Bahamas Petroleum Company plc
Annual Report and Financial Statements

For the year ended 31 December 2018

Contents

Chairman's Report

Dear Shareholder,

2018 saw the continuation of several broad oil industry themes that began to emerge in 2017.

The first was oil price stability, which remained in the range of US$60 – US$70 per barrel, and with most analysts expecting that to continue for the foreseeable future. This reflects both reduced supply (mainly as a result of measures from OPEC and Russia to cut excess) and increased demand (due to global economic growth – the International Energy Agency is projecting an increase in total demand during 2019 of approximately 1.4 million barrels per day).

The second, and notwithstanding the demand growth and price stability, was that underlying costs for exploration and production companies remained contained at a lower level than previously. Due to the enormous levels of investment in oilfield services during the last boom cycle, there remains a significant amount of excess capacity in the industry, with asset utilisation rates at historic lows. When combined with efficiency increases that operators have been able to achieve through the development of new drilling techniques, services costs are expected to persist at their current low levels for the near/medium term.

The third was a return to exploration activities by majors, and in particular, high-impact deeper-water and frontier basins. In this context, we are seeing signs of the Caribbean becoming an industry "hot spot" for exploration. Moreover, the excess industry capacity noted above is expected to allow the sector to enjoy a significant increase in exploration activity without a commensurate return to demand driven price inflation.

The aggregate result of these industry themes means that the outlook for the exploration and production industry over the near future is strong. This is supported by across the board improvements in the reported financial performance of major oil companies – the combination of stable prices, low costs and increased global demand growth has seen Free Cash Flow per barrel and Return On Capital Employed revert to positive, growth territory.

This favourable broader industry backdrop comes at an ideal time for our Group, with several developments meriting specific comment.

In May 2018, the Group entered into an exclusivity agreement with a major international oil company for a total period of four months, and for which we were remunerated a total of $1 million. Exclusive discussions were not continued beyond the agreement's expiry in August 2018, but we were greatly encouraged by the interest of a major international oil company, and in particular their willingness to pay for exclusivity. In our view this amounted to independent validation of both the technical merits of our project and its attractiveness to global industry participants.

Also in May 2018 we were pleased to appoint Macquarie Capital Markets Canada Limited ("Macquarie") as financial adviser to the Group, with a mandate to assist in the process of securing finance for our first exploration well. Macquarie brings to the table a broad range of skills and experience, as well as an extensive global network of contacts in the energy and finance industries.

More recently, in February 2019, we secured from the Government of The Bahamas a two year extension of the Group's southern exploration licences, thus providing certainty as to our licence term, tenure and work obligations. And in March 2019, following on from the licence extension, we raised additional capital to strengthen our balance sheet as we move forward in our process to secure the finance for our first exploration well and thereafter commence drilling.

In summary, 2018 set the scene for what we hope will be a transformative period for the Group. Our industry is in good shape, with stable oil prices, frontier exploration back on the global agenda, and a return to profitability amongst industry participants. And our Group is in good shape, with our licences extended and thus providing clarity on our licence tenure and obligations, working capital secured, advisers on board, and a high quality drill-ready project that we know is capable of attracting the interest of a major.

What remains is to deliver on our promise: to secure the funding required for our initial exploration well, and to get drilling. This remains the unwavering focus of the Board and management. I look forward to reporting to shareholders on further developments as they arise.

Yours sincerely,

Bill Schrader
Chairman
24 April 2019

Chief Executive Officer's Report

Dear Shareholder,

The year of 2018 was a period of optimism, progress and consolidation for the Group, but also a period of considerable frustration in that the merits of the technical case of the project continued to be somewhat subordinated to lack of clarity on licence term and tenure issues.

However, following an extended program of work and consultation throughout 2018, in February 2019 the Group received notification from the Government of The Bahamas that the term of its four southern licences was extended by 2 years (to 31 December 2020). The notification received made clear the obligation to drill an initial exploration well during this time, whilst also confirming that all other rights under the licence remain unchanged. The notification received also stipulated that the Government and the Group must in the coming months agree a forward work schedule for 2019 and 2020, and reconcile licence fees already paid to determine any future licence fees which may be due up to the end of 2020.

The importance of this notification from the Government cannot be understated. Whilst it took some time to establish, the Group is now able to provide certainty to potential partners as we move forward in our farm-out discussions, and has the clearest window for many years to advance plans for and thereafter to drill the initial exploratory well that we all wish to see.

2018 Operational Highlights

During 2018 several key operational developments continued to move the project forward, consistent with its now clearly defined execution schedule for the exploration well.

In April 2018, the Group filed its application for Environmental Authorisation ("EA") with the Government of The Bahamas, as required by the Petroleum Regulations introduced in The Bahamas in 2016, applicable to the Group's southern licences. This application represented the required, and necessary, first step for commencing field activities for an exploration well. The Government has subsequently engaged Black & Veatch, a leading petroleum industry consultant, to assist them with processing our EA application. Black & Veatch previously advised the Government in the process for the Group's Environmental Impact Assessment ("EIA"), filed in 2012 and accepted by the Government in the same year.

In May 2018, the Group entered into a Confidentiality and Exclusivity Agreement ("Agreement") with a major international oil company. During the term of the Agreement the Group agreed to engage solely with that oil major, rather than maintaining negotiations with the broad range of parties we had been working with hitherto. In exchange for this, the Group received cash payments totalling $1 million. The Agreement expired in August 2018, was not extended and the Group subsequently resumed discussions with various parties (discussions which remain ongoing and which we expect will benefit from the recent licence extension/clarification of licence term and tenure). Whilst it was disappointing that the period of exclusive negotiations did not culminate in a concluded transaction, the Group 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 Group's project.

Also in May 2018, the Group appointed Macquarie Capital Markets Canada Limited ("Macquarie") to act as its financial advisor. With an extensive global network in the oil and gas space, as well as the broader investment community, Macquarie has been assisting the Group 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. With the Bahamian regulatory regime fully enacted, and with a clear licence term through to the end of 2020 providing potential farm out partners with clarity as to tenure, term, schedule and operating environment, Macquarie now has a clear mandate to proceed on behalf of the Group with renewed impetus.

Finally, throughout 2018, the overall operating environment for the Group continued to strengthen. Globally, oil prices rose considerably and, in The Bahamas, the Government clearly indicated support for the project in particular and the development of a domestic hydrocarbon industry more generally. For example, in the 2018 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.

2018 Financial Highlights

In May 2018, the Group 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 was secured by the Group during the 2018 year. The Group closed the year with approximately $2.2 million in freely available cash, and, following expiry and release of the performance bond of $500,000 in the year, restricted cash balances are now immaterial. Post year end, the Group raised a further US$2.5 million through a placing of new ordinary shares in March 2019. These funding inflows mean the Group has the working capital it needs to continue to pursue a farm-in or similar funding arrangement for an initial exploration well on its southern licences over the extended licence term.

In terms of financial performance for the period, overall, the Group reported a reduction in operating loss and total loss of approximately 29% and 59% respectively against the prior year. These results were, however, significantly impacted by two key events during the year, being changes to my contract and the receipt of exclusivity payments totalling $1m as mentioned above.

As announced on 6 August 2018, I 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 my salary. The write-off of all of these conditional cash and pension entitlements during the year, 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 liabilities. As a consequence, the ‘employee benefit expense’ for the period includes a credit of over $1.2 million, giving rise to a decrease overall in the year of 77% for this cost line. Apart from quantifying an immediate financial benefit to the Group, I believe these write-backs also demonstrate my continued support for the project, as further evidenced by my decisions to extend my contractual commitment to the Group by a further 12 months to March 2020, which was announced recently. In a similar vein, the Board agreed to increase its fee deferrals to 90% from 50%, effective 1 January 2018, resulting in further ongoing cash savings to the Group, although these savings are not reflected in the reported figure for ‘employee benefit expense’ due to the requirements of IFRS 2 that the deferrals be treated as share-based payments and expensed during the year accordingly.

Other expenses for the period have increased by approximately 47% on the prior year, driven largely by the increase in professional fees associated with the expansion of partnership/investment related activity and the appointment of a financial advisor, as noted above. It is worth highlighting, however, that these increased costs directly relate to the strategic objectives of the Group (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 during the year and $2.5 million post year end, as noted above.

Outlook for 2019 and beyond

Going forward, everyone at the Group remains entirely focused on the singular task of seeing an initial exploration well completed. The Group’s current obligation – to safely implement an environmentally responsible well prior to the end of 2020 – has been clearly laid out by the Government in our recent licence extension. The Group has not had the ability to demonstrate this level of certainty of tenure for a considerable period of time. Along with this, we have secured the working capital we need, the Government is supportive, the legislative regime is clear and enacted, and we have an adviser in place. At the same time, the surrounding industry circumstances are favourable, with sustained recovery in the global oil price, and renewed industry interest in frontier exploration. In 2019 and 2020, we thus look forward to delivering: securing the investment needed to drill an initial exploration well and thereby 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 over the course of the coming year.

