Bahamas Petroleum Company plc

Interim Financial Statements for the six months to 30 June 2013

Dear Shareholders,

Over the past half-year one of Bahamas Peteroleum's top priorities – gaining clarity from the Government of The Bahamas – has come to fruition. Now armed with clear direction associated with the renewal of the licences, strengthening of regulations, and the amendment to the previously proposed referendum, the Company has a clear mandate to proceed with exploration drilling by 2015. This clarification gives BPC further impetus to focus on the ongoing farm out process and bolsters the commercial basis for discussions with a significant number of potential farm-in partners.

In March 2013, the Government of The Bahamas announced a deferral of any referendum on future oil development in country until after the exploration drilling phase, deciding to first acquire data required to make an informed decision on energy development prior to any public consultation. This decision removed crucial uncertainties and provided clarity for future decisions by the Government, the Company, and potential partners closely watching the timing of operations.

In July 2013, BPC received notification that the statutory term for the five licences held by the Company had each been renewed and that the new licences term would be for a further three years to 2016 with an obligation to commence drilling of an exploration well by April 2015. As previously noted, it is anticipated that this obligation will be met with an exploration well in the southern licences projected to commence in the second half of 2014. A second exploration well is required to be commenced by April 2017. This notification should also facilitate progress towards a Bahamian listing. Significantly, as a further part of this renewal, the southern boundaries of the four southern licences are to be adjusted to conform to the maritime boundary between The Bahamas and Cuba, thus providing clear tenure over the full extent of the existing mapped structures.

Together, these milestones paint a very clear mandate for the Company to proceed with drilling preparations and funding plans. Notably, the mandate will be carried out within full compliance of updated environmental and safety regulations developed by the Government and with continued support by the Company. It is anticipated that these regulations will provide a modern framework to manage and govern industry activities consistent with current attitudes, recent experiences and technologies. Notwithstanding any delays to the specifics, the Company's Environmental Impact Assessment (EIA) has already been prepared and accepted international best practices and standards. Whilst receipt of these revised regulations is necessary before drilling commences, likely 2H 2014, delivery during 2013 is not critical to securing funding or undertaking drill design, planning or preparation works.

The Company has continued its detailed preparation of the required Environmental Management Plan (EMP) which includes preparation of the Oil Spill Contingency Plan (OSCP), the Emergency Response Plan (both based upon a simulated worst-case discharge calculation) and in particular a series of environmental sensitivity index maps identifying areas of high potential impact. Preparation of these maps has required extensive and wide public consultation including numerous visits to the 'family' islands to consult with fishing, environmental and community groups.

To a large extent BPC's planned technical work has been accomplished and has revealed the ingredients of successful commercial oil exploration, with the source, faulted migration pathways, reservoir and seal in deeper targeted sections of the early Cretaceous in close juxtaposition. Most of this deeper section is below, and therefore in addition to, the intervals assessed in the previously released CPR.

With regard to the risking of the resources contained in the CPR it can also be concluded that significant additional charge and seal encouragement exists with the identification of deeper water Albian mudstones draped over much of the structures designated Folds B and C and access to a deeper and wider fetch area below the Cuban mainland. As currently mapped the closure of the overall Fold B structure extends some 78 kilometres along strike with a vertical closure of over 850 metres, emphasising the global scale of the targeted structures.

Zarubezhneft, the Russian oil company, aborted its drilling efforts in May 2013, having commenced in December 2012 at a location 15 miles from the Bahamas - Cuban border. Progress had been slow due to 'hard rocks' and various mechanical failures, with reports suggesting that progress only reached 2,000 metres towards the 6,000 metres target. The Company is quoted as seeking to return to finish the well in 2014.

