Bahamas Petroleum Company PLC - Final Results
RNS Number : 4449P
Bahamas Petroleum Company PLC
08 June 2015

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**Bahamas Petroleum Company plc**

("Bahamas Petroleum" or the "Company")

**Final Results for the year ended 31 December 2014**

Bahamas Petroleum Company, the oil and gas exploration company with a significant prospective resource in licences in The Commonwealth of The Bahamas, is pleased to announce its final results for the year ended 31 December 2014.

**Highlights**

- The Company remains singularly focussed on commencing drilling activities for its first exploration well with further technical de-risking of the project and preparation for the intended drilling campaign
    - Fluid inclusion analysis completed on three historical wells drilled in The Bahamas that offset the Company's acreage, demonstrating the presence of an active petroleum system in vicinity of sizeable 3D defined structures targeted for drilling
    - Substantially reduced the anticipated well cost for our first exploration well, targeting a total cost in the range of US$50 million - US$60 million, based on significant re-engineering and greatly reduced rig rates
- Positive regulatory progress made:
    - A new Petroleum Act and a suite of associated regulations to guide and govern oil exploration in The Bahamas was placed before the Parliament of The Bahamas and is now at its second reading and debate phase.
    - A Sovereign Wealth Act has been proposed to provide the legislative framework to ensure that the accrued wealth from any successful exploration outcome would be optimally invested, managed and conserved for the benefit of this and future generations of Bahamians.
- Strengthening of the Board with the appointment of new chairman William Schrader and deputy chairman James Smith
- Continued detailed environmental preparation in support of a number of potential well locations and the required Environmental Management Plan
- Strict focus on cash continues with significant cost reductions undertaken:
    - Board and executive management team agreed to defer 20% of fixed salaries into performance based remuneration taking effect early in 4Q 2014
    - Rationalisation of Company advisor costs
    - Reduction of fixed expenses
- Cash on the balance sheet in excess of $10m at year end and operating loss down 10%

*Post period end:*

- Agreed upon the terms of a Licence Renewal Addendum in relation to the Company's four southern licences
- Existing applications for new licences resubmitted consistent with strategic and technical focus
- Full effect of cost reductions to flow through to the bottom line

**Simon Potter, Chief Executive Officer of Bahamas Petroleum Company, said:**

*"At Bahamas Petroleum, we believe we have access to what is potentially a multi-billion barrel petroleum resource that is world-class in terms of its scale, economic potential, advantaged location, and operating environment. With this in mind, during 2014 we have continued to work towards our goal of responsibly and safely drilling an off-shore exploration well.*

*"Whilst not at the pace we would have liked we are nevertheless encouraged by the signing of the Licence Renewal Addendum, providing the necessary clarity on tenure, timing and work obligations that potential industry participants will typically require, and the commitment shown by the Government to petroleum exploration in the Bahamas by passage of the upgraded legislation. We look forward to the ratification in the near future of the Act and associated regulations to guide and govern oil exploration in The Bahamas.*

*"We have focussed on cost effective operations, reducing our overheads over the last three years by 54%, so as to maintain cash reserves whilst ensuring value accretive work continues to be undertaken including geo-chemistry and technical analysis which has significantly reduced the expected cost of our first exploration well.*

*"Going forward into 2015 and beyond our primary task is clear: secure the funding for the cost of the exploration drilling, and to commence drilling. Our preference remains to secure a farm-in partner for the project. With the regulatory clarity, licence extensions, and further technical de-risking achieved during 2014 and early 2015, we are now in a position to progress this all-important task."*

- Ends -

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**Notes to editors:**

Bahamas Petroleum Company is an oil and gas exploration company with 100% owned offshore licences exclusively focused on the Commonwealth of The Bahamas. The Company has significant prospective resources, which have been de-risked through both extensive 2D and 3D seismic. The four Southern Licences, with a newly agreed well obligation date of April 2017, run until 2Q 2018 when the licences may be renewed a further two times. The Company is intent on delivering safe and environmentally responsible exploration.

www.bpcplc.com

**Chairman's Report**

The past year, during which I assumed the Chairmanship of Bahamas Petroleum, has been a turbulent and difficult one for the international oil and gas industry. The dramatic and, some would say, surprising fall in oil price, has been a shock for the industry.