Yours sincerely,

Simon Potter
Chief Executive Officer
24 April 2019

Corporate Governance

Bahamas Petroleum Company plc's shares are traded on the Alternative Investment Market of the London Stock Exchange and as such the Company is not subject to the requirements of the UK Corporate Governance Code, though the Company is required to apply a recognised corporate governance code, demonstrating how the Company complies with such corporate governance code and where it departs from it.

The Directors of the Company have formally taken the decision to apply the QCA Corporate Governance Code (the "QCA Code") as the standard against which the Company chooses to measure itself in 2018-2019. This QCA Code emphasises the need for well balanced, effective boards, with a strong emphasis on overseeing risk management aimed at protecting the Company from unnecessary risk to enable the Company to secure its long-term future. In addition, the QCA Code highlights the alignment of remuneration policies with shareholder interests and sound shareholder relations. Further information on the Company's application of the QCA Code is available on the Company website at www.bpcplc.com.

The workings of the Board and its Committees

The Board of Directors

The Board meets regularly to discuss and consider all aspects of the Group's and 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, and four Non-executive Directors. All Directors have access to the Company Secretary and the Company's professional advisors.

Record of Board meetings

There were ten Board meetings of the parent entity of the Group during the financial year.

Director	Number of Board meetings attended	Number of Board meetings eligible to attend
Simon Potter	10	10
William Schrader	10	10
James Smith	8	10
Adrian Collins	9	10
Edward Shallcross	10	10
Ross McDonald	10	10

Audit Committee

The Audit Committee comprises Edward Shallcross (Chairman), James Smith and Ross McDonald. The Audit Committee is primarily responsible for ensuring that the financial performance of the Group is properly reported on and monitored, for reviewing the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. The Audit Committee has oversight responsibility for public reporting and the internal controls of the Group. 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 Adrian Collins (Chairman), William Schrader and Edward Shallcross. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding executive remuneration packages, including bonus awards and share options.

Nomination Committee

The Nomination Committee comprises Adrian Collins, William Schrader, Simon Potter and Edward Shallcross, and is chaired by Adrian Collins. The role of the Nomination Committee is to 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 Group's and 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, Safety, Environmental and Security Committee

The Group has a Health, Safety, Environmental and Security Committee which comprised during the year William Schrader, Simon Potter and the Group Environmental Scientist (Non-Board). The committee's purpose is to assist the Directors in reviewing, reporting and managing the Group's performance, to assess compliance with applicable regulations, internal policies and goals and to contribute to the Group's risk management processes.

Internal Control

The Directors acknowledge their responsibility for the Group'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 Group'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 Group and Company has adequate financial resources to enable it to meet its financial obligations for at least 12 months from the date of this report 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 4 to the consolidated financial statements.

Directors' Report

Your Directors present their report and audited financial statements of the Company and the consolidated Group (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 2018.

Directors

The following persons were Directors of the Company during the financial year and to date:

Simon Potter
William Schrader
James Smith
Adrian Collins
Edward Shallcross
Ross McDonald

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

Results and dividends

The results of the Group for the year are set out on page 13 and show a loss for the year ended 31 December 2018 of $1,307,455 (2017: loss of $3,213,316). The total comprehensive loss for the year of $1,307,455 (2017: loss of $3,213,316) has been transferred to the retained deficit.

The Directors do not recommend payment of a dividend (2017: $nil).

Review of operations

On 26 April 2018 the Group lodged an application for Environmental Authorisation with the Government of The Bahamas. The application for Environmental Authorisation was submitted in the prescribed form as previously directed by the Ministry of Environment and Housing, and advised by the Bahamas Environment, Science and Technology Commission (the BEST Commission), in accordance with Regulation 3 (1) of the Petroleum (Offshore Environmental Protection and Pollution Control) Regulations 2016 ("the Regulations"), part of the modernised and strengthened requirements governing the petroleum industry in The Bahamas, which took effect in July 2016. Environmental Authorisation represents the first step in commencing offshore field activity under the Regulations.

On 1 May 2018 the Company entered into a Confidentiality and Exclusivity Agreement (the "Agreement") with a major international oil company (the "Counterparty"). The Agreement provided the Counterparty with a four month period during which it had exclusive access to the Company data room and discussions with management. Under the Agreement the Company was paid $250,000 per month by the Counterparty, totalling $1,000,000 for the four month period of the agreement, which expired on 31 August 2018.

On 22 May 2018 the Company appointed the Advisory and Capital Markets Division of Macquarie Capital Markets Canada Limited ("Macquarie Capital") to act as advisor and assist the Company with various partnership and corporate solutions to secure finance for the Group's first exploration well. Macquarie Capital, a wholly-owned subsidiary of Macquarie Group Limited, provides a full suite of global corporate solutions with a leading presence in the international energy sector.

On 29 May 2018 the Company raised £1,100,000, before expenses, of additional working capital through a placing of 44,000,000 new ordinary shares with the Company brokers, Shore Capital Stockbrokers. During the year 18,240,000 warrants were exercised raising an additional £222,000 in working capital for the Group.

On 21 February 2019, the Group received notification from the Bahamian Government of the extension of the term of its four southern licences to 31 December 2020, with the requirement that the Group commence an exploration well before the end of the extended term.

On 22 March 2019, the Company raised $2.5 million of additional finance before costs through the issue of 120 million new ordinary shares to institutional investors at a subscription price of 1.6 pence per share.

Substantial shareholdings

The following table represents shareholdings of 3% or more notified to the Company as at 31 December 2018:

Name	Number of shares	% of shareholding
Hargreaves Lansdown	237,416,757	15.10%
Interactive Investor	237,179,077	15.08%
Halifax Sharedealing	140,370,603	8.93%
Barclays Wealth	100,310,832	6.38%
IG Markets	80,919,786	5.15%
Equinity	63,320,020	4.03%

Directors' Interests

The interests in the Company at the balance sheet date of all Directors who held office on the Board of the Company at the year end are stated below.

Shareholding and Options

Name	Number of shares 31 December 2018	Number of share options 31 December 2018	Number of shares 31 December 2017	Number of share options 31 December 2017
Simon Potter	**4,000,000**	**39,000,000**	4,000,000	39,000,000
William Schrader	**3,075,000**	**2,000,000**	3,075,000	2,000,000
James Smith	**1,850,000**	**1,000,000**	1,850,000	1,000,000
Edward Shallcross	**3,070,000**	**1,000,000**	3,070,000	1,000,000
Ross McDonald	**2,100,000**	**1,000,000**	2,100,000	1,000,000
Adrian Collins	**2,200,000**	**1,000,000**	2,200,000	1,000,000

No options were exercised during the year. See note 18 to the consolidated financial statements for further details.

Independent auditor

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office in accordance with section 12(2) of the Isle of Man Companies Act 1982.

By order of the Board

Benjamin Proffitt
Company Secretary
24 April 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable Isle of Man law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the 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 the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

Simon Potter
Director
24 April 2019

Independent Auditor's Report to the Members of Bahamas Petroleum Company plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- Bahamas Petroleum Company plc's consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its loss and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;
- Bahamas Petroleum Company plc's company financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

What we have audited

Bahamas Petroleum Company plc's consolidated and company financial statements (the "financial statements") comprise:

- the consolidated and company balance sheets as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

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

Independence

We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Going concern Refer to the Directors' report, note 2 and note 4 of the Group financial statements and note 2 of the Company financial statements. At 31 December 2018 the Group and Company had cash and cash equivalents of \$2.2 million (2017: \$1.8 million) and \$2.2 million (2017: \$1.8 million) respectively. Based on the Group and Company cash flow forecasts additional new funding or cost reductions were necessary in order for the Group and Company to continue operations for the next 12 months. In the event that additional funding was not raised the going concern basis of accounting may not have been appropriate.	Subsequent to the year end, the Company raised an additional \$2.5 million before expenses through the placing of 120 million new shares. We vouched the net share placement proceeds to the bank statement as having been received. We assessed management's cash flow model following this post balance sheet event and we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent Auditor's Report to the Members of Bahamas Petroleum Company plc (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of the Group's intangible exploration and evaluation assets/Recoverability of Company's investment in subsidiaries and amount owed by subsidiary undertakings Refer to note 4 of the Group financial statements and note 3 of the Company financial statements. At 31 December 2018 the carrying value of the Group's intangible exploration and evaluation assets was $48.5 million (2017: $48.3 million), as disclosed in note 13 to the consolidated financial statements. As the carrying value of these intangible exploration and evaluation assets are significant in the financial statements of the Group, we consider it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of these assets may exceed their recoverable amount. The Company's investment in subsidiaries totalled $29.6 million (2017: $29.6 million) and amount owed by subsidiary undertakings $63.0 million (2017: $62.3 million) as shown on page • and • respectively. The recoverability of the Company's investment in subsidiaries and amount owed by subsidiary undertakings are dependent upon the successful development or sale of the relevant exploration areas.	For intangible exploration and evaluation assets, we critically evaluated management's assessment of each impairment trigger per IFRS 6 Exploration for and Evaluation of Mineral Resources, including but not limited to: • Assessing whether the Group had the rights to explore in the relevant geographical areas by obtaining supporting documentation such as licence agreements. • Enquiring to determine whether management had the intention to carry out exploration and evaluation activity in the relevant exploration areas. We reviewed management's cash flow forecast models to assess the level of the budgeted expenditure on these areas. • Critically assessing whether any impairment indicators were present to suggest that the carrying value of these exploration and evaluation assets is unlikely to be recovered through development or a sale. Having completed our work, we did not identify any material misstatements regarding the carrying value of the intangible exploration and evaluation assets and as a result, the recoverability of the Company's investment in subsidiaries and amount owed by subsidiary undertakings.