In financial terms the overall operating loss for the 6 months to June 2013 was down 4 per cent on the comparative six month period and 5 per cent down, on an annualised basis, compared with the year to December 2012. The retained cash balance at the end of the period amounts to $17.3 million, whilst creditors in the period from December 2012 were reduced by 49 per cent, demonstrating a substantial amount of the current period cash consumption went towards settlement of 2012 expenditure. Employee benefits expense is down 18 per cent on the six months to June 2012 and 12 per cent on the pro rated December 2012 figures.

The outlook for the remainder of the year has the Company progressing towards a Bahamian listing, working on the Environmental Management Plan with continued engagement in the communities, but the primarily focus, on the back of the clear mandate for exploration drilling from the Government, is on the data room and farm-out activities.

Simon Potter
Chief Executive Officer

Consolidated statement of comprehensive income for the six months ended 30 June 2013

	Note	Six months ended 30 June 2013 (Unaudited)	Six months ended 30 June 2012 (Unaudited)	Year ended 31 December 2012 (Audited)
		$	$	$
Continuing operations:				
Employee benefit expense	*2*	(1,081,560)	(1,317,916)	(2,468,680)
Depreciation expense		(48,490)	(77,443)	(153,492)
Other expenses		(1,928,007)	(1,742,149)	(3,721,786)
Other income		31,990	-	-
Operating loss		(3,026,067)	(3,137,508)	(6,343,958)
Finance income		13,742	26,544	44,272
Total comprehensive income for the period, net of tax		(3,012,325)	(3,110,964)	(6,299,686)
Basic and diluted loss per share (cents per share)		(0.24)	(0.25)	(0.51)

Consolidated statement of changes in equity
for the six months ended 30 June 2013

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2013	37,253	78,185,102	77,130,684	(53,846,526)	1,705,753	(36,076,629)	67,135,637
Comprehensive income							
Loss for the period	-	-	-	-	-	(3,012,325)	(3,012,325)
Total comprehensive income for the period	-	-	-	-	-	(3,012,325)	(3,012,325)
Transactions with owners							
Share options – value of services	-	-	-	-	75,345	-	75,345
Total transactions with owners	-	-	-	-	75,345	-	75,345
Balance at 30 June 2013	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,781,098**	**(39,088,954)**	**64,198,657**

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

	Share Capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2012	37,253	78,185,102	77,130,684	(53,846,526)	1,424,164	(29,776,943)	73,153,734
Comprehensive income							
Loss for the period	-	-	-	-	-	(3,110,964)	(3,110,964)
Total comprehensive income for the period	-	-	-	-	-	(3,110,964)	(3,110,964)
Transactions with owners							
Share options – value of services	-	-	-	-	150,188	-	150,188
Total transactions with owners	-	-	-	-	150,188	-	150,1888
Balance at 30 June 2012	**37,253**	**78,185,102**	**77,130,684**	**(53,846,526)**	**1,574,352**	**(32,887,907)**	**70,192,958**

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital $	Share premium reserve $	Merger reserve $	Reverse acquisition reserve $	Share based payment reserve $	Retained earnings $	Total equity $
At 1 January 2012	37,253	78,185,102	77,130,684	(53,846,526)	1,424,164	(29,776,943)	73,153,734
Comprehensive income							
Loss for the year	-	-	-	-	-	(6,299,686)	(6,299,686)
Total comprehensive income for the year	-	-	-	-	-	(6,299,686)	(6,299,686)
Transactions with owners							
Share options – value of services	-	-	-	-	281,589	-	281,589
Total transactions with owners	-	-	-	-	281,589	-	281,589
Balance at 31 December 2012	37,253	78,185,102	77,130,684	(53,846,526)	1,705,753	(36,076,629)	67,135,637

