Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2015

Chief Executive's Review

The large volume of technical and commercial work completed by Bahamas Petroleum to date continues to encourage us in our view that we have access to what is potentially a multi-billion barrel petroleum resource, world-class in terms of its scale, economic potential, advantaged location, and operating environment.

In the first half of 2015 a key milestone was achieved: the renewal of our core southern licences, and with that a clear timeline established for the commencement of well operations. At the same time significant progress was made towards adoption of a new regulatory framework in The Bahamas, to update the existing framework and foster the responsible and safe drilling of an offshore exploration well.

These developments have reinvigorated the Company's programme to attract a strategic and funding partner. There has been considerable new activity on this front during the first half of 2015, notwithstanding continued turmoil in the global oil markets. We believe solid fundamentals - scale, materiality and cost advantage - underpin the relative attractiveness of our exploration play, especially when compared to other projects competing for the same capital.

Our singular focus remains to commence responsible and safe drilling operations as soon as possible, as a first step towards realising the potential resource contained in our licence areas.

Licencing and Regulatory Highlights

- **New Petroleum Legislation progressing**
  - The regulatory framework pertaining to oil and gas exploration in the Bahamas is already 30 years old. Subsequent technology advances, knowledge from incidents elsewhere in the globe, and the changing attitudes of societies mean there is a clear need to bring this framework up-to-date.
  - In late 2014 a new Petroleum Bill and suite of associated regulations to guide and govern oil exploration in The Bahamas was placed before the Parliament of The Bahamas, for a First Reading. This included updated regulations covering Operations, Health and Safety, and Environmental matters.
  - This initial draft legislative package was amended to include certain clarifying language, and was resubmitted for a revised First Reading in May 2015.
  - The required Second Reading and associated debate is scheduled to take place in the current parliamentary term, and the draft legislative package will receive its third reading and be voted on before being forwarded to the Bahamian Senate, as appropriate, for consent and subsequent passage into law, anticipated in the near future.
  - In addition to the package of petroleum legislation, a Sovereign Wealth Bill was also proposed, to provide the legislative framework to ensure that the accrued wealth from any successful exploration outcome would be optimally invested, managed and conserved for the benefit of this and future generations of Bahamians.
  - Overall, the new legislative package contains regulations that endorse the use of appropriate and up-to-date risk management techniques, safety case methodologies, obligations for environmental management and pollution control systems, emergency procedures and effective safety management.
  - Notwithstanding the above, the Company's licences are grandfathered under the existing Petroleum Legislation (based upon the Savings Provisions in the new Bill) such that there is no political impediment to the commencement of an exploration well.
  - Fiscal terms in The Bahamas are specified in each of the individual licence agreements and are therefore not altered by the new legislation.

- **Licence Renewals finalised**
  - In May 2015, the statutory term for four of the five licences 100% held by the Company (being the four conjoined licences in the southern territorial waters of The Bahamas, and which contain the Company's key prospect inventory) were extended by way of a Licence Renewal Addendum. This document was executed by both the Minister and the Company, and subsequently by the Governor General of The Bahamas on 8th June 2015.
  - The renewed licences provide for an extension of the current exploration period for three years to mid-2018, with a requirement to commence an exploration well by April 2017.

- As a part of this renewal the southern boundaries of the four southern licences have been adjusted to conform to the maritime boundary between The Bahamas and Cuba, thus providing clear tenure over the full extent of the existing mapped structures.
- Also as part of this renewal, the Company was acknowledged as having satisfied all obligations in respect of the first exploration period, via its extensive programme of technical work including acquisition and processing of modern 2D and 3D seismic data, and it has been confirmed that these southern licences will be grandfathered under the existing Petroleum Legislation, thus providing clarity as to the operating legal regime.

- **Other Licences**
  - At the same time, the Company has sought to reorganise its other licence holdings and interests.
  - In relation to the Miami Licence, the Company's single licence in the Northern territorial waters of The Bahamas, the Board has decided that entry into the second exploration period is not justified without a deferral of obligations. The Company is currently engaged in discussion with the Government in this regard.
  - Bahamas Petroleum had previously submitted applications for five new licences in the Bahamas. Following discussion with the Government, these new licence applications were amended such that the total number of new licences now applied for has been high-graded to three. The new licence applications are in respect of an adjusted area that seeks to exclude the area of the proposed Cay Sal National Marine Reserve, whilst at the same time retaining a strategic and practical focus on trend from plays identified in the existing southern licences, and thus seeking to fully capture technically accessible upside potential.

The successful achievement of these milestones - licence renewal and progress of the new legislation - provides a very clear mandate for the Company going forward. The Government of The Bahamas has acted decisively to reinforce responsible and safe hydrocarbon exploration as an integral part of the National Energy Policy of The Bahamas and the Company now has clarity on the extended tenure, timings, terms and extent of its licences. We believe this provides the level of regulatory certainty that industry participants typically require before commencing new country operations.