Other information

The other information comprises all of the information in the Annual Report and Financial Statements other than the Financial Statements and our auditors report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Isle of Man law, 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.

In preparing the financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the Group, the Company and the wider economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Independent Auditor's Report to the Members of Bahamas Petroleum Company plc (continued)

Report on other legal and regulatory requirements

Adequacy of accounting records and information and explanations received

Under the Isle of Man Companies Acts 1931 to 2004 we are required to report to you by exception if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper books of account have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us;
- the company financial statements are not in agreement with the books of account and returns; and
- certain disclosures of directors' loans and remuneration specified by law have not been complied with. We have no exceptions to report arising from this responsibility.

Andrew Dunn
for and on behalf of PricewaterhouseCoopers LLC
Chartered Accountants, Isle of Man
24 April 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 Group $	2017 Group $
Continuing operations			
Employee benefit expense	7	**(458,923)**	(1,993,171)
Depreciation expense	12	**(30,798)**	(21,508)
Other expenses	8	**(1,823,042)**	(1,238,397)
Operating loss		**(2,312,763)**	(3,253,076)
Other income	6	**1,000,000**	36,253
Finance income	6	**5,308**	3,507
Loss before tax		**(1,307,455)**	(3,213,316)
Taxation	9	**–**	–
Loss for the year		**(1,307,455)**	(3,213,316)
Total comprehensive expense for the year		**(1,307,455)**	(3,213,316)
Loss per share attributable to owners of the Company:			
Basic and diluted loss per share (expressed in cents per share)	10	**(0.08)**	(0.24)

The notes on pages 17 to 35 form part of these consolidated financial statements.

Consolidated Balance Sheet

At 31 December 2018

	Note	2018 Group $	2017 Group $
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	13	**48,515,200**	48,318,079
Property, plant and equipment	12	**45,692**	41,278
Total non-current assets		**48,560,892**	48,359,357
Current assets			
Restricted cash	11	**25,480**	527,063
Other receivables	15	**705,635**	729,292
Cash and cash equivalents	14	**2,220,765**	1,838,527
Total current assets		**2,951,880**	3,094,882
Total assets		**51,512,772**	51,454,239
LIABILITIES			
Current liabilities			
Trade and other payables	16	**354,422**	1,098,512
Total liabilities		**354,422**	1,098,512
EQUITY			
Share capital	17	**46,138**	44,481
Share premium reserve	17	**83,068,307**	81,398,084
Merger reserve	17	**77,130,684**	77,130,684
Reverse acquisition reserve	17	**(53,846,526)**	(53,846,526)
Share-based payment reserve	18	**3,819,843**	3,381,645
Retained deficit		**(59,060,096)**	(57,752,641)
Total equity		**51,158,350**	50,355,727
Total equity and liabilities		**51,512,772**	51,454,239

The consolidated financial statements on pages 13 to 35 were approved and authorised for issue by the Board of Directors on 24 April 2019 and signed on its behalf by:

Adrian Collins
Director

Simon Potter
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share-based payment reserve $	Retained deficit $	Total equity $
Balance 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								
Total comprehensive expense for the year		–	–	–	–	–	(3,213,316)	(3,213,316)
Total Comprehensive expense		–	–	–	–	–	(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	18	–	–	–	–	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**
Balance 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								
Total comprehensive expense for the year		–	–	–	–	–	(1,307,455)	(1,307,455)
Total Comprehensive expense		–	–	–	–	–	(1,307,455)	(1,307,455)
Transactions with owners								
Issue of ordinary shares		1,657	1,670,223	–	–	–	–	1,671,880
Share options – value of services	18	–	–	–	–	438,198	–	438,198
Total transactions with owners		1,657	1,670,223	–	–	438,198	–	2,110,078
Balance at 31 December 2018		**46,138**	**83,068,307**	**77,130,684**	**(53,846,526)**	**3,819,843**	**(59,060,096)**	**51,158,350**

The notes on pages 17 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 Group $	2017 Group $
Cash flows from operating activities			
Cash used in operations	19	**(2,542,110)**	(2,173,444)
Net cash used in operating activities		**(2,542,110)**	(2,173,444)
Cash flows from investing activities			
Purchase of property, plant and equipment	12	**(35,212)**	(18,241)
Payments for exploration and evaluation assets	13	**(197,121)**	(241,197)
Decrease in restricted cash	11	**500,000**	13,455
Other income received	6	**1,000,000**	36,253
Interest received	6	**5,308**	3,507
Net cash generated from/(used in) investing activities		**1,272,975**	(206,223)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**1,671,880**	3,220,210
Net cash flows from financing activities		**1,671,880**	3,220,210
Net increase in cash and cash equivalents		**402,745**	840,543
Cash and cash equivalents at the beginning of the year	14	**1,838,527**	970,021
Effects of exchange rate changes on cash and cash equivalents		**(20,507)**	27,963
Cash and cash equivalents at the end of the year	14	**2,220,765**	1,838,527

The notes on pages 17 to 35 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 & gas exploration licences issued by the Government of the Commonwealth of The Bahamas ("the Government").

The Company is a limited liability company incorporated in the Isle of Man. The address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man. The Company's review of operations is set out in the Directors' Report. The principal activity of the Group and the Company consists of oil & gas exploration in The Commonwealth of The Bahamas.

The Company has four directly and eleven indirectly 100% owned subsidiaries as follows:

Name	Country of Incorporation	Holding
BPC (A) Limited	Isle of Man	100% Direct
BPC (B) Limited	Isle of Man	100% Direct
BPC (C) Limited	Isle of Man	100% Direct
BPC (D) Limited	Isle of Man	100% Direct
BPC Limited	Bahamas	100% Indirect
BPC (A) Limited	Bahamas	100% Indirect
BPC (B) Limited	Bahamas	100% Indirect
BPC (C) Limited	Bahamas	100% Indirect
BPC (D) Limited	Bahamas	100% Indirect
BPC (E) Limited	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
Columbus Oil & Gas Limited	Bahamas	100% Indirect

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 periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Bahamas Petroleum Company plc (the "Financial Statements") reflect the results and financial position of the Group for the year ended 31 December 2018, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC ("International Financial Reporting Interpretations Committee") interpretations as adopted by the European Union ("EU"). These financial statements have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

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

Going concern

The Directors have, at the time of approving these financial statements, determined that the Group has adequate financial resources and therefore 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. See note 4 for further information.

Adoption of new and revised Standards

a) New standards, amendments and interpretations adopted

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2018 have had a material impact on the Group or the Company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Given the nature of the Group's operations, IFRS 9 has not had a material impact.

2 Summary of significant accounting policies continued

b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or the Company, except the following, set out below:

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019. When IFRS 16 is implemented on 1 January 2019, additional land and buildings of $47,200 will be recognised, together with an additional lease liability of $47,200. In future periods, the operating lease charge will be replaced by a depreciation charge that is not expected to be materially different.

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 is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

The financial statements consolidate the results, cash flows and assets and liabilities of the Company and its wholly owned subsidiary undertakings.

2.3 Operating segments

All of the Group's business activities relate to oil & gas exploration activities in the Commonwealth of The Bahamas. The business is managed as one business segment by the chief operating decision maker ("the 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 and company financial statements are presented in United States Dollars, which is the functional currency of the Company and all of the Group's entities, and the Group's and Company's 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. Monetary assets and liabilities denoted in foreign currency are translated into the functional currency at exchange rates ruling at the year end. Foreign exchange gains and losses resulting from the settlement of 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.

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. 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 economic lives, as follows:

• Furniture, fittings and equipment	3 – 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 with any impairment charge being taken to the statement of comprehensive income.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the statement of comprehensive income.

2.6 Intangible assets – 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 direct costs and an appropriate portion of related overhead expenditure but does not include general overheads or administrative expenditure not linked to a particular area of interest.

As permitted under IFRS 6, exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another entity, is carried forward as an asset at cost 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; or
- 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 and evaluation expenditure which fails to meet at least one of the conditions outlined above is taken to the statement of comprehensive income.

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

Intangible exploration and evaluation assets in relation to each area of interest are not amortised until the existence (or otherwise) of commercial reserves in the area of interest has been determined.