Consolidated balance sheet
at 30 June 2013

Assets	Note	30 June 2013 (Unaudited) $	30 June 2012 (Unaudited) $	31 December 2012 (Audited) $
Non-current assets				
Intangible exploration and evaluation assets	*1*	46,180,273	43,580,378	45,716,502
Property, plant and equipment		179,980	393,717	223,708
Restricted cash		152,246	-	161,738
		46,512,499	43,974,095	46,101,948
Current assets				
Receivables and other assets		1,008,323	1,087,348	999,904
Restricted cash		-	156,193	-
Cash and cash equivalents		17,330,076	26,675,703	21,311,937
		18,338,399	27,919,244	22,311,841
Total assets		64,850,898	71,893,339	68,413,789
Liabilities				
Current liabilities				
Trade and other payables		652,241	1,700,381	1,278,152
Total liabilities		652,241	1,700,381	1,278,152
Equity				
Ordinary shares		37,253	37,253	37,253
Share premium reserve		78,185,102	78,185,102	78,185,102
Merger reserve		77,130,684	77,130,684	77,130,684
Reverse acquisition reserve		(53,846,526)	(53,846,526)	(53,846,526)
Share-based payments reserve		1,781,098	1,574,352	1,705,753
Retained earnings		(39,088,954)	(32,887,907)	(36,076,629)
Total equity		64,198,657	70,192,958	67,135,637
Total equity and liabilities		64,850,898	71,893,339	68,413,789

These interim financial statements were approved by the Directors and authorised for issue on 2 August 2013

Simon Potter, Chief Executive Officer   Edward Shallcross, Director

Consolidated cash flow statement
for the six months ended 30 June 2013

	30 June 2013 (Unaudited) $	30 June 2012 (Unaudited) $	31 December 2012 (Audited) $
Cash flows from operating activities			
Payments to suppliers and employees	(3,314,260)	(3,224,434)	(5,542,651)
Net cash used in operating activities	(3,314,260)	(3,224,434)	(5,542,651)
Cash flows from investing activities			
Purchase of property, plant and equipment	(4,762)	(81,589)	(97,640)
Proceeds from disposal of property plant and equipment	-	1,665	32,966
Payments for exploration and evaluation assets	(463,771)	(5,271,775)	(8,646,839)
Decrease in restricted cash	-	315,456	318,735
Interest received	13,742	26,544	44,272
Net cash used in investing activities	(454,791)	(5,009,699)	(8,348,506)
Net decrease in cash and cash equivalents	(3,769,051)	(8,234,133)	(13,891,157)
Cash and cash equivalents at the beginning of the period	21,311,939	34,976,049	34,976,049
Effects of exchange rate changes on cash and cash equivalents	(212,812)	(66,213)	227,045
Cash and cash equivalents at the end of the period	17,330,076	26,675,703	21,311,937

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 2012. 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 2013.

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 2013 and 30 June 2012 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 2012 has, however, been derived from the Company's statutory financial statements for that period. The auditor's report on those statutory financial statements was unqualified but included an emphasis of matter relating to uncertainty in respect to the future recoverability of the Group's Intangible Exploration and Evaluation Assets.

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

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

Expenditure of $46,180,273 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 30 June 2013 (30 June 2012: $43,580,378) (31 December 2012: $45,716,502).

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 7 September 2012 the Group was informed by the Government of the Bahamas that a national referendum on an oil & gas industry would be held prior to any exploration drilling being permitted in Bahamian waters.

On 10 March 2013, the Government of the Bahamas announced that any referendum on oil & gas would be deferred until commercial reserves had been established and that, consequently, all hydrocarbon explorers within the country would be permitted to engage in exploration drilling activities once draft regulations governing such were approved by parliament.

On 19 July 2013 the Group was informed by the Government of the Bahamas that the obligation deadline to drill an exploration well under the licence had been extended to 25 April 2015.

Following the above, the future recoverability of the Group's intangible assets has become contingent on both the discovery of commercial reserves and a positive referendum result for the extraction and exploitation of hydrocarbons.

2. Employee benefit expense

Included in employee benefit expense is the amount of $75,245 relating to the granting of share options to directors, staff and consultants. This charge is required under the provisions of IFRS 2, Share Based Payments and represents a non cash transaction as all options granted are equity settled instruments.