Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2019

Chief Executive Officer's Review

Dear Shareholder,

2019 has been an exciting year for the Company thus far, and I am pleased to report to shareholders on a number of significant developments taking place both during and following the reporting period to 30 June 2019.

Operational Overview

The first key development, in February 2019, was the Government of The Bahamas extending the second exploration period in respect of the Company's licences to 31 December 2020, thereby clearly mandating that an initial exploration well must be executed within this timeframe. This extension provided the clarity and certainty needed to press ahead with a single-minded purpose: to do everything necessary to move forward toward drilling a first exploration well in 2020.

In terms of technical work, the Company undertook four separate subsurface studies relevant to exploration well planning, in each case making use of expert third-party consultants. These studies have all produced positive results which, taken collectively, highlight the likely presence and quality of a world-class source rock and petroleum system located precisely in the BPC licence area, with charge and migration pathways evident to deliver hydrocarbons into the identified structures. The Company also believes that hydrocarbon indicators have now been established from the 3D data with the reservoir rock demonstrating a well-developed fault and fracture system that will significantly influence the final selection of an exploration well drill site, so as to provide the highest confidence of encountering hydrocarbons.

In terms of environmental work, in early 2019 the Company was notified of the engagement of Black & Veach to act for the Government in reviewing our Environmental Authorisation ("EA") application (which was lodged in April 2018, and the issuance of which remains a prerequisite to commencing drilling under the new environmental regulations in the Bahamas). Since then the Company has been working collaboratively with The Government and its advisers, with a view to finalizing the EA process ahead of the Company's intended drilling activity.

Operationally, during the reporting period a considerable body of work was undertaken, which is necessary to assure the timely, safe and cost-effective delivery of a well in 2020. As a result of this work in August 2019 the Company announced (i) a framework agreement with Seadrill, a leading global offshore rig provider, for the provision of a 6th generation rig in 1H 2020, subject to detailed contract, (ii) the appointment of Halliburton for the provision of integrated well services, subject to detailed contract, and (iii) the appointment of BakerHughes GE for the provision of various well-related equipment, subject to detailed contract. Seadrill, Halliburton and BakerHughes GE are global leaders in oilfield services provision. We are extremely pleased to have been able to secure, by 'Notice of Award', the involvement of these firms in our project, and over the coming months, we will be working hard to finalize long-form contracts with each of these parties, as well as working actively with these parties as we prepare for drilling operations. We have also begun to build out the Company's professional team, so as to ensure that as we move toward drilling, we have available to us the services of staff who are suitably experienced, and thus capable of delivering the well.

Commercially, the engagement of Seadrill, Halliburton and BakerHughes GE and the agreed rates established for the rig, equipment and ancillary well services in those engagements has allowed the Company to finalise its well costing estimates, such that we are currently estimating the cost of the initial exploration well will be in the range of $20m - $25m. This represents a substantial decrease on previous costs estimates, largely due to the competitive rate at which the rig will be provided, expected improvements in drilling Rate of Penetration ("ROP") based upon the technical advances in drill bit technology, and the ability to source a rig out of the Gulf of Mexico resulting in lower estimated logistical and support costs.

With the benefit of key parameters having been established - namely, an unambiguous obligation to drill a well in 2020 and an estimated well cost of between $20m - $25m - the Company has been able to move forward with the all-important task of securing the funding necessary to support the intended drilling campaign. To date, the Company's focus has been predominantly on securing funding via a farm-in agreement, and farm-in discussions are continuing. Multiple parties are currently engaged in ongoing due diligence and commercial discussions, and it remains the Company's preference to secure all or part of the required well funding through this structure.

However, in the past six months the Company has also sought to broaden its approach to seek other sources of potential finance, such that if a farm-in is not secured, or if the terms of any potential farm-in are not satisfactory, the Company can nonetheless proceed to drilling. At its AGM on 17 September 2019, the Company thus presented its shareholders with a number of special resolutions (all of which were overwhelmingly passed) designed to provide the Board with the flexibility to enter into a range of possible funding arrangements, as and when required and if considered to be in the best interests of the Company.