Over the last five years or so the world had become accepting of an oil price at or around US$100 per barrel. The impact on the industry of this paradigm cannot be underestimated. A higher oil price meant that the reward for successful oil and gas exploration was that much larger. It has also meant that smaller or more marginal prospects, even with a relatively high cost of production, have been economically worthwhile to pursue. This resulted in generally increased industry activity levels, with the knock-on effect being a relative scarcity and rising cost of inputs such as personnel, equipment and rigs, as well as substantially longer lead times for critical items. A greater pool of potentially economic opportunities also meant significant competition for exploration capital across the globe.

From a high of over US$100 per barrel in mid-2014, the oil price began its dramatic decline. The reasons for this decline are many and complex, including shifting demand patterns in the previously booming markets of Asia, increased production from countries where for much of the past decade conflict has restricted production, a huge increase in unconventional oil production in the USA, and the decision by OPEC to not restrict supply (and thus reduce its market share) in the face of falling prices.

Still, regardless of the reasons, the stark reality is that in less than eight months oil prices fell by more than 50%, with on-going volatility predicted for the immediate future. This has markedly changed the landscape for all industry participants, both big and small. For Bahamas Petroleum, these "big picture" industry developments have directly affected us in significant ways, some paradoxically to the positive.

The first impact is that the fall in oil price has resulted in meaningful cost de-escalation across the industry. Globally, industry activity is slowing, projects are being mothballed, and marginal projects are being abandoned in an attempt to maximise the efficiency of deployed capital. A direct consequence of this is that the price of inputs, like drill bits, wellheads, drilling steel and casing, has reduced. Just as importantly, access to and availability of heavy capital equipment, such as rigs, is greater than it has been for many years, and at generally lower prices.

This has had a very real impact for your Company. During the second half of 2014 we reviewed all of our plans in light of reducing input costs. The result is that we believe we can now deliver the first exploration well at a targeted price of US$50-60 million. This is a material reduction against previous estimates, and achieved without compromising technical, environmental or safety integrity. In turn we believe this will make the task of securing the required funding more achievable.

The second impact is that in a lower oil price environment, industry focus has shifted towards two key considerations. First, how material is a potential project, and second, what is the "breakeven cost" of the project (the expected cost of production on a per barrel basis). The lower the breakeven cost, the more attractive a project is in any oil price scenario - but this is especially so in a falling oil price environment. For example, many of the North American shale or oil sand plays have an estimated break-even cost of around US$60-80 per barrel. When the oil price was around US$100 per barrel, these projects were economically viable. However, if oil prices remain at current levels, many of these projects will no longer be pursued and drilling and associated activity will decline, with production eventually falling.

A number of factors go towards assessing the breakeven cost of a project. This includes a capital element reflected in many of the technical characteristics of the project, like the scale of the resource, the rate at which the oil will flow (and thus the number of wells required), and environmental factors such as the depth of the water or constraints on the production system. The breakeven cost of a

project is also a reflection of on-going operational factors - for example, it is more costly to operate in remote locations or in places without local infrastructure. Regulatory and fiscal considerations also impact how much "rent" is paid in duties, royalties and other costs; how reliable or "risky" is the regulatory system (and hence the return required for that risk), and so on.

Again, in the specific case of Bahamas Petroleum, during the second half of 2014 we reviewed our positioning in the global industry in light of these changing industry dynamics, and in my view, shareholders should be encouraged by the outcome.

So whilst we already knew that our prospects are material in scale (with a Competent Persons Report (CPR) indicating resource potential measured in the multi-billion barrels), we are now reaffirmed in our view that the breakeven cost of our project provides competitive advantage in the current oil price environment. As a combined result of favourable technical characteristics, an advantaged operating location (being proximate to US markets, infrastructure, contractors and suppliers) and within a mature and attractive regulatory environment, we are confident that our project would offer robust profitability, even at current oil prices.