2.7 Impairment of intangible assets – exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. In accordance with IFRS 6, the Group reviews and tests for impairment on an ongoing basis and specifically if the following occurs:

a) the period for which the Group has a right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; and

d) sufficient data exists to indicate that although a development in the specific area is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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).

2 Summary of significant accounting policies continued

2.8 Financial instruments

The Group has elected not to restate comparative information as a consequence of the application of IFRS 9 as the amounts involved are immaterial. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, which is set out below, together with the accounting policies applied from 1 January 2018.

i) Financial assets – applied until 31 December 2017

The Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depended on the purpose for which the financial assets were acquired. The classification of financial assets is determined at initial recognition.

At 31 December 2017 the Group did not have any financial assets held at fair value through profit or loss or classified as available for sale. Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in any active market. They were included in current assets, except for those with maturities greater than 12 months after the balance sheet date which were classified as non-current assets. Loans and receivables were stated initially at their fair value and subsequently at amortised cost using the effective interest rate method. The Group's loans and receivables consisted of 'cash and cash equivalents' at variable interest rates, 'restricted cash' and 'other receivables' excluding 'prepayments'.

The Group assessed at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses are incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event or events had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

ii) Financial assets – applied from 1 January 2018

Classification

The Group classifies its financial assets as financial assets held at amortised cost. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Measurement

Financial assets held at amortised cost are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method. Financial assets at amortised cost comprise 'cash and cash equivalents' at variable interest rates, 'restricted cash' and 'other receivables' excluding 'prepayments'.

Impairment of financial assets

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the expected credit loss model to financial assets at amortised cost. Given the nature of the Group's receivables, expected credit losses are not material.

iii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities. Other financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. Other financial liabilities consist of 'trade and other payables'. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2.9 Cash and cash equivalents
Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions with original maturities of three months or less. For the purposes of the cash flow statement, restricted cash is not included within cash and cash equivalents.

2.10 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted, net of tax, from the proceeds. Net proceeds are disclosed in the statement of changes in equity.

2.11 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 payments
Where equity settled share-based instruments are awarded to employees or Directors, the fair value of the instruments at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest. Market vesting conditions are factored into the fair value of the instruments granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees or Directors, the statement of comprehensive income is charged with the fair value of goods and services received.

(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.

(iv) Pension obligations
For defined contribution plans, the Group pays contributions to privately administered pension plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

(v) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination and when the entity has a detailed formal plan to terminate the employment of current employees without the possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

2.13 Other Income
Other income is recognised in the period during which the provision of entitlements or services to which the income relates take place.

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

Notes to the Consolidated Financial Statements
(continued)

3 Financial risk management in respect of financial instruments

3.1 Financial risk factors

The Group's activities expose it to a variety of 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.

Risk management is carried out by the CEO under policies approved by the Board of Directors. The CEO identifies, evaluates and addresses financial risks in close cooperation 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 risk, interest rate risk, credit risk and investing excess liquidity.

(i) Liquidity risk

The Group monitors its rolling cash flow forecasts and liquidity requirements to ensure it has sufficient cash to meet its operational needs. Surplus cash is invested in interest bearing current accounts and money market deposits.

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. 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 raises funding through the placing of ordinary shares and farm-outs of its licences. There is no certainty that the Company will be able to raise funding on the equity markets or that the raising of sufficient funds through future farm-outs will be possible at all or achievable 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 its trade and other payables which all fall due within 1 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 currency exposures, primarily with regard to UK Sterling. The exposure to foreign exchange risk is managed by ensuring that the majority of the Group's assets, liabilities and expenditures are held or incurred in US Dollars, the functional currency of all entities in the Group. At 31 December 2018, the Group held $298,541 of cash in UK Sterling (31 December 2017: $785,907) and had an insignificant amount of trade and other payables denominated in UK Sterling.

At 31 December 2018, 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 and total equity would have been reduced/increased by approximately $30,000 (31 December 2017: reduced/increased by $79,000), mainly as a result of foreign exchange gains/losses on translation of UK Sterling denominated bank balances.

The Group also has operations denominated in the Bahamian Dollar. As the Bahamian Dollar is pegged to the US Dollar on a one for one basis these operations do not give rise to any currency exchange exposures.

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 2018 and 2017 short-term deposit rates were in the range of 0% to 1.65% and therefore the interest rate risk is not considered significant to the Group. An increase in interest rate of 0.25% in the year would have had an insignificant effect on the Group's loss for the year.

(iii) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and restricted cash. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. In order to mitigate credit risk arising from cash balances the Group holds cash reserves with more than one counterparty.

3.2 Capital risk management

Capital is defined by the Group as all equity reserves, including share capital and share premium. 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 not subject to any externally imposed capital requirements.

4 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. The areas that involved a higher degree of judgement or complexity, as well as 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 continue in operation for the foreseeable future.

On 21 February 2019 the Group was notified by the Government of The Bahamas that the term of its four southern licences had been extended to 31 December 2020. Included in this notification was the requirement that the Government and the Group work together to determine the level of licence fees payable over the extended term, if any, following consideration of fees prepaid to date. The Directors have considered the range of potential outcomes for fees payable over the duration of the extended licence term and consider that even under the worst case scenario outcome of these discussions, the Group is adequately financed to meet its working capital needs for at least the next 12 months based on cash flow forecasts and management's ability to effect further cost reductions in the event that such action is deemed necessary. See note 20 (iii) of these financial statements for greater detail.

The Group's ability to meet its obligations beyond the next 12 months is dependent on the level of exploration and appraisal activities undertaken. The next step in the Group's asset development programme requires the drilling of an exploration well on its prospects before the end of the licence term. The ability of the Group to discharge this obligation is contingent on the successful completion of a farm-out arrangement or equity raise to finance this activity.

(b) Carrying value of exploration expenditure

Expenditure of $48,515,200 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2018 (2017: $48,318,079).

The Group's exploration activities are subject to a number of significant and potential risks including:

- licence obligations;
- requirement for further funding;
- geological and development risks; and
- political risk.

The recoverability of these intangible assets is dependent on the discovery and successful development of economic reserves, including the ability to raise finance to develop future projects 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 Group 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 Environmental Authorisation represents the first step in commencing field activities and therefore the submission of the application by the Group 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.

On 21 February 2019, the Group received notification from the Bahamian Government of the extension of the term of its four southern licences to 31 December 2020, with the requirement that the Company commence an exploration well before the end of the extended term.

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.

Notes to the Consolidated Financial Statements
(continued)

5 Segment information

The Company is incorporated in the Isle of Man. The total of non-current assets other than financial instruments located in the Isle of Man as at 31 December 2018 is $21,815 (31 December 2017: $7,884), and the total of such non-current assets located in The Bahamas is $48,539,077 (31 December 2017: $48,351,474).

6 Finance income and other income

	2018 Group $	2017 Group $
Finance income – interest income on short-term bank deposits	**5,308**	3,507
Other income	**1,000,000**	36,253

Other income in 2018 arose from consideration received from a potential farmout partner for the provision of a four month period of exclusivity from 1 May 2018 to 31 August 2018 during which the Company agreed to cease partnership discussions with other third parties. Other income in the prior year arises from the subletting of office space to a third party in The Bahamas.

7 Employee benefit expense

	2018 Group $	2017 Group $
Directors and employees salaries and fees	**1,091,718**	1,087,548
Directors and employees salaries and fees – writebacks*	**(1,012,500)**	–
Social security costs	**60,583**	51,364
Pension costs – defined contribution	**74,089**	124,621
Pension costs – defined contribution – writebacks*	**(225,000)**	–
Share-based payments (see note 18)	**363,677**	652,168
Other staff costs	**106,356**	77,470
	458,923	1,993,171

Effective 1 October 2014, the Directors agreed to forgo 20% of their remuneration which becomes repayable in shares only once the Company's farm-out transaction or other arrangement for the financing of the first exploration well has been successfully completed.

Effective 1 April 2016, the Directors agreed to increase the above fee deferral to 50% of their remuneration which becomes repayable in shares only once the Company's farm-out transaction or other arrangement for the financing of the first exploration well has been successfully completed. In the case of Mr Potter, CEO, this deferral is 90% of salary and is to be repaid in equal proportions of shares and cash on the conclusion of a farm-out transaction or other arrangement for the financing of the first exploration well.

Effective 1 January 2018, the Directors agreed to increase the above fee deferral to 90% of their remuneration which becomes repayable only once the Company's farm-out transaction or other arrangement for the financing of the first exploration well has been successfully completed and is to be repaid in equal proportions of shares and cash.

* Effective 1 July 2018 the Group entered into a revised remuneration package with the CEO resulting in the cessation of ongoing salary deferrals and the write back of provisions arising from accrued salary and pension entitlements that were forgone by the CEO under the terms of the revised remuneration agreement. As a result, $1,012,500 (2017: $nil) of accrued salary entitlements have been written back against the "Directors and employees salaries and fees" expense category and $225,000 (2017: $nil) of accrued pension entitlements have been written back against the "Pension costs – defined contribution" expense category during the year. See note 21 for further details.

