Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2012

Chairman's Statement

Dear Shareholders,

The Board and I had the pleasure of meeting with a number of Shareholders at the 2012 Annual General Meeting in the Isle of Man. We then met again in London when the Chief Executive Officer, the Chief Operating Officer and the Company Secretary addressed a larger gathering of Shareholders to highlight the ongoing technical and commercial work. This was a great opportunity to convey the excitement we feel in the Company concerning technical progress. However, we also highlighted our frustration at the lack of clarity coming from the new administration in The Bahamas. Since my first report to you as Non-Executive Chairman, the Company has continued on many fronts to de-risk its asset base in preparation for the design and siting of its first well. These activities were set out in great detail in the Annual Report circulated during the second quarter. New challenges have emerged that may impact the schedule, but in the longer term will provide a greater clarity of purpose in support of the Company's activities.

Notably, during this period the people of the Bahamas held an election that resulted in a change of Government. Whilst the new Government was granted a substantial mandate by the people of the Bahamas, it faces a number of significant challenges, both social and economic. All of us at Bahamas Petroleum Company wish the new Government every success in tackling these many issues and look forward to demonstrating our commitment by working closely with them where it is possible and appropriate for us to do so. Success in our exploration activities could mean a transformation of the Bahamian economy and provide the necessary financial support for any, and many, social programs. We remain committed to safely assessing and ultimately realizing the potential for hydrocarbon production. To this end, I note that our management team has been working closely with the Ministries of the Environment and Transportation and Aviation on both preparing an appropriate response in the event of any oil spill as well as the implementation of suitable environmental regulations for exploratory drilling.

In the run up to election day, oil and gas exploration in the Bahamas became an issue among the main political parties, notwithstanding the fact that neither major party manifesto contained any reference to oil exploration nor its regulation. The coincidence of the renewal date of the Company licenses within two weeks of the election date, combined with unhelpful reporting from the media, exacerbated uncertainty despite there being no material impact to the Company's activities, strategic direction or asset base. Post this election excitement the Company position has been clarified by the new government with the recent receipt of a letter confirming compliance with the terms of the licence, the regulations and the Petroleum Act.

The Government has made statements concerning a commitment to a referendum being held by the people of The Bahamas in regard to the conduct of future exploration for oil and gas in Bahamian waters. The Company, however, has received no details as to the timing or final wording of such a referendum but commits to update shareholders as soon as there is any clarity, though realistically such a process will have the effect of postponing drilling of the obligation well to the end of 2013 at the earliest.

The Company believes that our success could transform the nation's finances, and therefore the quality of life for most Bahamians, within the space of a few years. Indeed, our economic modelling of the prospects suggests that royalty payments to the Bahamian Government within the first year or two of production alone could present the Bahamas with financial options never previously enjoyed. A sustained income stream thereafter from agreed royalties would allow the Government to implement long term social programs consistent with policy from which Bahamians could benefit for many years to come.

As I mentioned in my first report to you, the Company is and remains committed to responsible exploration. We intend to be aligned to the 'best practices' currently employed by Norway, the UK and the US representing internationally recognised standards, consistent with the Government mandate that all exploration and production be regulated by the highest standard of Health, Safety and Environmental protection. Since then, the Company has done a great deal to prepare for this commitment becoming a reality.

When the Bahamian people make their decision on this matter known, they will do so in the knowledge that Bahamas Petroleum Company will fully adhere to these commitments and will strive to fulfil its role in the transformation of the economy in the most environmentally safe way possible, intent on preserving the current environment for future generations.

Our work on corporate governance has continued during this reporting period with our systems and processes for recording activities and ensuring compliance with all regulations having continued to mature and strengthen. We have commenced a work plan to devise a Corporate Social Responsibility (CSR) report consistent with our commitment in the year and I would like to thank my fellow board members for their invaluable contribution to this activity.

I would also like to welcome Ross McDonald. He joined the Board of Directors in April 2012 and brings with him a wealth of experience in the Bahamian finance sector.

Finally, I would like to thank our shareholders for their continued patience and support and the executives and staff for their hard work and dedication in bringing the Company through this interesting period. Mindful of the quote "Time is the most valuable thing a man can spend" (Theophrastus); the Company will maintain its healthy cash position while awaiting the Government's timetable for a Referendum. We maintain our clarity of purpose in wishing to see a well drilled to de-risk the structures within our licences in the Bahamas, which potentially contain considerable volumes of hydrocarbons.

Adrian Collins
Non-Executive Chairman

Chief Executive Officer's Statement

The Company continues to make significant progress on the technical aspects of the business with considerable further de-risking of prospectivity within its southern licences. Final environmental study (EIA) submissions have been made in support of this activity and have been reviewed and commented on, however delays associated with the political and regulatory processes have impacted the Company commercially. The corporate cash position remains robust while we await the necessary mandates to drill and continue to seek a funding partner.