This is directly relevant to the third impact the fall in oil prices has had for Bahamas Petroleum. There has been a noticeable change in focus amongst potential industry partners, and especially established oil producing companies. For these companies long-term viability depends on the ability to continue to find and develop new petroleum reserves. This is both to replace those currently being produced, and to ultimately expand production to offset the comparatively lower revenues being received. Exploration projects of scale, with low breakeven costs and advantaged operating and regulatory environments, have become more sought after than ever.

In this context, we have been especially encouraged by the package of new oil and gas legislation which has been tabled by the Government of The Bahamas, and which we expect will be passed into law in the near future. The adoption of an up-to-date, modernised and strengthened regulatory framework demonstrates the Government's continuing commitment to petroleum exploration in The Bahamas as an on-going part of their National Energy Policy 2030. We believe this will provide the necessary clarity and certainty that potential industry participants typically require.

To summarize in straightforward terms, at Bahamas Petroleum we have a petroleum prospect inventory that we believe is substantial, both in terms of its scale and its economics. Somewhat paradoxically, we therefore consider that the current market environment makes our Company's projects more attractive than ever to major oil producers. That is, the risk/reward proposition of financing an exploration well with a comparatively low breakeven cost and exposure to so much upside is, we believe, unparalleled.

Furthermore, we consider that the creation of a successful petroleum industry will be transformative for the nation of The Bahamas. Exploration activity will create immediate opportunities, and subsequent commercial success will generate long-term national wealth, providing the ability to reduce sovereign debt, boost domestic investment, and diversify the economy. Our industry has the potential to be a "game changer" for The Bahamas, and we are extremely proud to be at the forefront of seeking to realise that potential.

We are thus more excited than ever about the future for our Company. The key task before us is to secure the funding needed to pursue this enormous opportunity, in a manner that is value enhancing for our shareholders. It is against successful achievement of this objective that you, the shareholders and owners of the Company, should measure your Board and Executive in the coming year. I look forward to reporting to you on our success in this regard.

Yours sincerely,

Bill Schrader
Chairman

5 June 2015

**Chief Executive Officer's Report**

At Bahamas Petroleum, we believe we have access to what is potentially a multi-billion barrel petroleum resource, that is world-class in terms of its scale, economic potential, advantaged location, and operating environment.

The first step towards realising that potential will be to responsibly and safely drill an off-shore exploration well, and this remains our singular focus as a company: to commence drilling. During 2014 we continued to work towards this goal, and I am pleased to update shareholders on our progress during this period.

***Regulatory***

Seven years ago, when licences were initially issued to Bahamas Petroleum, the regulatory framework pertaining to oil and gas exploration in the Bahamas was already 30 years old. Subsequent technology advances, knowledge from incidents elsewhere in the globe, and the changing attitudes of societies meant there was a clear need to bring this framework up-to-date.

At the same time, there were indications that following the 2012 Bahamian general election the winning party would potentially be seeking a popular view on certain industry matters. Subsequent to the election the new Government of The Bahamas declared that it would seek to update and clarify its strategy towards future energy supply. At that time the Company's licences also needed to be renewed, and dates and obligations in those licences needed to be clarified.

Thus in 2012 our ability to undertake any operations or secure funding for those operations was entirely dependent on achieving a resolution of this myriad of outstanding matters.

During 2013, as previously reported, we began this process and made great strides towards resolving these matters. Most notably, the Government of The Bahamas announced there would be no referendum on exploration drilling, BPC received notification that the statutory term for its five licences would be renewed, and the Government of The Bahamas indicated it would be moving to implement a modern legislative framework to manage and govern industry activities.