8 Other expenses

		2018 Group $		2017 Group $
Travel and accommodation		**202,524**		131,436
Operating lease payments		**239,646**		259,480
Legal and professional		**944,106**		549,446
Net foreign exchange loss/(gain)		**29,437**		(24,039)
Other		**314,001**		259,522
Fees payable to the Company's auditor for the audit of the company and consolidated financial statements	**87,947**		60,273	
Fees payable to the Company's auditor for other services:				
- Tax advisory services	**5,381**		2,279	
Total auditor remuneration		**93,328**		62,552
Total other expenses		**1,823,042**		1,238,397

9 Taxation

The Company is incorporated and resident in the Isle of Man and subject to Isle of Man income tax at a rate of zero per cent (2017: zero per cent).

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

10 Basic and diluted loss per share

(a) Basic

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

	2018 Group	2017 Group
Loss attributable to equity holders of the Company (US$)	**(1,307,455)**	(3,213,316)
Weighted average number of ordinary shares in issue (number)	**1,546,600,082**	1,365,492,795
Basic loss per share (US Cents per share)	**(0.08)**	(0.24)

(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/warrants. For these share options/warrants, 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/warrants. 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/warrants. Share options/warrants outstanding at the reporting date were as follows:

	2018 Group	2017 Group
Total share options and warrants in issue (number) (see note 18)	**68,850,000**	84,450,000

The effect of the above share options/warrants at 31 December 2018 and 2017 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

Notes to the Consolidated Financial Statements
(continued)

11 Restricted cash

	2018 Group $	2017 Group $
Current assets		
Bank performance bond	**–**	500,000
Bank deposits	**25,480**	27,063
Total current restricted cash	**25,480**	527,063

The Bank performance bond emplaced during 2015 was in favour of the Government of The Bahamas. The bond formed a condition of the 2015 licence renewal and was released on expiry in 2018 given the Company had satisfied the licence condition to undertake $750,000 of qualifying expenditure during the licence period.

Bank deposits consist of funds held as security for Company credit card facilities. Amounts held at the year end have been classified as current as they may be recovered at any point following cancellation of the corporate credit card facilities.

12 Property, plant & equipment

Group	Leasehold improvements $	Furniture, fittings and equipment $	Motor vehicles $	Total $
At 1 January 2017				
Cost	56,417	256,041	97,689	410,147
Accumulated depreciation	(55,739)	(243,595)	(66,268)	(365,602)
Net book amount	**678**	**12,446**	**31,421**	**44,545**
Year ended 31 December 2017				
Opening net book amount	678	12,446	31,421	44,545
Additions	–	18,241	–	18,241
Depreciation charge	(678)	(6,981)	(13,849)	(21,508)
Closing net book amount	**–**	**23,706**	**17,572**	**41,278**
At 31 December 2017				
Cost	56,417	274,282	97,689	428,388
Accumulated depreciation	(56,417)	(250,576)	(80,117)	(387,110)
Net book amount	**–**	**23,706**	**17,572**	**41,278**
Year ended 31 December 2018				
Opening net book amount	–	23,706	17,572	41,278
Additions	–	35,212	–	35,212
Depreciation charge	–	(16,949)	(13,849)	(30,798)
Closing net book amount	**–**	**41,969**	**3,723**	**45,692**
At 31 December 2018				
Cost	56,417	309,494	97,689	463,600
Accumulated depreciation	(56,417)	(267,525)	(93,966)	(417,908)
Net book amount	**–**	**41,969**	**3,723**	**45,692**

13 Intangible exploration and evaluation assets

Group	Licence costs $	Geological, geophysical and technical analysis $	Total $
Year ended 31 December 2017			
Opening cost/net book amount	2,851,250	45,201,407	48,052,657
Additions (note 20(iii))	–	265,422	265,422
Closing cost/net book amount	**2,851,250**	**45,466,829**	**48,318,079**
Year ended 31 December 2018			
Opening cost/net book amount	2,851,250	45,466,829	48,318,079
Additions (note 20(iii))	–	197,121	197,121
Closing cost/net book amount	**2,851,250**	**45,663,950**	**48,515,200**

Ultimate recoupment of intangible exploration and evaluation assets capitalised is dependent on successful development and commercial exploitation, or alternatively, sale of the respective licence areas (note 4(b)).

These assets are reviewed for impairment annually or 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 (note 4(b)).

14 Cash and cash equivalents

	2018 Group $	2017 Group $
Cash at bank	**2,220,765**	1,838,527

The 2018 balance includes interest bearing accounts at rates between 0% and 1.65% (2017: 0% to 1%).

Reconciliation of total cash balances	2018 Group $	2017 Group $
Cash at bank	**2,220,765**	1,838,527
Restricted cash (see note 11)	**25,480**	527,063
Total cash	**2,246,245**	2,365,590

15 Other receivables

	2018 Group $	2017 Group $
Other receivables (note (a))	**43,932**	115,954
Prepayments (note (b))	**661,703**	613,338
	705,635	729,292

(a) Other receivables
As at 31 December 2018 and 2017, these amounts predominantly consist of VAT recoverable.

(b) Prepayments
As at 31 December 2018, prepayments include $500,000 (2017: $500,000) in application fees paid to The Government of The Bahamas for five additional exploration licences. During 2015, two of these licence applications were withdrawn, consequently receipt of $200,000 against these applications is expected to be credited against future licence rental payments (see note 20(iii)). The three retained applications remain pending award, in the event that the Group's applications are unsuccessful, 50% of the remaining $300,000 in application fees is refundable to the Group. No provision has been made in the consolidated financial statements to write down the carrying value of these prepayments.

Notes to the Consolidated Financial Statements
(continued)

16 Trade and other payables

	2018 Group $	2017 Group $
Accruals	**334,984**	1,053,922
Trade payables	**19,438**	40,496
Other payables	**–**	4,094
	354,422	1,098,512

The fair value of trade and other payables approximates to their carrying value as at 31 December 2018 and 2017.

17 Share capital, share premium reserve, merger reserve and reverse acquisition reserve

Group	Number of shares issued	Issue price $	Ordinary shares $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $
At 1 January 2017	1,230,479,096	–	37,253	78,185,102	77,130,684	(53,846,526)
Shares issued	280,000,000	0.013	7,228	3,212,982	–	–
At 31 December 2017	1,510,479,096	–	44,481	81,398,084	77,130,684	(53,846,526)
Shares issued	15,600,000	0.013	416	207,343	–	–
Shares issued	46,640,000	0.033	1,241	1,462,880	–	–
As at 31 December 2018	**1,572,719,096**	**–**	**46,138**	**83,068,307**	**77,130,684**	**(53,846,526)**

During the prior year the Company issued 110,000,000 new ordinary shares on 21 June 2017 for 1 pence each and 170,000,000 new ordinary shares on 19 July 2017 for 1 pence each, raising gross proceeds of $1,395,383 and $2,218,806 respectively. The costs associated with the issuances in the year of $196,393 and $197,586 respectively have been deducted from the Share Premium reserve.

During the year the Company issued 44,000,000 new ordinary shares on 29 May 2018 for 2.5 pence each raising gross proceeds of $1,464,967.

Fees associated with the issuance totalling $87,898 have been deducted from the Share Premium reserve.

During the year the Company issued 15,600,000 new ordinary shares on 5 June 2018 and 2,640,000 new ordinary shares on 25 July 2018 for 1 pence and 2.5 pence each respectively in settlement of the exercise of warrants held by the Company brokers, raising gross proceeds of $207,759 and $87,052 respectively.

In 2008, BPC Jersey Limited acquired Falkland Gold and Minerals Limited ('FGML') via a reverse acquisition, giving rise to the reverse acquisition reserve. BPC Jersey Limited was the acquirer of FGML although FGML became the legal parent of the Group on the acquisition date. FGML subsequently changed its name to BPC Limited.

The merger reserve arose in 2010 as a result of the Group undergoing a Scheme of Arrangement which saw the shares in the then parent company BPC Limited replaced with shares in Bahamas Petroleum Company plc.

The total authorised number of ordinary shares at 31 December 2018 and 2017 was 5,000,000,000 shares with a par value of 0.002 pence per share. All issued shares of 0.002 pence are fully paid.

18 Share-based payments

(a) Options and warrants

Share options have been granted to Directors, selected employees and consultants to the Company.

The Group had no legal or constructive obligation to repurchase or settle any options in cash. Movements in the number of share options and warrants outstanding during the year are as follows:

	2018 Group		2017 Group	
	Average exercise price per share	No. options and warrants	Average exercise price per share	No. options and warrants
At beginning of year	**1.99p**	**84,450,000**	2.22p	68,850,000
Exercised	**1.22p**	**18,240,000**	–	–
Granted	**2.50p**	**2,640,000**	1.00p	15,600,000
At end of year	**2.22p**	**68,850,000**	1.99p	84,450,000
Exercisable at end of year	**–**	**–**	1.00p	15,600,000

The weighted average remaining contractual life of the options and warrants in issue at 31 December 2018 is 2.25 years (31 December 2017: 2.93 years) and the weighted average exercise price of these instruments is 2.22 pence per share (31 December 2017: 1.99 pence).