Following the 'fast track' 3D seismic results delivered in January 2012, the 'final' Post Stack Depth Migration (PSDM) results over the whole 3D survey area have now been delivered to the Company. Initial results from the 3D fast track analysis confirmed the overall integrity and size of the structures initially mapped from the 2D survey, whilst the mapped structures at Albian and Aptian levels beneath the thrust trend closest to Cuba (previously designated 'Thrust A, Fold A') are now shown to be velocity artefacts of the Cretaceous carbonate platform and thus do not now appear in current sections/maps. However, it is believed this is more than compensated for by modifications to the overall risking, the improved mapping of the pre-Aptian section in the thrusted structure (designated 'Fold B') and the broad Jurassic closure beneath the thrust. These horizons were not considered in the previously published Ryder Scott CPR, but are now forming the key prospective horizons likely to be targeted in our obligation well. As importantly the 3D shows the section below 'Trend A' to be dipping uniformly to the south west and providing an uninterrupted oil migration pathway from the Cuban foredeep source location, mitigating to some extent key pre-drill risks.

The resolution of the now received PSDM dataset currently being interpreted involves subsurface sampling at 12 meters in the horizontal plane and 4 meters in depth resulting in a data volume four times as dense as the fast track (25 x 25m spatial resolution). These data are of very good quality and frequency and further confirms the detailed fast track mapping of folds B and C whilst providing a much clearer overall picture. In particular, the data from the Aptian and below is better imaged with fault definition improved, allowing easier interpretation of the thrust faults. Likewise, the detachment surfaces are more easily seen and more consistent. The amplitude data has also been improved on with high amplitudes, especially around the Aptian level, being consistent with the tops of the structures. In addition the Company is receiving several attribute volumes that provide mappable characterization of the seismic wavelet to the subsurface geology brought across from the adjacent Doubloon Saxon well.

The Company derived sufficient confidence from the fast track results to proceed with an initial front end engineering design (FEED) to construct a well plan, including a review of the previously drilled wells and specific new plans for the drilling of a 22,500' deep exploration well estimated to take up to 120 days to drill and log (P_{50} case). Ultimate well cost is highly dependent on spread rate (which includes rig rate and all support costs) but is still anticipated to be in the \$100 million-\$120 million range.

Having submitted the EIA documentation to the Bahamas Environmental, Scientific and Technical (BEST) Commission, comments were duly received, each of which has already been incorporated into the Company work plans for the future. The EIA, in addition to detailed oil spill simulation modelling results, contained an appropriate mix of standards from Gulf of Mexico Regulations, international standards (i.e. MARPOL, IMO) and the international jurisdictions of the UK and Norway to reflect best practices. The Company is now incorporating the results of a detailed sea bottom and near seabed geologic survey, the analysis of which identifies possible seabed hazards from man-made, natural or geological features (e.g. archaeological artefacts, drilling hazards, deep-sea corals, etc.) over a 40 km^2 area and will be incorporated into the Environmental Management Plan (EMP). Detailed work on this document has commenced with efforts on, amongst other things, an Oil Spill Contingency Plan (OSCP) – including an Emergency Response Plan – incorporating Worst Case Discharge results. Ultimately, the final preparation of this document relies on site-specific and rig-specific data and cannot therefore be completed until the government mandate is received and a rig is contracted. The Company has also taken the proactive step of joining the Clean Caribbean and Americas (CCA) Association, which places a significant amount of equipment at the disposal of the Company in order to mitigate the impact of any incident.

A prerequisite for any drilling campaign will be the establishment of new environmental regulations by the government. The new administration continues to work on this task and the Company has offered its encouragement and assistance, having incorporated its view of international best practice within its EIA document submission. The timing of any obligation well is now believed to be subject to the outcome of a referendum although it is unclear whether such new regulations will be available prior to this process being executed.

With respect to the new licenses currently under application, Statoil has submitted and received comments on their Environmental Feasibility Study (EFP), a response to which is anticipated in the next submission.

During the period, both Repsol and Petronas completed exploratory wells in adjacent Cuban acreage. Whilst both were plugged and abandoned the latter exploration well was said to have demonstrated a working hydrocarbon system, albeit not commercial at the drilled location. Both wells would have barely tested the uppermost Cretaceous section and neither well would have been capable of interrogating the intended BPC target intervals. Finally, Zarubezhneft announced the contracting of the Songa Mercur rig that will be utilised to commence drilling their own prospect in November/December within a few tens of kilometres of the Bahamian border.