Pleasingly, during 2014 and the first part of 2015, these processes have continued and largely been successfully concluded. Specifically:

- **New Petroleum Legislation in place**
    - In late 2014 a new Petroleum Act and suite of associated regulations to guide and govern oil exploration in The Bahamas was placed before the Parliament of The Bahamas. This included updated regulations to cover Operations, Health and Safety and Environmental matters.
    - In addition, a Sovereign Wealth Act was also proposed to provide the legislative framework to ensure that the accrued wealth from any successful exploration outcome would be optimally invested, managed and conserved for the benefit of this and future generations of Bahamians.
    - The draft legislation is now at the Second Reading and debate phase, and is expected to be voted on (following a Third Reading) and forwarded on to the Senate for consent and subsequent passage into law in the near future.

- The new legislative package contains regulations that endorse the use of appropriate and up-to-date risk management techniques, safety case methodologies, obligations for environmental management and pollution control systems, emergency procedures and effective safety management. Fiscal terms in The Bahamas are specified in each of the individual license agreements and thus are therefore not altered by the new legislation.
- Notwithstanding the above, our existing licences are clarified as being grandfathered under the existing Petroleum Legislation, based upon the Savings Provisions in the new Bill, such that the Company therefore has no statutory impediment to the commencement of an exploration well.

- **Licence Renewals finalised**
  - In May 2015, the statutory term for four of the five licences 100% held by the Company (being the four conjoined licences in the southern territorial waters of The Bahamas, and which contain the Company's key prospect inventory) were extended by way of a Licence Renewal Addendum which was executed by both the Minister and the Company and has been passed to the Governor General for final assent.
  - The renewed licences provide for an extension of the current exploration period for three years to mid-2018, with an obligation to commence an exploration well by April 2017.
  - As a part of this renewal the southern boundaries of the four southern licences have been 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.
  - Also as part of this renewal, the Company was acknowledged as having satisfied all obligations in respect of the first exploration period, via its extensive programme of technical work including acquisition and processing of modern 2D and 3D seismic data, and as noted it has been confirmed that these southern licences will be grandfathered under the existing Petroleum Legislation, thus providing clarity as to the operating legal regime.

- **Other Licences**

  At the same time, the Company has sought to reorganise its other licence holdings and interests. Specifically:
  - In relation to the Company's single licence in the Northern territorial waters of The Bahamas (the "Miami Licence"), the Board has decided that entry into the second exploration period is not justified without a deferral of obligations. The Company is currently engaged in discussion with the Government in this regard.
  - Bahamas Petroleum had previously submitted applications for five new licences in the Bahamas. Following discussion with the Government, these new licence applications have been amended such that the total number of new licences now applied for has been high-graded to three, in respect of an adjusted area that seeks to exclude the area of the proposed Cay Sal National Marine Reserve and at the same time retain a strategic and practical focus, being on trend from plays identified in the existing southern licences, thus seeking to fully capture technically accessible upside potential.

The successful achievement of these milestones now provides a very clear mandate for the Company going forward. The Government of The Bahamas has acted decisively to reinforce responsible and safe hydrocarbon exploration as an integral part of the National Energy Policy of The Bahamas, and the Company has clarity on the extended tenure, timings as well as terms and extent of its licences. We believe this now provides the level of regulatory certainty that industry participants typically require before commencing new country operations.

***Operational***

In anticipation of the new Petroleum Act becoming law, during 2014 the Company initiated discussions with the Government of The Bahamas on what constitutes an operationally realistic, safe and responsible planning period for its first exploration well and subsequent commencement of operations. In support of this objective, the Company completed various work items focussed on

further technical de-risking of the project and preparation for the intended drilling campaign. Highlights were as follows:

- **Geochemistry analysis**
  - In the second half of 2014 the Company commissioned a series of fluid inclusion analyses from Fluid Inclusion Technologies Inc., on retained core and cuttings in the Company's possession from three historical wells drilled in the Bahamas that offset the Company's acreage.
  - All three wells demonstrated the presence of oil migration with a signature suggestive of light oil across multiple horizons. The results indicate an active, local oil generative source rock capable of generating large hydrocarbon volumes. The data further suggests the likely presence of multiple source rocks based upon API gravity variations within the inclusions.
  - This work provides further technical support for the presence of active and sizeable petroleum charge systems across the region, and more specifically, in the locality of the Company's intended drilling activity.