Of the various options available, the Company has thus far entered into a £10.25m ($12.5m) conditional convertible loan note agreement, which, subject to contract and various conditions precedent, as set out in the circular to shareholders of 21 August 2019, to enable funds to be available for draw-down, would provide access to approximately half the funding required for the initial exploration well. The Company has also received four other funding proposals (some of which individually but certainly all in aggregate, if contracted and fully drawn-down, would cover the anticipated cost of the well), as well as multiple other expressions of interest, all of which are currently being evaluated. We hope over the near-term to be able to advise shareholders of further progress in this regard.

Financial Review

The Company reported an operating loss for the 6 months to June 2019 of $1.49m, finishing the reporting period with cash reserves of $3.2m. The operating loss for the comparative period to June 2018 includes the substantial write-back of provisions totalling approx. $1.2m associated with the changes to my remuneration as agreed last summer whereby I agreed to a reduction in my headline salary and cessation of ongoing accrued share entitlements from 1 July 2018. If the effect of these write-backs is excluded, then the operating loss for the 6 months to June 2019 represents a decrease of approximately 19% on the comparative 6 month period in 2018, and a decrease of 16% on the year to 31 December 2018 on an annualised basis.

We are especially pleased that, notwithstanding the considerable and increased level of activity in the Company over the past 6 months, ongoing cost control efforts that management has put in place has resulted in a decrease of "other expenses" of 12% on the prior 6 month period, and 24% lower than the full year to December 2018 on an annualised basis. It should also be noted that, whilst the Board continue to defer 90% of their cash remuneration until the well is financed, these deferrals are not reflected in the "employee benefit expense" figure for the period, as IFRS requires recognition of their full fees for the period regardless of their deferred, non-cash nature.

In March 2019 the Company successfully raised $2.5m in working capital through an institutional placing. This placing was designed to ensure the Company had adequate financial resource to continue the technical, environmental and operational work in support of well planning, and the commercial work in seeking to secure financing of the well.

Summary

2019 has proved to be a year of positive progress and developments for BPC, with a number of key milestones having been achieved. The extension of our licences in February 2019 has given us a renewed clarity of focus: we have an obligation to drill a well in 2020, and shareholder value will best be delivered by getting on with that task. To this end we have taken steps to secure the rig, oilfield services and equipment we need, with leading global suppliers. We have continued our program of technical work in support of well planning, we are working collaboratively with Government to progress our EA in a timely manner, and we have commenced building out our team so that we have experienced people in place for the drilling campaign. Farm-in discussions continue, albeit with the benefit of a known financial objective (a well cost in the range of $20m - $25m) and we are now actively working in pursuit of a simple goal: to put in place a suitable set of financial arrangements sufficient to fund the intended initial exploration well, whether that is via a farm-in on acceptable terms, or by other means, whichever is in the best interests of the Company and its shareholders.

On behalf of the Board and staff of BPC, I would like to thank all our shareholders for their continued support of the Company. I believe that the next 6-9 months will be a company making time for BPC, and I look forward to providing further updates as we continue toward the drilling of an initial exploration well in 1H 2020.

Yours sincerely,

Simon Potter

Chief Executive Officer

26 September 2019

Consolidated statement of comprehensive income
for the six months ended 30 June 2019

	Note	**Six months ended 30 June 2019 (Unaudited)**	**Six months ended 30 June 2018 (Unaudited)**	**Year ended 31 December 2018 (Audited)**
		$	**$**	**$**
Continuing operations:				
Employee benefit expense		(674,234)	209,974	(458,923)
Depreciation expense		(119,203)	(13,984)	(30,798)
Other expenses		(692,801)	(790,818)	(1,823,042)
Operating loss		(1,486,238)	(594,828)	(2,312,763)
Other income	*2*	-	500,000	1,000,000
Finance income		13,701	5,308	5,308
Interest expense	*1*	(13,376)	-	-
Total comprehensive loss for the period, net of tax		(1,485,913)	(89,520)	(1,307,455)
Basic and diluted loss per share (cents per share)		(0.09)	(0.0001)	(0.08)