In February 2011, the Company applied to enter the second three-year exploration period for each of its licences. This required a response from the government by January 2012, though by that time no acknowledgement or communication had been received. As this renewal was contingent only on compliance with the licence terms, regulations and legislation, the anniversary date (26th April), some two weeks prior to the national election, went unremarked. Indeed this minor administrative detail became something of an issue during the run up to the election and was only clarified recently when, on 7th September, the ministry wrote to the Company confirming that:

- All fees due and payable under the terms of the licence have been paid,
- The terms of the licences, the Bahamian Regulations and the Petroleum Act have been complied with as regards the Company's activities to date.

The letter also notes a number of recommendations as regards to well design and drilling planning activities that remain outstanding at the date of the letter. These changes or obligations however pertain to a future commitment to drill an exploratory well which is currently in the planning stage. Encouragingly all existing plans account for the work streams mentioned by the Ministry. This clarity will now allow the Company to push ahead with its intention to seek a listing on the Bahamian Stock Exchange (BISX) at the soonest possible opportunity.

The Ministry letter further advises that any future drilling program would be contingent on the outcome of a general referendum to be held in the Bahamas on oil exploration, effectively 'postponing' the current drilling obligation until the end of 2013 at the earliest in order to avoid operations during the next hurricane season. The Company, however, has received no details as to the timing nor final wording of such a referendum but will update shareholders as soon as there is clarity. The Company is already engaged in a vigorous and proactive campaign to present the benefits a successful exploration program could bring to the nation and, in particular, the people of the Bahamas.

The Company opened a data room for May and has received a number of offers to farm into its licences, none of which have been accepted. Farm-out discussions remain on-going with a number of interested parties with this recent communication from the Government providing additional clarity for potential farm-in partners. The Company will keep shareholders appraised of the situation as and when appropriate.

In financial terms, on an annualised basis, operating losses for the period are down 39%, with a decrease of 47% in employee related expenses due to cost rationalisation strategies employed during the end of 2011/ beginning of 2012. These reduced losses exclude consideration of IFRS 2 charges (share based payment charges) incurred during the periods which represent irregular, non-cash items. Total cash consumed during the current period does not properly reflect this cost reduction trend when compared with the six month period to 30 June 2011 due to timing differences in bills payable but incurred in the prior year. However, on an annualised basis cash consumed through operating activities retains the trend of a significant decrease in costs. Notwithstanding the underlying cost reductions, the Company has undertaken additional expenditure and work on programs such as seismic interpretation, well design and listing activities during the period.

Simon Potter
Chief Executive Officer

Consolidated statement of comprehensive income
for the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 (Unaudited)	Six months ended 30 June 2011 (Unaudited)	Year ended 31 December 2011 (Audited)
		$	$	$
Continuing operations:				
Employee benefit expense	*2*	(1,317,916)	(2,012,199)	(4,970,950)
Depreciation expense		(77,443)	(48,091)	(156,153)
Other expenses		(1,742,149)	(2,555,000)	(5,078,092)
Operating loss		(3,137,508)	(4,615,290)	(10,205,195)
Finance income		26,544	25,813	66,050
Total comprehensive income for the period, net of tax		(3,110,964)	(4,589,477)	(10,139,145)
Basic and diluted loss per share (cents per share)		(0.25)	(0.41)	(0.87)

Consolidated statement of changes in equity
for the six months ended 30 June 2012

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2012	37,253	78,185,102	77,130,684	(53,846,526)	1,424,164	(29,776,943)	73,153,734
Comprehensive income							
Loss for the period	-	-	-	-	-	(3,110,964)	(3,110,964)
Total comprehensive income for the period	-	-	-	-	-	(3,110,964)	(3,110,964)
Transactions with owners							
Share options – value of services	-	-	-	-	150,188	-	150,188
Total transactions with owners	-	-	-	-	150,188	-	150,188
Balance at 30 June 2012	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,574,352**	**(32,887,907)**	**70,192,958**

Consolidated statement of changes in equity
for the six months ended 30 June 2011

	Share Capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2011	29,359	8,037,595	77,130,684	(53,846,526)	425,666	(19,637,798)	12,138,980
Comprehensive income							
Loss for the period	-	-	-	-	-	(4,589,477)	(4,589,477)
Total comprehensive income for the period	-	-	-	-	-	(4,589,477)	(4,589,477)
Transactions with owners							
Share options – value of services	-	-	-	-	862,896	-	862,896
Issue of ordinary shares	7,894	70,147,507	-	-	-	-	70,155,401
Total transactions with owners	7,894	70,147,507	-	-	862,896	-	71,018,297
Balance at 30 June 2011	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,288,562**	**(24,227,275)**	**78,567,800**

Consolidated statement of changes in equity for the year ended 31 December 2011

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2011	29,359	8,037,595	77,130,684	(53,846,526)	425,666	(19,637,798)	12,138,980
Comprehensive income							
Loss for the year	-	-	-	-	-	(10,139,145)	(10,139,145)
Total comprehensive income for the year	-	-	-	-	-	(10,139,145)	(10,139,145)
Transactions with owners							
Share options – value of services	-	-	-	-	998,498	-	998,498
Issue of ordinary shares	7,894	70,147,507	-	-	-	-	70,155,401
Total transactions with owners	7,894	70,147,507	-	-	998,498	-	71,153,899
Balance at 31 December 2011	37,253	78,185,102	77,130,684	(53,846,526)	1,424,164	(29,776,943)	73,153,734