- ***Anticipated well cost***
  - The Company has completed a programme of work to substantially re-engineer its planned first exploration well, based on 3D seismic data, comparison of historic drilling performance in The Bahamas and for similar wells elsewhere establishing 'technical limits', and work conducted jointly with third party companies to embed modern technologies in the well equipment design so as to maximise rate of penetration (ROP).
  - Further, during 2014 the Company also engaged a leading Rig Broker to reconsider rig options, in view of globally falling rig rates and increased availability.
  - As a combined result of these initiatives, third party reviews and market information, it is anticipated that the cost of the initial exploration well (inclusive of appropriate contingencies and ensuring appropriate safety and environmental procedures) is now in the order of US$50 million - US$60 million (a substantial reduction on previous estimates).

- **Economic analysis**
  - The Company also updated its economic models, to reflect revised current global oil prices, reduced well costing estimates as noted above, all up-to-date technical data, and other relevant factors to an eventual field development, such as the project's proximity to existing infrastructure, contractors and service suppliers etc.
  - Based on this work, the Company believes that the minimum field size for an economic development is less than 200 million barrels (versus current resource estimates measured in billions of barrels) with an estimate break even oil price of $30 - $40 per barrel, and that the project would thus offer robust profitability even in a lower oil price environment.

- **Environmental planning**
  - The Company's Environmental Impact Assessment (EIA) had been prepared and accepted in 2012. During 2014 the Company 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 a series of environmental sensitivity index maps identifying areas of high potential impact. These maps are used to effectively prioritise response plans in the event of an incident.

- **Community Engagement**
  - Throughout the year the Company continued to engage with communities with an interest in the project whether supportive or not - primarily environmental and academic groups, political parties, churches, colleges, schools, community groups, administrators and councillors.
  - Preparation of the environmental sensitivity index maps required extensive and wide public consultation including numerous visits to various constituencies across The Bahamas to consult with fishing, environmental and community groups.

The work done during 2014 adds to the huge body of technical work completed by Bahamas Petroleum since the inception of the Company. In totality, we believe this has substantially de-risked technical aspects of the project, and has further reinforced the ingredients of successful commercial oil exploration. In particular, we have established that the source, faulted migration pathways, reservoir and seal in the (deeper) targeted sections of the early Cretaceous are in close juxtaposition. We have also previously obtained a CPR that indicates the scale of the structures and a multi-billion barrel resource, and we have reinforced that view through the 3D seismic work completed in 2013 and the further technical work completed in 2014.

***Financial***

The Company has continued to maintain a solid focus on cost effective operations, so as to maintain cash reserves whilst ensuring value accretive work continues to be undertaken.

2014 saw continued success in the Company's effort to sustainably reduce corporate overheads. Over the past 3 years we have achieved total operating cost savings of 54% in aggregate, an average annual reduction of 22% on a year on year basis.

Our overall loss for the year to end 2014 was $4.7 million, down 10% on the comparative year to December 2013. However, this comparison does not entirely reflect the effect of most recent cost reduction actions undertaken during 2014 and through into 2015. Examples are the Board's decision to defer 20% of fees, an across the board rationalisation of Company advisor costs and further reduction of fixed expenses including the termination of all housing contracts. Looking forward then, the overall "cash burn" rate has been substantially reduced from the level implied by the full year 2014 figures. With a closing cash position of over $10 million, and no debt, the effect of 2014 actions flowing to the bottom line and the implementation of further cost reductions throughout 2015 whilst maintaining a strict focus on expenditures incurred, the Company considers that on-going costs can be met from existing cash reserves for several years.

In conclusion, we continue to face many challenges for our Company, not least of which is the prevailing market sentiment towards oil exploration, and progress as ever is slower than we would desire. Nonetheless, as CEO I can report to shareholders that during 2014 we continued to make progress, and achieved a number of significant milestones. Technically we have de-risked the project substantially, and all indications are of a multi-billion barrel economically robust project. In a commercial and regulatory sense, we now have clarity on the extended tenure, timings as well as terms and area of our licences. When combined with the recently demonstrated commitment of the Bahamian Government to our industry, along with the legislative clarity provided by the savings provisions of the new Petroleum Act with regards to our existing licences, we believe this now provides the level of certainty needed to attract high quality industry partners.

