year, administration services totalling $40,870 were procured from Albert Technologies Limited, a company owned by Alan Burns.

Mr M Proffitt and Mr A Burns are both Directors and shareholders of Renewable Energy Holdings Plc (REH). During the year, management and administration fees totalling $116,531were paid to REH.

During the year, accountancy and other financial consultancy services were procured from BDP Orbita Limited, a company in which Benjamin and Daniel Proffitt, relatives of Michael Proffitt, are Directors. Fees totalling $331,629 were paid to BDP Orbita Limited for these services.

During the year, accountancy services were procured from Daniel Proffitt, a relative of Michael Proffitt, totalling $4,198.

Subsequent to the year end the Company has issued share options to the Directors, employees and certain consultants (see note 14).

14 Events after the balance sheet date

On 17 January 2011 the Company announced the retirement of Alan Robert Burns as Chief Executive Officer of the Group and the appointment of Paul Daniel Crevello to this role. Mr Burns continues to serve the Group as Non-Executive Chairman.

On 3 February 2011 the Company's Bahamian subsidiary completed the acquisition of 1,100 km of 2D seismic lines in its southern licence areas. Detailed analysis results are expected by the end of summer 2011.

On 16 March 2011 the Company announced the placement of 233,100,000 new ordinary shares at 18.75 pence per share, raising gross proceeds of £45.6 million in total. Of this placing, 110,000,000 ordinary shares were allotted on 17 March 2011 with the remaining 133,100,000 ordinary shares being allotted following shareholder approval at the Extraordinary General Meeting of the Members of the Company on 11 April 2011. It is intended that the proceeds of this placement be used to advance the Group's technical work program in its licence areas.

On 30 March 2011 the Company's Bahamian subsidiary signed a Letter of Award with CGG Veritas to carry out the 3D seismic survey across the Group's southern licence area.

On 12 April 2011 the Company issued 18 million share options to Directors, staff and consultants. The options have an expiry period of five years and are split into two tranches, 50% vesting on grant and 50% vesting when the share price of the Company reaches 50 pence. Details of options granted to Directors are as follows:

	Number of options granted	Exercise price per ordinary share	Total number of ordinary shares held under option
Paul Crevello	4,000,000	21.25p	4,000,000
Alan Burns	3,000,000	21.25p	3,000,000
Mike Proffitt	2,500,000	21.25p	2,500,000
Dursley Stott	1,500,000	21.25p	1,500,000
Edward Shallcross	1,500,000	21.25p	1,500,000
Total	**12,500,000**		**12,500,000**

Glossary of Terms

BN	Billion
boe	Barrels of oil equivalent
CPR	Competent Person Report
MN	Million
NOCs	National Oil Companies
PSDM	Pre-stack Depth Migration
PSTM	Pre-stack Time Migration

Notes

Notes

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