On 27 July 2017, the Company issued 15,600,000 warrants to Shore Capital Stockbrokers in consideration of services rendered during the fund raise in June 2017. The terms of the warrants granted are as follows:

- The warrants are exercisable from the date of grant.
- The warrants expire on 14 July 2019.
- The warrants have an exercise price of 1 pence per share.

All warrants granted to Shore Capital Stockbrokers during the prior year were exercised on 29 May 2018.

The fair value of the warrants granted in the prior year was estimated using the Black Scholes model. The inputs and assumptions used in calculating the fair value of options granted in the year were as follows:

	Warrants Granted on 27 July 2017
Number of warrants granted	15,600,000
Share price at date of grant	1.10p
Exercise price	1.0p
Expected volatility	22%
Expected life	2.0 years
Risk free return	0.31%
Dividend yield	Nil
Fair value per option	0.27 cents

On 22 May 2018, the Company issued 2,640,000 warrants to Shore Capital Stockbrokers in consideration of services rendered during the fund raise in May 2018. The terms of the warrants granted are as follows:

- The warrants are exercisable from the date of grant.
- The warrants expire on 21 May 2020.
- The warrants have an exercise price of 2.5 pence per share.

All warrants granted to Shore Capital Stockbrokers during the year were exercised on 25 July 2018.

Notes to the Consolidated Financial Statements
(continued)

18 Share-based payments continued

(a) Options and warrants continued

The fair value of the warrants granted in the year was estimated using the Black Scholes model. The inputs and assumptions used in calculating the fair value of options granted in the year were as follows:

	Warrants Granted on 22 May 2018
Number of warrants granted	2,640,000
Share price at date of grant	3.55p
Exercise price	2.5p
Expected volatility	58%
Expected life	0.17 years
Risk free return	0.83%
Dividend yield	Nil
Fair value per option	1.44 cents

(b) Salary deferrals

On 17 December 2014, the Directors entered into an agreement for the deferral of 20% of their salary and fees on the following terms:

- 20% of all Directors' fees and the CEO's salary were forgone until a farm-out or other arrangement sufficient to finance the first exploration well is completed.
- The value of fees/salary forgone accrued at the end of each month as an entitlement to ordinary shares in the Company.
- The number of ordinary shares accrued was calculated as the value of fees/salary forgone divided by the volume weighted average closing price of the Company shares over each month.
- The "accrued shares" shall only be issued to the Directors on completion of a farm-out or other arrangement sufficient to finance the first exploration well.
- The agreement is effective for all parties from 1 October 2014.

On 1 April 2016, the Directors' entered into a further agreement for the deferral of 50% of their fees and the CEO entered into an agreement for the deferral of 90% of his salary on the following terms:

- 50% of all Directors' fees and 90% of the CEO's salary are to be forgone until a farm-out or other arrangement sufficient to finance the first exploration well is completed.
- The value of Directors' fees forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- 50% of the value of the CEO's salary forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- 50% of the value of the CEO's salary forgone shall be repayable in cash on settlement of the well financing criteria.
- Receipt of the CEO's forgone salary is conditional on his continued employment by the Group up to the completion of a farm-out or other financing arrangement.
- All of the CEO share entitlements accrued under the agreement entered into on 1 October 2014 were forgone.
- The number of ordinary shares accruing shall be calculated as the value of fees/salary forgone divided by the volume weighted average closing price of the Company shares over each month.
- The "accrued shares" shall only be issued to the Directors on completion of a farm-out or other arrangement sufficient to finance the first exploration well.
- The agreement is effective for all parties from 1 April 2016 and, in the case of the CEO, supersedes the agreement entered into on 17 December 2014.

On 1 January 2018 the Directors (excluding the CEO) entered into a further agreement for the deferral of 90% of their fees on the following terms:

- 90% of all Directors' fees are to be forgone until a farm-out or other arrangement sufficient to finance the first exploration well is completed.
- 50% of the value of the Directors' fees forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company.
- 50% of the value of the Directors' fees forgone shall be repayable in cash on settlement of the well financing criteria.
- The number of ordinary shares accruing shall be calculated as the value of fees/salary forgone divided by the volume weighted average closing price of the Company shares over each month.
- The "accrued shares" shall only be issued to the Directors on completion of a farm-out or other arrangement sufficient to finance the first exploration well.

From 1 July 2018 the ongoing deferral of the CEO's salary into conditional share entitlements ceased, resulting in no further share based payment charges arising as regards the CEO salary from that date. See note 21 for further details.

Under IFRS 2, entitlements to ordinary shares under the above agreements constitute the issuance of equity settled share based payment instruments with the following terms:

- Each month of deferred fee entitlements is treated as a separate grant of options with the date of grant being the first day of the month.
- The Fair value of the options at grant is estimated as the share price on the date of grant.
- Options awarded each month vest at the end of that month.

The value of the instruments has been estimated and is being charged to the Statement of Total Comprehensive Income in monthly tranches as each month's award of options vest.

(c) Expense arising from share based payment transactions

Total expense arising from equity–settled share based payment transactions:

	2018 Group $	2017 Group $
Options and warrants	**74,521**	$ 24,509
Salary deferrals	**363,677**	638,740
Expense in relation to share-based payment transactions	**438,198**	663,249

The above charges in relation to share-based payments include $387,902 relating to Directors (2017: $647,516), $nil related to staff and consultants (2017: $4,652) and $74,520 relating to warrants granted to the Company's brokers (2017: $11,081). In 2017, in addition to the above total charge to profits, $24,225 in share based payments charges were capitalised into intangibles. During the year, these consultants' fees were settled in cash. Accordingly, these amounts have been written back and have acted to reduce the total salary deferral share-based payment charge for the year.

Notes to the Consolidated Financial Statements
(continued)

19 Cash used in operations

	2018 Group $	2017 Group $
Loss after income tax	**(1,307,455)**	(3,213,316)
Adjustments for:		
– Depreciation (note 12)	**30,798**	21,508
– Share-based payment (note 18)	**438,198**	663,249
– Finance income (note 6)	**(5,308)**	(3,507)
– Other income received (note 6)	**(1,000,000)**	(36,253)
– Foreign exchange (gain)/loss on operating activities (note 8)	**29,437**	(24,039)
Changes in working capital:		
– Other receivables	**(18,110)**	(26,384)
– Trade and other payables	**(745,890)**	445,298
Cash used in operations	**(2,542,110)**	(2,173,444)

The movement in Trade and other payables in the year includes the write back of provisions for the CEO deferred salary forgone as part of the agreed remuneration changes which became effective on 1 July 2018. See note 21 for further details.

20 Contingencies and commitments

(i) Contingencies

As at 31 December 2018 and 2017, the Group had no contingent liabilities that require disclosure in these financial statements.

(ii) Expenditure commitments

On 21 February 2019, the Company received notification from the Bahamian Government of the extension of the term of its four southern licences to 31 December 2020, with the requirement that the Company commence an exploration well before the end of the extended term.

As the Group does not have sufficient cash resources to discharge this commitment, an industry partnership or other financing arrangement will be required in order to meet this licence obligation.

(iii) Annual rental commitments

The Group is required under the exploration licences to remit annual rentals in advance to the Government in respect of the licenced areas.

On 21 February 2019 the Group was notified by the Government of The Bahamas that the term of its four southern licences had been extended to 31 December 2020. During this extension, the Group and the Government must, in the coming months:

(i) establish a forward process and schedule for 2019 and 2020 for the consideration and finalisation of the Environmental Authorisation previously submitted by the Company in April 2018, in accordance with the relevant Act and Regulations; and

(ii) determine any additional licence fees that may be payable by the Company up to the end of 2020, when reconciled against:

a. Licence fees amount previously paid in good faith by the Company (approximately US$1.05 million) despite the inability to undertake Licence activities,

b. Licence fee levels previously established with the Government (being US$250,000 per Licence per annum) as may be modified in view of changed industry circumstances since Licence fee levels were initially proposed in 2013 under very different then prevailing circumstances,

c. Periods in which Licence activities were unable to be undertaken owing to various disruptions beyond the control or discretion of the Company, and during which Licence fees were correspondingly abated; and

d. Other amounts presently held on account by the Government in relation to various other matters (approximately US$620,000).

In 2018 the Company submitted to the Government a proposed reconciliation in respect of all of the above items, which indicated a balance payment due to the Government of approximately US$200,000 for Licence fees up to the end of 2020. This amount, along with consideration of various sensitivities, has been taken into account in determining the adequacy of working capital for the next 12 months.

Renewal of the Group's Miami licence remains under review pending negotiations with the Government regarding the terms of renewal.

