Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2014

Dear Shareholders,

It's my pleasure to present you with the Company's 2014 interim financial statements which report on the six months to June 2014 - a period during which I was appointed to the Board. Our Company has a sound financial footing with healthy cash reserves, and is undertaking the technical, environmental and commercial work necessary to maintain and enhance its asset base. We are supporting the government, where appropriate, in delivering a sound legislative framework for exploration drilling compliant with international best practice and standards. The Company is continuing its efforts to source the necessary funding for future operations – primarily through a farmout of its southern licences.

In the 2013 Annual Report I wrote to you expressing my thoughts on the Company's prospects, its theatre of operations, and its management and strategy. Much has happened in the intervening period to further strengthen my belief in the Company's prospects, and where I can best exert my influence and experience in order to deliver on my commitment to shareholders.

On the technical side we have undertaken further risk reduction activities. There is always risk in an exploration venture, so effort needs to be applied where it is most leveraging. Where better than to start with the feedback received through the data room process? Much of this work remains ongoing, but early results are already proving this undertaking to be worthwhile. My main concern has been focused on the need to deliver options for realising a deliverable well cost of roughly $60 million. When I joined the Company a preliminary FEED study had been undertaken which assigned a $100 million - $120 million price tag to our first exploration well - expensive by any measure, although not uncommon in offshore exploration. I have encouraged management to consider how the well design and location could be improved to deliver the best chance of success for the most reasonable price, rather than to wait for a farminee to apply their experience and expertise in this regard. To this end, our technical team has spent much time re-evaluating the well design and objectives. The current indications are that a relocation further north west along the structure would not only reduce the technical risks associated with well delivery, but would also result in a significant well cost reduction. All this whilst maintaining, or even enhancing, the chances of success with respect to certain shallower play-types.

At the same time, the shift in the US to onshore unconventionals, coupled with a global decline in exploration activity, has led to overcapacity in the global offshore rig market, resulting in increased rig availability and decreased day rates. This has further supported the effort towards a target well cost of $60 million.

On the political front, we note progressive announcements from the Minister regarding the state of updated regulations and their expected release date. Although a number of shareholders have expressed their frustrations to me at the pace of progress, I remain convinced that we as industry players must remain aware of and sympathetic to the concerns of the local community that exploration be undertaken as safely as possible. It must be governed by regulations embodying global best practice. We look forward to the release of these regulations and see such efforts undertaken by the ministry as demonstrating the Government's commitment to the industry.

Our Company's focus remains on completing a farm out to finance our first well, and to this end I continue to support Simon in his efforts, assisting wherever possible with an extended range of contacts. I personally find the positive feedback we have received from prospective partners on our technical case enormously encouraging and am confident that we will deliver a deal sufficient to drill our first exploration well within the licence mandated timeframe. I have, however, asked the Board and executive management to demonstrate their confidence to you, our shareholders, of the technical case and their collective belief in achieving a farmout by foregoing 20 per cent of their cash remuneration, recovery of which, in the form of shares, being contingent on delivery of future transaction success. They have all readily agreed.

The Company's finances remain sound and as a board we will continue to commit to a level of expenditure commensurate with continued risk reduction, providing environmental assurance and delivering on our commitments.

Finally, I would like to reiterate my personal commitment to seeing this Company succeed. With such a quality technical case, a supportive government and a strong and experienced management team, I believe the Company's future prospects are very exciting and I greatly look forward to being a part of bringing them into fruition.

My thanks to all of our shareholders for their enduring support.

Bill Schrader
Chairman

Chief Executive's Review

Operationally, this half-year has been a very frustrating time but paradoxically increasingly busy, culminating in a range of new technical work designed to continue the process of technical risk mitigation and well cost reduction which in turn further enhances the attractiveness of the Bahamas foreland basin play to potential farminees.

With the clarification of the renewal of the licences the Company embarked on a promotion of the opportunity to farm in to the company licenses. This resulted in a series of visits to the data room, by majors and large independents alike, regularly throughout the period. The Company is engaged in a number of ongoing discussions with a range of companies.

The key constraint for companies visiting the data room is the obvious lack of any tangible progress by the Government with regard to producing modernised and strengthened petroleum regulations as promised. Whilst the Ministry has reinforced many times that the work is ongoing the longer this task has gone on the more suspicious visitors have become as to the reasons for the delay. The Ministry continues to insist that work is in progress, having highlighted a range of upgrades comprising a new Act to govern petroleum operations and new Regulations governing the Environment as well as Health and Safety. In addition, the Minister has indicated work is in progress on a sovereign wealth fund act, which may appear premature but would reinforce government spending intentions in the event of exploration success – a key concern for Bahamian stakeholders that BPC has visited with during the course of the year. Liaison between the Company and the Ministry has picked up recently and all the indications are that a draft of the new regulations will be available for public consideration and consultation imminently. Following adoption of revised offshore regulations, the Company expects to receive formal execution of the licence renewal from the Governor-General and confirmation of a revised drilling deadline, nominally 12 months from renewal execution.