Consolidated balance sheet
at 30 June 2012

Assets	***Note***	**30 June 2012 (Unaudited) $**	**30 June 2011 (Unaudited) $**	**31 December 2011 (Audited) $**
Non-current assets				
Property, plant and equipment		393,717	375,015	491,342
Intangible exploration and evaluation assets	*3*	43,580,378	15,533,676	38,927,378
Cash not available for use		-	480,800	239,654
		43,974,095	16,389,491	39,658,374
Current assets				
Receivables and other assets		1,087,348	1,023,275	967,794
Restricted cash		156,193	-	231,995
Cash and cash equivalents		26,675,703	65,775,652	34,976,049
		27,919,244	66,798,927	36,175,838
Total assets		71,893,339	83,188,418	75,834,212
Liabilities				
Current liabilities				
Trade and other payables		1,700,381	4,620,618	2,680,478
Total liabilities		1,700,381	4,620,618	2,680,478
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		1,574,352	1,288,562	1,424,164
Retained earnings		(32,887,907)	(24,227,275)	(29,776,943)
Total equity		70,192,958	78,567,800	73,153,734
Total equity and liabilities		71,893,339	83,188,418	75,834,212

These interim financial statements were approved by the Directors and authorised for issue on 25 September 2012

Simon Potter, Chief Executive Officer   Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2012

	30 June 2012 (Unaudited) $	30 June 2011 (Unaudited) $	31 December 2011 (Audited) $
Cash flows from operating activities			
Payments to suppliers and employees	(3,224,434)	(2,736,395)	(8,359,760)
Net cash used in operating activities	(3,224,434)	(2,736,395)	(8,359,760)
Cash flows from investing activities			
Purchase of property, plant and equipment	(81,589)	(233,326)	(457,716)
Proceeds from disposal of property plant and equipment	1,665	-	-
Payments for exploration and evaluation assets	(5,271,775)	(7,259,345)	(32,045,332)
Decrease/(Increase) in restricted cash	315,456	(146,156)	(154,398)
Interest received	26,544	25,813	66,050
Net cash used in investing activities	(5,009,699)	(7,613,014)	(32,591,396)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	-	70,155,401	70,155,401
Net cash generated by financing activities	-	70,155,401	70,155,401
Net (decrease)/increase in cash and cash equivalents	(8,234,133)	59,805,992	29,204,245
Cash and cash equivalents at the beginning of the period	34,976,049	6,068,558	6,068,558
Effects of exchange rate changes on cash and cash equivalents	(66,213)	(98,898)	(296,754)
Cash and cash equivalents at the end of the period	26,675,703	65,775,652	34,976,049

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 2011. 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 2012.

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 2012 and 30 June 2011 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 2011 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 and did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report.

In the opinion of the directors, the accompanying interim financial information includes all adjustments considered necessary for fair and consistent presentation of the 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.

<u>Carrying Value of Intangible Exploration and Evaluation Assets</u>

In September 2012 the Company received written confirmation from The Government of The Bahamas that the Group was in compliance with the terms of its signed exploration licences, the Petroleum Regulations of The Bahamas and the provisions of the Petroleum Act and that all due fees thereunder have been paid. The Company was also notified of a public statement by The Government of The Bahamas to the effect that a referendum on future Bahamian oil exploration drilling will be held prior to any approvals for drilling being issued. No date for the referendum has yet been set and the directors are not able to predict the outcome. At 30 June 2012 the Group had intangible exploration and evaluation assets of $43,580,378, the recoverability of which is dependent upon the successful development, exploitation or sale of the Group's licences.

In light of the above, a material uncertainty exists which may cast doubt on the Group's ability to recover its intangible exploration and evaluation assets. The Directors believe until such time as the result of the referendum is known the capitalised intangible exploration and evaluation assets are not impaired and therefore continue to be recognised in full. The Directors do not believe that any impairment of the capitalised costs has arisen.

In the event that the referendum results in a decision against future oil exploration drilling, the exploration and evaluation expenditure capitalised in respect of the Group's five licences will be subject to impairment testing.

2. Employee benefit expense

Included in employee benefit expense is the amount of $150,188 relating to the granting of share options to directors, staff and consultants. This charge is required under the provisions of IFRS 2, Share Based Payments and represents a non cash transaction as all options granted are equity settled instruments.

3. Intangible exploration and evaluation assets

The increase in intangible exploration and evaluation assets in the period results primarily from expenditure on the Company's 3D seismic processing program.