Operational Highlights

As part of the licence renewal process, and in anticipation of the strengthened, modernised and more stringent standards of the new Petroleum Act and associated regulations, the Company and the Government of The Bahamas agreed April 2017 as the date required for the commencement of an exploration well. Whilst we remain committed to delivering a well result as soon as is practicable, this timeframe balances between the shareholders' desire for a well to commence as soon as possible, whilst at the same time maintaining an operationally realistic, safe and responsible planning period for a first exploration well, and subsequent commencement of operations.

In support of this activity, the Company completed various work items focussed on further technical de-risking of the project and preparation for the now defined drilling campaign timetable. Many of these technical and engineering works were commenced in 2014 but were finally completed in 2015, as follows:

- **Anticipated well cost**
  - The Company has completed a programme of work to substantially re-engineer its planned first exploration well, based on 3D seismic data, comparison of historic drilling performance in the Bahamas and for similar carbonate lithology wells drilled elsewhere in the world, in order to establish deliverable 'technical limits' to benchmark well costs against.
  - Additional work conducted jointly with third party companies has been begun and is on-going to ensure modern technologies are embedded in the well equipment design so as to maximise rate of penetration (ROP) a key component in reducing drilling times and thus keeping costs lower. At the same time it is imperative the well design incorporates the capacity to maximise data gathering whilst maintaining a high ROP and work is being undertaken in parallel to ensure this objective is not compromised.
  - As a combined result of these initiatives, third party reviews and market information, it is anticipated that the cost of the initial exploration well (inclusive of appropriate contingencies and ensuring appropriate safety and environmental procedures as well as data integrity) is now in the order of US$50 million – US$60 million (a substantial reduction on previous estimates).

- **Economic analysis**

- The Company also updated its economic models, to reflect revised current global oil prices, reduced well costing estimates as noted above, all up-to-date technical data, and other relevant factors to an eventual field development, such as the project's proximity to existing infrastructure, contractors and service suppliers etc.
- Based on this work, the Company believes that the minimum field size for an economic development is less than 200 million barrels (versus current resource estimates measured in billions of barrels) with an estimate break even oil price of $30 - $40 per barrel, and that the project would thus offer robust profitability even in a lower oil price environment.

- **Environmental planning**
  - The Company's Environmental Impact Assessment (EIA) had been prepared and accepted in 2012. During 2015 the Company continued its detailed preparation of the required Environmental Management Plan (EMP), which includes preparation of the Oil Spill Contingency Plan (OSCP), the Emergency Response Plan (both plans based upon a simulated worst-case discharge calculation) and a series of environmental sensitivity index maps. These maps are used to effectively prioritise response plans in the unlikely event of an incident.
- **Community Engagement**
  - The Company continued to engage with communities with an interest in the project whether supportive or not – primarily environmental and academic groups, political parties, churches, colleges, schools, community groups, administrators and councillors.
  - Preparation of the Environmental Sensitivity and the Index maps required extensive and wide public consultation including numerous visits to various constituencies across The Bahamas to consult with fishing, environmental and community groups.

Financial Highlights

The Company has continued to focus on cost effective operations, so as to maintain cash reserves whilst ensuring essential value accretive work continues to be undertaken. Over the past 3 years, to the start of 2015, total operating cost savings of 54% have been made in aggregate, an average annual reduction of 22% on a year on year basis.

In the first half of 2015 cost reduction actions initiated during 2014 have begun to flow through to the bottom line, albeit to some extent offset by an increase in various costs directly associated with efforts to attract a strategic and funding partner. These activities have been reinvigorated and substantially increased in the light of increased regulatory and licence clarity received in December of last year and May of this year respectively.

Specific examples of cost reduction initiatives now being materialised are:

- the Board's decision to defer 20% of fees,
- an across the board rationalisation of Company advisor costs, and
- further reduction of fixed expenses including the termination of all housing contracts, reduction in the number of company vehicles under operation and an overall contraction of Bahamian footprint costs.

However, the impact of these cash cost reduction initiatives on the reported accounting loss for the 6 month period have been somewhat masked by:

- the treatment of the Board's decision to defer 20% of fees into shares (post farm in success) as an option requires an equivalent fair value continues to be charged to the statement of comprehensive income under IFRS 2 and;
- the increase in costs related to partnership discussions failing to meet the strict criteria for capitalisation into the intangible asset figure under IFRS 6, resulting in these costs being charged to the statement of comprehensive income.

So whilst cash costs are reduced, both of these elements have the effect of continuing to contribute to the accounting costs of operation and therefore increasing the loss for the period.

With a closing cash position of $7.8 million and no debt, and as we implement further initiatives and maintain a strict focus on expenditure, we expect to see further cost reductions throughout the second half of 2015. Consequently, the Company considers that on-going costs can be met from existing cash reserves for several years.

As previously foreshadowed, a substantial cash balance is anticipated to remain at the year-end notwithstanding annual licence rentals which have been settled after the reporting.

In conclusion, the first half of 2015 has been one of modest but pleasing progress for the Company. In a commercial and regulatory sense, we now have clarity on the extended tenure, timings, terms and area of our licences. Combined with the recently demonstrated commitment of the Bahamian Government to our industry, and the legislative clarity provided by the savings provisions of the new Petroleum Act with regards to our existing licences, we believe there is now the greater level of certainty needed to attract high quality industry partners and this is being acted on determinedly by the Company.