As part of its on-going efforts to link management remuneration to performance and further align management interests with that of shareholders, the Board and executive management have agreed to convert 20 per cent of fixed salaries into performance based remuneration ("the Scheme"). The conditions of the Scheme are for the foregone element of remuneration to be commuted to an equivalent value of shares to be issued only on the successful completion of financing for a well. Further details of the Scheme will be disclosed once finalised.

In January 2014, Statoil decided to withdraw from the joint applications for three licences over the Cay Sal area which lie on-trend with the southern licences. This withdrawal was entirely due to revised strategic capital allocation priorities within Statoil and had very little impact on BPC as all licence application fees had been paid and all licence applications reverted immediately to 100 per cent BPC. This had the effect of further enhancing the farm out by allowing the Company to offer access to all on-trend upside within the overall deal - a significant priority for a number of companies. It is interesting to note that Rosneft has now joined with Zarubezhneft in seeking to explore Cuban waters adjacent to the company interests.

Our strategy remains one of focus on our core assets in The Bahamas, albeit with tactical amendments over well location, design and thus costing. Three main areas of new technical work have been undertaken covering geophysics – sequence stratigraphy; tying lithological models directly into the 3D data set – geochemistry; undertaking various rock and chip sampling analyses – and, drilling analysis focused on location and well design in order to drive down the anticipated costs of discharging the well obligation. The Company has now developed a series of alternate well locations that, whilst accessing the same play-types, offers considerable optionality on cost and drilling execution risk. Each of these alternate well locations requires the same level of environmental assurance and work is being undertaken to ensure compliance.

The Company has continued its detailed preparation of the required Environmental Management Plan (EMP) and has completed a series of environmental sensitivity maps and associated index maps identifying areas of high potential environmental impact. Completion of this work has been widely appreciated, in particular at the Environmental Law Conference held at the College of The Bahamas attended by both the Minister responsible for the environment and the Attorney General. Preparation of these maps has involved extensive and wide public consultation with numerous visits made in the year to date to the ‘family’ islands to consult with fishing, environmental and community groups to ensure accuracy and relevance. Work continues on the Emergency Response Plan (based upon a simulated worst-case discharge calculation).

Despite all the new work undertaken during the period, management has achieved a 19 per cent reduction in the operating loss for the period compared with June 2013 and a 6 per cent reduction on an annualised basis when compared with the year to December 2013. Cash reserves are $12.4 million and whilst options to further reduce the cash burn-rate exist if deemed necessary, to date the Board has sought to maintain all working infrastructure required to continue to enhance the technical and commercial case for investment. A substantial cash balance will remain for an extended period pending progress towards our goal of an exploration well.

The outlook for the remainder of the year has the Company focused on farmout efforts whilst anticipating a significant effort in support of public consultation as and when the revised regulations become available. Environmental work will continue to ensure all alternate well locations are fully permitted in compliance with any revised regulations along with continued full engagement with the communities and stakeholders. But, as ever, the primarily focus, on the back of clarification of the government’s intent towards petroleum exploration drilling, will be on the data room and farm-out activities.

Simon Potter
Chief Executive Officer

Consolidated statement of comprehensive income
for the six months ended 30 June 2014

	Six months ended 30 June 2014 (Unaudited)	**Six months ended 30 June 2013 (Unaudited)**	**Year ended 31 December 2013 (Audited)**
	$	**$**	**$**
Continuing operations:			
Employee benefit expense	(1,072,920)	(1,081,560)	(2,041,607)
Depreciation expense	(36,820)	(48,490)	(86,641)
Other expenses	(1,353,850)	(1,928,007)	(3,140,068)
Operating loss	(2,463,590)	(3,058,057)	(5,268,316)
Other income	24,000	31,990	51,208
Finance income	8,132	13,742	23,696
Total comprehensive income for the period, net of tax	(2,431,458)	(3,012,325)	(5,193,412)
Basic and diluted loss per share (cents per share)	(0.20)	(0.24)	(0.42)

Consolidated statement of changes in equity
for the six months ended 30 June 2014

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2014	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,781,098**	**(41,270,041)**	**62,017,570**
Comprehensive income							
Loss for the period	-	-	-	-	-	(2,431,458)	(2,431,458)
Total comprehensive income for the period	-	-	-	-	-	(2,431,458)	(2,431,458)
Balance at 30 June 2014	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,781,098**	**(43,701,499)**	**59,586,112**

Consolidated statement of changes in equity
for the six months ended 30 June 2013

	Share Capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2013	37,253	78,185,102	77,130,684	(53,846,526)	1,705,753	(36,076,629)	67,135,637
Comprehensive income							
Loss for the period	-	-	-	-	-	(3,012,325)	(3,012,325)
Total comprehensive income for the period	-	-	-	-	-	(3,012,325)	(3,012,325)
Transactions with owners							
Share options – value of services	-	-	-	-	75,345	-	75,345
Total transactions with owners	-	-	-	-	75,345	-	75,345
Balance at 30 June 2013	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,781,098**	**(39,088,954)**	**64,198,657**