The Group leases various premises and vehicles 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:

	2018 Group $	2017 Group $
No later than 1 year	**107,952**	151,257
Between 2 and 5 years	**23,150**	–
	131,102	151,257

21 Related party transactions

Key management personnel

Details of key management personnel during the current and prior year are as follows:

William Schrader	Non–Executive Chairman
James Smith	Non–Executive Deputy Chairman
Simon Potter	Director and Chief Executive Officer
Adrian Collins	Non–Executive Director
Ross McDonald	Non–Executive Director
Edward Shallcross	Non–Executive Director

Key management compensation

	2018 Group $	2017 Group $
Short-term employee benefits – paid	**270,580**	362,093
Short-term employee benefits – accrued and contingent*	**(813,642)**	450,000
Share-based payments (see note 18)	**387,902**	647,516
	(155,160)	1,459,609

* Short-term employee benefits – accrued and contingent consist of the 50% of Directors' deferred fees which are repayable in cash, rather than shares, contingent on the successful completion of a farm-out transaction or other arrangement sufficient to finance the project's first exploration well. Included in this figure is the write back of deferred CEO remuneration which was forgone on 1 July 2018 following agreed changes to the CEO remuneration arrangements (see below) which has resulted in a negative charge for the year.

21 **Related party transactions** continued

Directors' remuneration

		2018 Group $		2017 Group $
Simon Potter				
Cash remuneration				
- Salary (10% of contractual entitlement from 1 January 2017)		**50,000**		100,000
- Salary (revised basis from 1 July 2018)		**187,500**		–
Total cash remuneration		**237,500**		100,000
Non-cash remuneration				
- Salary (45% deferred and contingent)	**225,000**		450,000	
- Share-based payments	**225,000**		457,606	
- Write back of forgone deferred salary	**(1,012,500)**		–	
- Accrued pension liability	**50,000**		100,000	
- Write back of forgone pension entitlements	**(225,000)**		–	
Total non-cash remuneration		**(737,500)**		1,007,606
Total		**(500,000)**		1,107,606
William Schrader				
- Cash remuneration	**8,649**		41,989	
- Deferred remuneration – cash	**38,922**		–	
- Share-based payments	**42,646**		49,462	
- Total Remuneration		**90,217**		91,451
James Smith				
- Cash remuneration	**5,622**		27,460	
- Deferred remuneration – cash	**25,296**		–	
- Share-based payments	**28,104**		32,281	
- Total Remuneration		**59,022**		59,741
Adrian Collins				
- Cash remuneration	**6,499**		32,836	
- Deferred remuneration – cash	**29,245**		–	
- Share-based payments	**30,342**		37,943	
- Total Remuneration		**66,086**		70,779
Ross McDonald				
- Cash remuneration	**5,618**		27,460	
- Deferred remuneration – cash	**25,283**		–	
- Share-based payments	**27,974**		32,281	
- Total Remuneration		**58,875**		59,741
Edward Shallcross				
- Cash remuneration	**6,692**		32,348	
- Deferred remuneration – cash	**30,112**		–	
- Share-based payments	**33,836**		37,943	
- Total Remuneration		**70,640**		70,291
Total		**(155,160)**		1,459,609

Effective 1 October 2014, the Directors agreed to forgo 20% of their remuneration which becomes repayable in shares only once the Company's first exploration well has been successfully financed. Effective 1 April 2016 the Directors agreed to increase this fee deferral to 50% for Board members and 90% for the CEO. See note 18 for further details. From 1 January 2018, the Directors agreed to increase their fee deferral terms to match those of the CEO, being a 90% deferral with 50% of deferred fees recoverable in cash and 50% in shares, following the conclusion of a successful farm-out or other suitable financing arrangement.

On 3 August 2018 the Company entered into an agreement with the CEO to effect the following changes to his remuneration arrangements:

- The agreement became effective from 1 July 2018.
- From the effective date the CEO remuneration became $375,000 per annum.
- Cessation of all salary deferrals from the effective date.
- All salary that was deferred to 30 June 2018 into conditional share entitlements is retained.
- All salary that was deferred to 30 June 2018 to be recovered in cash was forgone.
- All accrued pension entitlements to 30 June 2018 was forgone.
- No ongoing entitlement to pension contributions.
- Term of the contract remains unchanged and expires on 31 March 2019.

As a result of the above, accrued cash salary entitlements totalling $1,012,500 and accrued pension entitlements totalling $225,000 have been written off in the year to the Employee benefit expense line of the Statement of Comprehensive Income.

There were no share options granted to key management personnel in the current or prior year.

Other related party transactions

During the year the Company operated banking facilities with RBC Royal Bank (Bahamas) Limited in Nassau, The Bahamas. Ross McDonald, a Director of the Company, is also a Director of RBC Royal Bank (Bahamas) Limited. As at 31 December 2018, $39,448 was held on deposit with RBC Royal Bank (Bahamas) Limited (31 December 2017: $62,706).

22 Events after the balance sheet date

On 21 February 2019, the Company received notification from the Bahamian Government of the extension of the term of its four southern licences to 31 December 2020, with the requirement that the Company commence an exploration well before the end of the extended term. Included in this licence extension was the requirement that the Government and the Group work together to develop a forward work programme for the processing of the Environmental Authorisation filed during the year as well as determine the level of licence fees payable over the extended term, if any, following consideration of the fees prepaid to date. See note 20 (iii) for further details.

On 22 March 2019, the Company raised $2.5 million of additional finance before costs through the issue of 120 million new ordinary shares to institutional investors at a subscription price of 1.6 pence per share.

Company Balance Sheet
As at 31 December 2018

	Note	2018 Company $	2017 Company $
ASSETS			
Non-current assets			
Investment in subsidiaries	7	**29,560,465**	29,560,465
Other receivables	8	**63,034,852**	62,345,811
Property, plant and equipment	6	**21,816**	7,884
Total non-current assets		**92,617,133**	91,914,160
Current assets			
Restricted cash	5	**25,480**	527,063
Other receivables	8	**154,809**	165,406
Cash and cash equivalents	9	**2,181,331**	1,775,822
Total current assets		**2,361,620**	2,468,291
Total assets		**94,978,753**	94,382,451
LIABILITIES			
Current liabilities			
Trade and other payables	10	**264,813**	1,093,385
Total liabilities		**264,813**	1,093,385
EQUITY			
Share capital	11	**46,138**	44,481
Share premium reserve	11	**83,068,307**	81,398,084
Other reserve	11	**29,535,159**	29,535,159
Share-based payment reserve	12	**3,449,799**	3,011,601
Retained deficit		**(21,385,463)**	(20,700,259)
Total equity		**94,713,940**	93,289,066
Total equity and liabilities		**94,978,753**	94,382,451

The Company financial statements on pages 36 to 42 were approved and authorised for issue by the Board of Directors on 24 April 2019 and signed on its behalf by:

Adrian Collins
Director

Simon Potter
Director

Company Statement of Changes in Equity
For the year ended 31 December 2018

	Note	Share capital $	Share premium $	Other reserve $	Share-based payment reserve $	Retained deficit $	Total equity $
Balance at 1 January 2017		37,253	78,185,102	29,535,159	2,324,127	(19,111,603)	90,970,038
Comprehensive income:							
Total comprehensive expense for the year	4	–	–	–	–	(1,588,656)	(1,588,656)
Total Comprehensive Expense		–	–	–	–	(1,588,656)	(1,588,656)
Transactions with owners							
Issue of ordinary shares		7,228	3,212,982	–	–	–	3,220,210
Share options – value of service	12	–	–	–	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**	**29,535,159**	**3,011,601**	**(20,700,259)**	**93,289,066**
Balance at 1 January 2018		**44,481**	**81,398,084**	**29,535,159**	**3,011,601**	**(20,700,259)**	**93,289,066**
Comprehensive income:							
Total comprehensive expense for the year	4	–	–	–	–	(685,204)	(685,204)
Total Comprehensive Expense		–	–	–	–	(685,204)	(685,204)
Transactions with owners							
Issue of ordinary shares		1,657	1,670,223	–	–	–	1,671,880
Share options – value of service	12	–	–	–	438,198	–	438,198
Total transactions with owners		1,657	1,670,223	–	438,198	–	2,110,078
Balance at 31 December 2018		**46,138**	**83,068,307**	**29,535,159**	**3,449,799**	**(21,385,463)**	**94,713,940**

The accompanying notes on pages 39 to 42 form part of these Company financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 Company $	2017 Company $
Cash flows from operating activities			
Cash used in operations	13	**(2,150,706)**	(452,395)
Net cash used in operating activities		**(2,150,706)**	(452,395)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	**(23,146)**	(3,933)
Other income		**1,000,000**	–
Interest received		**5,308**	3,507
Decrease in restricted cash		**500,000**	13,455
Advances to and payments on behalf of group companies		**(577,320)**	(1,924,192)
Net cash generated from/(used in) investing activities		**904,842**	(1,911,163)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**1,671,880**	3,220,210
Net cash flows from financing activities		**1,671,880**	3,220,210
Net increase in cash and cash equivalents		**426,016**	856,652
Cash and cash equivalents at the beginning of the year		**1,775,822**	891,207
Effects of exchange rate changes on cash and cash equivalents		**(20,507)**	27,963
Cash and cash equivalents at the end of the year		**2,181,331**	1,775,822

The accompanying notes on pages 39 to 42 form part of these Company financial statements.