Yours sincerely,
Simon Potter
Chief Executive Officer
23 July 2015

Consolidated statement of comprehensive income
for the six months ended 30 June 2015

	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	$	$	$
Continuing operations:			
Employee benefit expense	(1,023,227)	(1,072,920)	(2,118,136)
Depreciation expense	(26,783)	(36,820)	(73,494)
Other expenses	(1,294,041)	(1,353,850)	(2,587,249)
Operating loss	(2,344,051)	(2,463,590)	(4,778,879)
Other income	33,000	24,000	96,000
Finance income	8,395	8,132	14,700
Total comprehensive income for the period, net of tax	(2,302,656)	(2,431,458)	(4,688,179)
Basic and diluted loss per share (cents per share)	(0.19)	(0.20)	(0.38)

Consolidated statement of changes in equity
for the six months ended 30 June 2015

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2015	37,253	78,185,102	77,130,684	(53,846,526)	1,850,473	(45,938,220)	57,418,766
Comprehensive income							
Loss for the period	-	-	-	-	-	(2,302,656)	(2,302,656)
Total comprehensive income for the period	-	-	-	-	-	(2,302,656)	(2,302,656)
Transactions with owners							
Share options – value of services	-	-	-	-	139,388	-	139,388
Total transactions with owners	-	-	-	-	139,388	-	139,388
Balance at 30 June 2015	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,989,861**	**(48,240,876)**	**55,255,498**

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 year ended 31 December 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 year	-	-	-	-	-	(4,668,179)	(4,668,179)
Total comprehensive income for the year	-	-	-	-	-	(4,668,179)	(4,668,179)
Transactions with owners							
Share options – value of services	-	-	-	-	69,375	-	69,375
Total transactions with owners	-	-	-	-	69,375	-	69,375
Balance at 31 December 2014	37,253	78,185,102	77,130,684	(53,846,526)	1,850,473	(45,938,220)	57,418,766

Consolidated balance sheet
at 30 June 2015

		30 June 2015 (Unaudited)	30 June 2014 (Unaudited)	31 December 2014 (Audited)
Assets	***Note***	**$**	**$**	**$**
Non-current assets				
Intangible exploration and evaluation assets	*1*	47,521,009	46,507,673	46,778,928
Property, plant and equipment		83,641	142,537	112,605
Restricted cash		47,205	119,351	46,635
		47,651,855	46,769,561	46,938,168
Current assets				
Other Receivables		693,162	900,689	879,715
Cash and cash equivalents		7,712,425	12,310,747	10,032,127
		8,405,587	13,211,436	10,911,842
Total assets		56,057,442	59,980,997	57,850,010
Liabilities				
Current liabilities				
Trade and other payables		801,944	394,885	431,244
Total liabilities		801,944	394,885	431,244
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		1,989,861	1,781,098	1,850,473
Retained earnings		(48,240,876)	(43,701,499)	(45,938,220)
Total equity		55,255,498	59,586,112	57,418,766
Total equity and liabilities		56,057,442	59,980,997	57,850,010

These interim financial statements were approved by the Directors and authorised for issue on 22 July 2015

Simon Potter, Chief Executive Officer   Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2015

	30 June 2015 (Unaudited) $	30 June 2014 (Unaudited) $	31 December 2014 (Audited) $
Cash flows from operating activities			
Payments to suppliers and employees	(2,342,671)	(2,391,836)	(4,560,392)
Net cash used in operating activities	(2,342,671)	(2,391,836)	(4,560,392)
Cash flows from investing activities			
Purchase of property, plant and equipment	-	(70,222)	(76,964)
Proceeds from disposal of property plant and equipment	4,000	-	-
Payments for exploration and evaluation assets	(29,581)	(137,697)	(408,952)
Decrease in restricted cash	-	49,384	112,173
Other income	33,000	24,000	96,000
Interest received	8,395	8,132	14,700
Net cash used in investing activities	15,814	(126,403)	(263,043)
Net decrease in cash and cash equivalents	(2,326,857)	(2,518,239)	(4,823,435)
Cash and cash equivalents at the beginning of the period	10,032,127	14,863,287	14,863,287
Effects of exchange rate changes on cash and cash equivalents	7,155	(34,301)	(7,725)
Cash and cash equivalents at the end of the period	7,712,425	12,310,747	10,032,127

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 2014. 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 2015.

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 2015 and 30 June 2014 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 2014 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 $47,521,009 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2015 (30 June 2014: $46,507,673) (31 December 2014: $46,778,928).

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. 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 15 May 2015 the Government of The Bahamas renewed and extended the Group's four southern exploration licences in Bahamian waters for at least a further three years to 2018. 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 30 April 2017.

On 18 May 2015 the Group announced that renewal of the Miami licence was under review, pending negotiations with the Government of the Bahamas regarding the work commitment and annual rentals associated with entering into a further three year licence period. Should the results of these negotiations be unsatisfactory, the Group may elect not to renew this licence. Intangibles exploration and evaluation assets include $416,250 of expenditure relating to annual rentals for the Miami licence which will, should the licence not be renewed, be subject to impairment.