Consolidated statement of changes in equity
for the six months ended 30 June 2019

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2019	46,138	83,068,307	77,130,684	(53,846,526)	3,819,843	(59,060,096)	51,158,350
Comprehensive income							
Loss for the period	-	-	-	-	-	(1,485,913)	(1,485,913)
Total comprehensive income for the period	-	-	-	-	-	(1,485,913)	(1,485,913)
Transactions with owners							
Issue of ordinary shares	3,156	2,355,989	-	-	-	-	2,359,145
Share options – value of services	-	-	-	-	76,441	-	76,441
Total transactions with owners	3,156	2,355,989	-	-	76,441	-	2,435,586
Balance at 30 June 2019	**49,294**	**85,424,296**	**77,130,684**	**(53,846,526)**	**3,896,284**	**(60,546,009)**	**52,108,023**

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

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

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2018	44,481	81,398,084	77,130,684	(53,846,526)	3,381,645	(57,752,641)	50,355,727
Comprehensive income							
Loss for the year	-	-	-	-	-	(1,307,455)	(1,307,455)
Total comprehensive income for the year	-	-	-	-	-	(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	-	-	-	-	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

Consolidated balance sheet
at 30 June 2019

Assets	***Note***	**30 June 2019 (Unaudited) $**	**30 June 2018 (Unaudited) $**	**31 December 2018 (Audited) $**
Non-current assets				
Intangible exploration and evaluation assets	*1*	48,603,562	48,454,371	48,515,200
Property, plant and equipment		35,571	57,391	45,692
Right of use asset	*1*	276,210	-	-
		48,915,343	48,511,762	48,560,892
Current assets				
Other receivables		723,029	800,378	705,635
Cash and cash equivalents		3,177,600	3,078,885	2,220,765
Restricted cash		25,533	26,382	25,480
		3,926,162	3,905,645	2,951,880
Total assets		52,841,505	52,417,407	51,512,772
Liabilities				
Current liabilities				
Trade and other payables		451,943	200,100	354,422
Lease liability	*1*	281,539	-	-
Total liabilities		733,482	200,100	354,422
Equity				
Ordinary shares		49,294	46,068	46,138
Share premium reserve		85,424,296	82,981,325	83,068,307
Merger reserve		77,130,684	77,130,684	77,130,684
Reverse acquisition reserve		(53,846,526)	(53,846,526)	(53,846,526)
Share-based payments reserve		3,896,283	3,747,915	3,819,843
Retained earnings		(60,546,008)	(57,842,159)	(59,060,096)
Total equity		52,108,023	52,217,307	51,158,350
Total equity and liabilities		52,841,505	52,417,407	51,512,772

These unaudited interim financial statements were approved by the Directors and authorised for issue on 26 September 2019.

Simon Potter, Chief Executive Officer

Adrian Collins, Director

Consolidated cash flow statement
for the six months ended 30 June 2019

	Note	30 June 2019 (Unaudited) $	30 June 2018 (Unaudited) $	31 December 2018 (Audited) $
Cash flows from operating activities				
Payments to suppliers and employees		(1,232,688)	(1,189,103)	(2,542,110)
Net cash used in operating activities		(1,232,688)	(1,189,103)	(2,542,110)
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,975)	(30,095)	(35,212)
Proceeds from disposal of property, plant and equipment		1,000	-	-
Payments for exploration and evaluation assets		(88,362)	(136,293)	(197,121)
Decrease in restricted cash		-	500,000	500,000
Other income	*2*	-	500,000	1,000,000
Interest received		13,701	5,308	5,308
Net cash generated by/(used in) investing activities		(76,636)	838,920	1,272,975
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		2,359,144	1,584,828	1,671,880
Lease liability payments	*1*	(116,634)	-	-
Net cash flows from financing activities		2,242,510	1,584,828	1,671,880
Net decrease in cash and cash equivalents		933,186	1,234,645	402,745
Cash and cash equivalents at the beginning of the period		2,220,765	1,838,527	1,838,527
Effects of exchange rate changes on cash and cash equivalents		23,649	5,713	(20,507)
Cash and cash equivalents at the end of the period		3,177,600	3,078,885	2,220,765

1. Basis of preparation

The unaudited consolidated interim financial information has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively "EU IFRSs"). The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the Company's financial statements for the year ended 31 December 2018. It is not expected that there will be any changes or additions to these in the annual financial statements for the year ended 31 December 2019.

