Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2018

Chairman and Chief Executive Officer's Review

The 6 months to 30 June 2018 has been a period of progress for the Company, during which several key operational and financial developments have moved forward.

During the period, the Company filed its application for Environmental Authorisation with the Government of The Bahamas, as required by the new Petroleum Regulations introduced in The Bahamas in 2016, applicable to the Company's southern licences. This application represents the required, and necessary, first step for commencing field activities for an exploration well.

In May 2018, the Company entered into a Confidentiality and Exclusivity Agreement ("Agreement") with a major international oil company. The Agreement created a period, during which, the Company agreed to engage solely with that oil major, rather than maintaining negotiations with the broad range of parties it had been working with hitherto. In exchange for this, the Company received cash payments totalling $1 million. The Agreement ended effective 31 August 2018 and the Company has since resumed discussions with various parties, including a number of new potential partners. The Company considers the willingness of a major international oil company to enter into exclusive negotiations, and to pay a substantial amount for that exclusivity, to be validation of the technical merits and strong potential of the Company's project.

Also in May 2018, the Company raised additional working capital through a successful placement with its brokers, Shore Capital, providing approximately $1.3 million in additional funds. When combined with the $1 million exclusivity payments received and the subscription funds of approximately $300,000 received following the exercise of warrants held by Shore Capital (in May and July of 2018 respectively) additional funding of approximately $2.6 million has been secured for the Company. These funding inflows mean the Company has adequate working capital in the medium term to continue to pursue a farm-in or similar funding arrangement for an initial exploration well on its southern licences.

Finally, during the reporting period, the Company appointed Macquarie Capital Markets Canada Ltd ("Macquarie") to act as financial advisors to the Company. With an extensive global network in the oil and gas space, as well as the broader investment community, Macquarie is assisting the Company with respect to a full suite of solutions for the funding required to execute an initial exploration well, both at the asset and corporate level.

The overall operating environment for the Company has continued to strengthen during the period. Globally, oil prices have risen considerably and, in The Bahamas, the Government has continued to indicate support for the development of a domestic hydrocarbon industry. For example, in its most recent budget statement, the Government endorsed a diversification of the Bahamian economy and an expansion of its revenue base to create more buoyant and resilient growth; with the Finance Minister referencing a "Blue Economy" policy, seeking to maximise the economic potential of The Bahamas' oceans, including specifically "oil and gas production". Also, during the period the Government sanctioned a large new refinery project on the island of Grand Bahama, and a new Liquified Natural Gas facility on the island of New Providence.

In terms of financial performance for the period, overall, the Company reported a reduction in operating loss and total loss of approximately 65% and 95% respectively against the comparative 6-month period. These results were, however, significantly impacted by changes effected to the Chief Executive Officer ("CEO") contract after the reporting date. As announced on 6 August 2018, the CEO agreed to terminate the ongoing deferral of cash salary into conditional share entitlements, agreed to write off all conditional cash and pension entitlements accrued to the effective date of 1 July 2018, and agreed to a substantial reduction in the overall level of salary. The write-off of all of these conditional cash and pension entitlements as at 30 June 2018, which totalled $1,012,500 and $225,000 respectively, has resulted in the release of corresponding amounts accrued in the financial statements to date in respect of these "contingent liabilities". As a consequence, the employee benefit expense for the period includes a credit of over $1.2 million, resulting in a negative total cost for the period and an overall reduction on the comparative 6-month period of 120%. Apart from quantifying an immediate financial benefit to the Company, these write-backs also demonstrate the continued support of the CEO in developing the project to the next phase, whilst maintaining alignment of the Company's executive with the interests of shareholders. In a similar vein, during the period the Board agreed to increase its fee deferrals to 90% from 50%, effective 1 January 2018, resulting in further ongoing cash savings to the Company.

Other expenses for the period have increased by approximately 20% on the comparative 6-month period, driven largely by the increase in professional fees associated with the expansion of partnership/investment related activity and the appointment of advisors, as noted above. It is worth highlighting, however, that these increased costs directly relate to the strategic objectives of the Company (i.e.: achieving a farm-out or other financing for an initial exploration well) and have been incurred against the backdrop of raising $2.6 million from exclusivity payments and equity issuances, as noted above.

The Group closed the reporting period with approximately $3.1 million in freely available cash and received a further $500,000 in exclusivity payments following the reporting date. Following expiry and release of the performance bond of $500,000 in the period, restricted cash balances are now immaterial.