Notes to the Company Financial Statements

1 General information

Bahamas Petroleum Company plc ("the Company") and its subsidiaries (together "the Group") are the holders of several oil & gas exploration licences issued by the Government of the Commonwealth of The Bahamas ("the Government").

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's review of operations and principal activities is set out in the Directors' Report. See note 1 to the consolidated financial statements for details of the Company's principal subsidiaries.

The accounting reference date of the Company is 31 December.

2 Accounting policies

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC ("International Financial Reporting Interpretations Committee") interpretations as adopted by the European Union ("EU"). The financial statements have been prepared under the historical cost convention and the requirements of the Isle of Man Companies Acts 1931 to 2004.

The Company's accounting policies and information regarding changes in accounting policies and disclosures are in line with those of the Group, as detailed in note 2 of the consolidated financial statements, in addition to those set out below.

Going concern

The Directors have, at the time of approving the financial statements, determined that the Company has adequate financial resources and therefore these financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operations for the foreseeable future. See note 4 in the consolidated financial statements for further details.

2.2 Investment in subsidiaries

Investments in subsidiaries are included in the Company balance sheet at cost, less any provision for impairment.

2.3 Other receivables

The Company classifies its other receivables (excluding prepayments) as financial assets held at amortised cost. See note 2.8 of the Group financial statements for the accounting policy followed. Given that the amount owed by subsidiary undertakings is repayable on demand, expected credit losses are not material. See note 8 for further details.

3 Critical accounting estimates and judgements

Investment in subsidiary and amounts owed by subsidiary undertakings

The investment in the Company's direct subsidiaries and amounts owed by subsidiary undertakings at 31 December 2018 stood at $29,560,465 (2017: $29,560,465) and $63,034,853 (2017: $62,345,811) respectively.

Ultimate recoverability of investments in subsidiaries and amounts owed by subsidiary undertakings is dependent on successful development and commercial exploitation, or alternatively, sale of the respective licence areas. The carrying value of the Company's investments in subsidiaries is reviewed at each balance sheet date and, if there is any indication of impairment, the recoverable amount is estimated. Estimates of impairments are limited to an assessment by the Directors of any events or changes in circumstances that would indicate that the carrying values of the assets may not be fully recoverable. Similarly, the expected credit losses on the amounts owed by subsidiary undertakings are intrinsically linked to the recoverable amount of the underlying assets. Any impairment losses arising are charged to the statement of comprehensive income. See note 4(b) of the Group financial statements for more details.

4 Loss attributable to members of the Company

The loss dealt with in the financial statements of the Company for the year to 31 December 2018 is $685,204 (2017: $1,588,656). 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 year

5 Restricted cash

Restricted cash balances for the Company are the same as those for the Group. Please see note 11 to the consolidated financial statements for more details.

Notes to the Company Financial Statements
(continued)

6 Property, plant and equipment

Company	Furniture, fittings and equipment $
As at 1 January 2017	
Cost	70,050
Accumulated depreciation	(62,940)
Net book amount	**7,110**
Year ended 31 December 2017	
Opening net book amount	7,110
Additions	3,933
Depreciation charge	(3,159)
Closing net book amount	**7,884**
As at 31 December 2017	
Cost	73,983
Accumulated depreciation	(66,099)
Net book amount	**7,884**
Year ended 31 December 2018	
Opening net book amount	7,884
Additions	23,146
Depreciation charge	(9,214)
Closing net book amount	**21,816**
As at 31 December 2018	
Cost	97,129
Accumulated depreciation	(75,313)
Net book amount	**21,816**

7 Investment in subsidiaries

	2018 Company $	2017 Company $
BPC (A) Limited	**29,560,456**	29,560,456
BPC (B) Limited	**3**	3
BPC (C) Limited	**3**	3
BPC (D) Limited	**3**	3
	29,560,465	29,560,465

See note 1 of the Group financial statements for details of the subsidiary undertakings.

8 Other receivables

	2018 Company $	2017 Company $
Non-current assets		
Amount owed by subsidiary undertakings	**63,034,852**	62,345,811
Current assets		
Prepayments	**112,377**	50,950
Other receivables	**42,432**	114,456
	154,809	165,406

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand. The Directors have agreed that repayment of these amounts will not be called on within 12 months of the reporting date.

Other receivables predominantly consist of VAT recoverable.

9 Cash and cash equivalents

	2018 Company $	2017 Company $
Cash at bank	**2,181,331**	1,775,822

The 2018 balances include interest bearing accounts at rates between 0% and 1.65% (2017: 0% to 1%).

10 Trade and other payables

	2018 Company $	2017 Company $
Accruals	**250,503**	1,053,934
Trade payables	**8,767**	35,358
Other payables	**5,543**	4,093
	264,813	1,093,385

The fair value of trade and other payables approximates their carrying value as at 31 December 2018 and 2017.

11 Share capital, share premium and other reserve

Company	Number of shares issued	Ordinary shares $	Share premium reserve $	Other reserve $	Total $
At 1 January 2017	1,230,479,096	37,253	78,185,102	29,535,159	107,757,514
Issue of ordinary shares	280,000,000	7,228	3,212,982	–	3,220,210
At 31 December 2017	1,510,479,096	44,481	81,398,084	29,535,159	110,977,724
At 1 January 2018	1,510,479,096	44,481	81,398,084	29,535,159	110,977,724
Issue of ordinary shares	62,240,000	1,657	1,670,223	–	1,671,880
At 31 December 2018	**1,572,719,096**	**46,138**	**83,068,307**	**29,535,159**	**112,649,604**

All issued shares are fully paid.

The authorised share capital of the Company is 5,000,000,000 ordinary shares of 0.002 pence each.

During the prior year the Company issued 110,000,000 new ordinary shares on 21 June 2017 for 1 pence each and 170,000,000 new ordinary shares on 19 July 2017 for 1 pence each, raising gross proceeds of $1,395,383 and $2,218,806 respectively. The costs associated with the issuances in the year of $199,183 and $202,024 respectively have been deducted from the Share Premium reserve total.

During the year the Company issued 44,000,000 new ordinary shares on 29 May 2018 for 2.5 pence each raising gross proceeds of $1,464,967. Fees associated with the issuance totalling $87,898 have been deducted from the Share Premium reserve.

During the year the Company issued 15,600,000 new ordinary shares on 5 June 2018 and 2,640,000 new ordinary shares on 25 July 2018 for 1 pence and 2.5 pence each respectively in settlement of the exercise of warrants held by the Company brokers, raising gross proceeds of $207,759 and $87,052 respectively.

The other reserve balance arises from the issue of shares in the Company as part of the Scheme of Arrangement undertaken in 2010, which saw the shares in the then parent company BPC Limited replaced with shares in Bahamas Petroleum Company plc (then BPC plc), which became the new parent company of the Group.

12 Share-based payments

Share-based payments for the Company are the same as those for the Group. For further details please see note 18 to the consolidated financial statements.

13 Cash used in operations

	2018 Company $	2017 Company $
Loss before income tax	**(685,204)**	(1,588,656)
Adjustments for:		
– Depreciation (note 6)	**9,214**	3,159
– Finance income	**(5,308)**	(3,507)
– Other income	**(1,111,721)**	–
– Foreign exchange loss/(gain) on operating activities	**29,437**	(24,039)
– Share-based payment (consolidated financial statements note 18)	**438,198**	663,249
Changes in working capital:		
– Other receivables	**5,050**	(18,523)
– Trade and other payables	**(830,372)**	515,922
Cash used in operations	**(2,150,706)**	(452,395)

14 Related party transactions
During the year, goods and services totalling $689,041 (2017: $1,948,417) were charged by the Company to BPC Limited, the 100% indirectly owned subsidiary of the Company. See note 8 for details of the amounts outstanding at the balance sheet date.

All other related party transactions of the Company are the same as those for the Group. For further details see note 21 to the consolidated financial statements.

15 Events after the balance sheet date
Events after the balance sheet date of the Company are the same as those for the Group. For further details see note 22 to the consolidated financial statements.

Corporate Directory

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

Directors
William Schrader
Non-Executive Chairman
James Smith
Non-Executive Deputy Chairman
Simon Potter
Chief Executive Officer
Adrian Collins
Non-Executive
Edward Shallcross
Non-Executive
Ross McDonald
Non-Executive

Secretary
Benjamin Proffitt

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Isle of Man
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Bahamas Headquarters
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PO Box SP-64135

Registrar
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Douglas
Isle of Man
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Auditor
PricewaterhouseCoopers LLC
Sixty Circular Road
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Isle of Man
IM1 1SA

Legal Advisors
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Commercial Lawyers
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Notes

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