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

The interim financial information for the six months ended 30 June 2019 and 30 June 2018 is unaudited and does not constitute the Company's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2018 has, however, been derived from the Company's statutory financial statements for that period. The auditor's report on those statutory financial statements was unqualified.

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

Adoption of IFRS 16 "Leases"

IFRS 16 "Leases" came into effect on 1 January 2019. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated, remaining as previously reported under IAS 17. On initial application, the Group recognised a right-of-use asset based on the present value of the corresponding lease liability on a lease by lease basis. Right-of-use assets and lease obligations totalling $384,797 were recorded as at 1 January 2019, with no net impact on retained earnings.

The Group has also elected to use the recognition exemptions for lease contracts that, at the implementation date of 1 January 2019, have a lease term of 12 months or less and do not contain a purchase option ('short term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The key financial impact at the start and end of the period is shown below:

USD	**As at 1 January 2019**	**As at 30 June 2019**
Balance sheet		
Property, plant and equipment	384,797	276,210
Lease liabilities	(384,797)	(281,539)
	-	
Income statement		
Depreciation expense	-	108,586
Other expenses	-	(116,586)
Interest expense	-	13,376
Cash flow statement		
Net cash used in operating activities	-	116,634
Net cash flows from financing activities	-	(116,634)

Carrying Value of Intangible Exploration and Evaluation Assets

Expenditure of $48,603,562 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2019 (30 June 2018:

$48,454,371) (31 December 2018: $48,515,200).

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

On 26 April 2018 the Company filed its application for Environmental Authorisation ("EA") as required by the Petroleum (Offshore Environmental Protection and Pollution Control) Regulations 2016 (the "Regulations"). Under these newly implemented regulations, an application for EA represents the first step in commencing field activities and therefore the submission of the application by BPC represents an important milestone in the project and its development. The Company is presently in ongoing discussions with the Government and their advisors regarding the progression of the EA application ahead of anticipated drilling activity in 2020.

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.

2. Other Income

Other income during the prior period consists of payments received in consideration for having entered into a period of exclusive discussions with a major international oil company as announced by the Company on 3 May 2018. Payments received during the prior 6 month reporting period of $500,000 relate to the period from 1 May 2018 to 30 June 2018, with further payments totalling $500,000 having been received after the prior 6 month period balance sheet date relating to the period from 1 July 2018 to 31 August 2018.

3. Events after the balance sheet date

On 21 August 2019, the Company announced:

- The execution of a framework agreement with Seadrill for the provision of a sixth generation drilling rig, including the key commercial parameters, during the first half of 2020, subject to contract,
- The appointment of Halliburton as integrated well service provider, subject to contract,
- The appointment of BakerHughes GE to provide a range of well related equipment, subject to contract,
- The entering into a conditional agreement for the provision of a £10.25m ($12.5m) convertible loan investment by Bizzell Capital Partners Pty Ltd

As a consequence of the above and the securing in principle of the key commercial parameters for the execution of its first exploration well, the Company has revised its estimated well cost to $20m - $25m for a single well.

On 17 September 2019, the Company's shareholders granted the Company the authority to issue up to 1.8 billion new ordinary shares in the Company for the purposes of providing an alternative option to finance the implementation of the agreements with Seadrill, Halliburton and BakerHughes GE should the ongoing discussions with potential funding partners not result in a definitive agreement to fund the well within the timeframes necessary to discharge the Group's licence obligation to execute a well by 31 December 2020.