Going forward, the Board remains entirely focussed on seeing an initial exploration well completed. With the support of our advisers at Macquarie, the sustained recovery in the global oil price providing further confidence to industry operators and investors alike and the recent bolstering of the Company cash position, we are working hard to secure the investment needed to move this exciting project forward.

We would like to thank all our investors and staff for their continued support and perseverance and look forward to reporting on further developments to you in the near term.

Yours sincerely,

Bill Schrader **Simon Potter**

Chairman **Chief Executive Officer**

27 September 2018

Consolidated statement of comprehensive income
for the six months ended 30 June 2018

	Note	**Six months ended 30 June 2018 (Unaudited)**	**Six months ended 30 June 2017 (Unaudited)**	**Year ended 31 December 2017 (Audited)**
		$	**$**	**$**
Continuing operations:				
Employee benefit expense	*3*	209,974	(998,850)	(1,993,171)
Depreciation expense		(13,984)	(10,809)	(21,508)
Other expenses		(790,818)	(651,237)	(1,238,397)
Operating loss		(594,828)	(1,660,896)	(3,253,076)
Other income	*2*	500,000	24,253	36,253
Finance income		5,308	429	3,507
Total comprehensive income for the period, net of tax		(89,520)	(1,636,214)	(3,213,316)
Basic and diluted loss per share (cents per share)		(0.0001)	(0.13)	(0.24)

Consolidated statement of changes in equity for the six months ended 30 June 2018

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2018	44,481	81,398,084	77,130,684	(53,846,526)	3,381,645	(57,752,641)	50,355,727
Comprehensive income							
Loss for the period	-	-	-	-	-	(89,520)	(89,520)
Total comprehensive income for the period	-	-	-	-	-	(89,520)	(89,520)
Transactions with owners							
Issue of ordinary shares	1,587	1,583,241	-	-	-	-	1,584,828
Share options – value of services	-	-	-	-	366,270	-	366,270
Total transactions with owners	1,587	1,583,241	-	-	366,270	-	1,951,098
Balance at 30 June 2018	**46,068**	**82,981,325**	**77,130,684**	**(53,846,526)**	**3,747,915**	**(57,842,161)**	**52,217,305**

Consolidated statement of changes in equity
for the six months ended 30 June 2017

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2017	37,253	78,185,102	77,130,684	(53,846,526)	2,694,171	(54,539,325)	49,661,359
Comprehensive income							
Loss for the period	-	-	-	-	-	(1,636,214)	(1,636,214)
Total comprehensive income for the period	-	-	-	-	-	(1,636,214)	(1,636,214)
Transactions with owners							
Issue of ordinary shares	2,791	1,196,206	-	-	-	-	1,198,997
Share options – value of services	-	-	-	-	330,734	-	330,734
Total transactions with owners	2,791	1,196,206	-	-	330,734	-	1,529,731
Balance at 30 June 2017	**40,044**	**79,381,308**	**77,130,684**	**(53,846,526)**	**3,024,905**	**(56,175,539)**	**49,554,876**

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2017	37,253	78,185,102	77,130,684	(53,846,526)	2,694,171	(54,539,325)	49,661,359
Comprehensive income							
Loss for the year	-	-	-	-	-	(3,213,316)	(3,213,316)
Total comprehensive income for the year	-	-	-	-	-	(3,213,316)	(3,213,316)
Transactions with owners							
Issue of ordinary shares	7,228	3,212,982	-	-	-	-	3,220,210
Share options – value of services	-	-	-	-	687,474	-	687,474
Total transactions with owners	7,228	3,212,982	-	-	687,474	-	3,907,684
Balance at 31 December 2017	44,481	81,398,084	77,130,684	(53,846,526)	3,381,645	(57,752,641)	50,355,727

Consolidated balance sheet
at 30 June 2018

Assets	Note	30 June 2018 (Unaudited) $	30 June 2017 (Unaudited) $	31 December 2017 (Audited) $
Non-current assets				
Intangible exploration and evaluation assets	*1*	48,454,371	48,139,702	48,318,079
Property, plant and equipment		57,391	33,736	41,278
Restricted cash		-	-	-
		48,511,762	48,173,438	48,359,357
Current assets				
Other Receivables		800,378	707,385	729,292
Cash and cash equivalents		3,078,885	1,390,390	1,838,527
Restricted cash		26,382	526,008	527,063
		3,905,645	2,623,783	3,094,882
Total assets		52,417,407	50,797,221	51,454,239
Liabilities				
Current liabilities				
Trade and other payables		200,100	1,242,344	1,098,512
Total liabilities		200,100	1,242,344	1,098,512
Equity				
Ordinary shares		46,068	40,044	44,481
Share premium reserve		82,981,325	79,381,308	81,398,084
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		3,747,915	3,024,905	3,381,645
Retained earnings		(57,842,159)	(56,175,538)	(57,752,641)
Total equity		52,217,305	49,554,877	50,355,727
Total equity and liabilities		52,417,407	50,797,221	51,454,239

These unaudited interim financial statements were approved by the Directors and authorised for issue on 27 September 2018.