Consolidated statement of changes in equity for the year ended 31 December 2013

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2013	37,253	78,185,102	77,130,684	(53,846,526)	1,705,753	(36,076,629)	67,135,637
Comprehensive income							
Loss for the year	-	-	-	-	-	(5,193,412)	(5,193,412)
Total comprehensive income for the year	-	-	-	-	-	(5,193,412)	(5,193,412)
Transactions with owners							
Share options – value of services	-	-	-	-	75,345	-	75,345
Total transactions with owners	-	-	-	-	75,345	-	75,345
Balance at 31 December 2013	37,253	78,185,102	77,130,684	(53,846,526)	1,781,098	(41,270,041)	62,017,570

Consolidated balance sheet
at 30 June 2014

	Note	30 June 2014 (Unaudited) $	30 June 2013 (Unaudited) $	31 December 2013 (Audited) $
Assets				
Non-current assets				
Intangible exploration and evaluation assets	*1*	46,507,673	46,180,273	46,369,976
Property, plant and equipment		142,537	179,980	109,135
Restricted cash		119,351	152,246	165,040
		46,769,561	46,512,499	46,644,151
Current assets				
Receivables and other assets		900,689	1,008,323	888,451
Cash and cash equivalents		12,310,747	17,330,076	14,863,287
		13,211,436	18,338,399	15,751,738
Total assets		59,980,997	64,850,898	62,395,889
Liabilities				
Current liabilities				
Trade and other payables		394,885	652,241	378,319
Total liabilities		394,885	652,241	378,319
Equity				
Ordinary shares		37,253	37,253	37,253
Share premium reserve		78,185,102	78,185,102	78,185,102
Merger reserve		77,130,684	77,130,684	77,130,684
Reverse acquisition reserve		(53,846,526)	(53,846,526)	(53,846,526)
Share-based payments reserve		1,781,098	1,781,098	1,781,098
Retained earnings		(43,701,499)	(39,088,954)	(41,270,041)
Total equity		59,586,112	64,198,657	62,017,570
Total equity and liabilities		59,980,997	64,850,898	62,395,889

These interim financial statements were approved by the Directors and authorised for issue on 12 August 2014

Simon Potter, Chief Executive Officer   Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2014

	30 June 2014 (Unaudited) $	30 June 2013 (Unaudited) $	31 December 2013 (Audited) $
Cash flows from operating activities			
Payments to suppliers and employees	(2,391,836)	(3,314,260)	(5,849,231)
Net cash used in operating activities	(2,391,836)	(3,314,260)	(5,849,231)
Cash flows from investing activities			
Purchase of property, plant and equipment	(70,222)	(4,762)	(15,782)
Proceeds from disposal of property plant and equipment	-	-	42,357
Payments for exploration and evaluation assets	(137,697)	(463,771)	(653,474)
Decrease in restricted cash	49,384	-	-
Other income	24,000	-	51,208
Interest received	8,132	13,742	23,696
Net cash used in investing activities	(126,403)	(454,791)	(551,995)
Net decrease in cash and cash equivalents	(2,518,239)	(3,769,051)	(6,401,226)
Cash and cash equivalents at the beginning of the period	14,863,287	21,311,937	21,311,937
Effects of exchange rate changes on cash and cash equivalents	(34,301)	(212,810)	(47,424)
Cash and cash equivalents at the end of the period	12,310,747	17,330,076	14,863,287

1. Basis of preparation

The unaudited consolidated interim financial information has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively "EU IFRSs"). The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the Company's financial statements for the year ended 31 December 2013. It is not expected that there will be any changes or additions to these in the annual financial statements for the year ended 31 December 2014.

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

The interim financial information for the six months ended 30 June 2014 and 30 June 2013 is unaudited and does not constitute the Company's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2013 has, however, been derived from the Company's statutory financial statements for that period. The auditor's report on those statutory financial statements was unqualified but included an emphasis of matter relating to uncertainty in respect to the future recoverability of the Group's Intangible Exploration and Evaluation Assets.

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

Carrying Value of Intangible Exploration and Evaluation Assets

Expenditure of $46,507,673 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2014 (30 June 2013: $46,180,273) (31 December 2013: $46,369,976).

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

On 10 March 2013, the Government of The Bahamas announced its intentions to proceed with oil and gas exploration drilling in Bahamian waters. In addition, revised environmental regulations are being finalised and adopted which, at the time of this report, the responsible minister is reported as indicating are before the country's cabinet for final review. Additionally, the Government clarified its intentions for a public consultation on the creation of an oil and gas extraction and production industry, noting that any such consultation process would only take place in the event that commercial reserves of hydrocarbons are discovered in Bahamian waters. Following this decision, the future recoverability of the Group's intangible assets are contingent upon the discovery of commercial reserves and the presentation of all relevant data before the Government and thus the people of The Bahamas.

On 19 July 2013 the Government of The Bahamas confirmed the renewal and extension of the Group's exploration licences in Bahamian waters for at least a further three years. As part of this renewal, the southern boundaries of the four southern licences were adjusted to conform to the maritime boundary between The Bahamas and Cuba, providing tenure over the full extent of the existing mapped structures. Under the terms of the renewed licences, the Group is obliged to commence drilling activities by 26 April 2015 for the execution of one well in its four southern licence areas and one well in its Miami licence area.