Simon Potter, Chief Executive Officer

Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2018

	Note	**30 June 2018 (Unaudited)** $	**30 June 2017 (Unaudited)** $	**31 December 2017 (Audited)** $
Cash flows from operating activities				
Payments to suppliers and employees		(1,189,103)	(789,128)	(2,173,444)
Net cash used in operating activities		(1,189,103)	(789,128)	(2,173,444)
Cash flows from investing activities				
Purchase of property, plant and equipment		(30,095)	-	(18,241)
Payments for exploration and evaluation assets		(136,293)	(87,045)	(241,197)
Decrease in restricted cash		500,000	-	13,455
Other income	*2*	500,000	24,253	36,253
Interest received		5,308	429	3,507
Net cash generated by/(used in) investing activities		838,920	(62,363)	(206,223)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		1,584,828	1,198,990	3,220,210
Net cash flows from financing activities		1,584,828	1,198,990	3,220,210
Net decrease in cash and cash equivalents		1,234,645	347,499	840,543
Cash and cash equivalents at the beginning of the period		1,838,527	970,021	970,021
Effects of exchange rate changes on cash and cash equivalents		5,713	72,870	27,963
Cash and cash equivalents at the end of the period		3,078,885	1,390,390	1,838,527

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 2017. 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 2018.

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 2018 and 30 June 2017 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 2017 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.

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.

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

Expenditure of $48,454,371 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2018 (30 June 2017: $48,139,702) (31 December 2017: $48,318,079).

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 26 April 2018 the Company filed its application for Environmental Authorisation ("EA") as required by the Petroleum (Offshore Environmental Protection and Pollution Control) Regulations 2016 (the "Regulations"). Under these newly implemented regulations, an application for EA represents the first step in commencing field activities and therefore the submission of the application by BPC represents an important milestone in the project and its development, with the next key milestone being the execution of an exploration well before the end of the current licence term. The Company is presently in ongoing discussion with the Government in relation to the process by which the application will be progressed in a timely manner.

In performing an assessment of the carrying value of the exploration and evaluation assets at the reporting date, the Directors concluded that it was not appropriate to book an impairment given the remaining term of the licences, geological probability of success of the structures and the continued plans to explore and develop the block.

Renewal of the Miami licence remains under review as at the balance sheet date.

2. Other Income

Other income during the period consists of payments received in consideration for having entered into a period of exclusive discussions with a major international oil company as announced by the Company on 3 May 2018. Payments received during the reporting period of $500,000 relate to the period from 1 May 2018 to 30 June 2018, with further payments totalling $500,000 having been received after the balance sheet date relating to the period from 1 July 2018 to 31 August 2018. Following the election of the counterparty not to further extend the exclusivity agreement beyond its expiry on 31 August 2018 no further payments are receivable by the Company under this agreement.

3. Events after the balance sheet date

On 25 July 2018, the Company allotted an additional 2,640,000 ordinary shares in the Company in satisfaction of the exercise of warrants which had been issued in conjunction with the placing of 44,000,000 new shares with institutional investors on 29 May 2018. The shares were allotted for consideration of 2.5 pence each, resulting in a total of 1,572,719,096 ordinary shares in issue following this allotment.

On 6 August 2018, the Company agreed a variety of remuneration changes with the Chief Executive Officer, taking effect from 1 July 2018, which significantly reduced the basic salary and included the cancellation of accrued conditional entitlements to cash payments and pension contributions. As at 30 June 2018, amounts totalling $1,012,500 had been accrued with regards to conditional cash entitlements and $225,000 had been accrued with regards to conditional pension contribution entitlements. As the Company has determined this transaction to be an adjusting event these accruals have been written back to the consolidated statement of comprehensive income for the period to 30 June 2018, resulting in a negative employee benefit expense for this period.

On 24 August 2018, the Company announced that the exclusivity agreement entered into with a major international oil company would not be extended beyond its expiry on 31 August 2018. For further details see note 2 to these interim financial statements.