Our employees have continued to work diligently towards achieving these milestones and preparing for the future, and I thank them all for their efforts.

Going forward into 2015 and beyond our primary task is to secure the funding for the cost of the exploration drilling, and to commence drilling. Our preference remains to secure a farm-in partner for the project. With the regulatory clarity, licence extensions, and further technical de-risking achieved during 2014 and early 2015, we are now in a position to progress this all-important task. This process may take many months to complete, and by its very nature is required to remain confidential, although shareholders will be apprised of developments as soon as is possible and appropriate. Our objective however is clear: to secure a farm-in partner so as to enable exploration drilling to commence in accordance with licence requirements.

Yours sincerely,
Simon Potter
Chief Executive Officer
5 June 2015

## Consolidated statement of comprehensive income for the year ended 31 December 2014

| | Note | **2014 Group $** | 2013 Group $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Employee benefit expense | 7 | **(2,118,136)** | (2,041,607) |
| Depreciation expense | 12 | **(73,494)** | (86,641) |
| Other expenses | 8 | **(2,587,249)** | (3,140,068) |
| **Operating loss** | | **(4,778,879)** | (5,268,316) |
| Other income | | **96,000** | 51,208 |
| Finance income | 6 | **14,700** | 23,696 |
| **Loss before tax** | | **(4,688,179)** | (5,193,412) |
| Taxation | 9 | **-** | - |
| **Total comprehensive loss for the year** | | **(4,688,179)** | (5,193,412) |
| **Loss per share for loss attributable to owners of the Company:** | | | |
| Basic and diluted loss per share (expressed in cents per share) | 10 | **(0.38)** | (0.42) |

The notes set out below form part of these consolidated Financial Statements

## Consolidated balance sheet as at 31 December 2014

| | Note | 2014 Group $ | 2013 Group $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible exploration and evaluation assets | 13 | **46,778,928** | 46,369,976 |
| Property, plant and equipment | 12 | **112,605** | 109,135 |
| Restricted cash | 11 | **46,635** | 165,040 |
| **Total non-current assets** | | **46,938,168** | 46,644,151 |
| **Current assets** | | | |
| Other receivables | 15 | **879,715** | 888,451 |
| Cash and cash equivalents | 14 | **10,032,127** | 14,863,287 |
| **Total assets** | | **57,850,010** | 62,395,889 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **431,244** | 378,319 |
| **Total liabilities** | | **431,244** | 378,319 |
| **EQUITY** | | | |
| Share capital | 17 | **37,253** | 37,253 |
| Share premium reserve | 17 | **78,185,102** | 78,185,102 |
| Merger reserve | 17 | **77,130,684** | 77,130,684 |
| Reverse acquisition reserve | | **(53,846,526)** | (53,846,526) |
| Share based payment reserve | 18 | **1,850,473** | 1,781,098 |
| Retained earnings | | **(45,938,220)** | (41,270,041) |
| **Total equity** | | **57,418,766** | 62,017,570 |
| **Total equity and liabilities** | | **57,850,010** | 62,395,889 |

The Financial Statements were approved and authorised for issue by the Board of Directors on 5 June 2015 and signed on its behalf by:

Edward Shallcross
Director

Simon Potter
Director

## Consolidated statement of changes in equity for the year ended 31 December 2014

| | Note | Share capital $ | Share Premium reserve $ | Merger reserve $ | Reverse Acquisition reserve $ | Share Based Payment reserve $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance 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** | | | | | | | | |
| Total comprehensive loss for the year | | - | - | - | - | - | (5,193,412) | (5,193,412) |
| **Total Comprehensive income** | | **-** | **-** | **-** | **-** | **-** | (5,193,412) | (5,193,412) |
| **Transactions with owners** | | | | | | | | |
| Share options - value of services | 18 | - | - | - | - | 75,345 | - | 75,345 |
| **Total transactions with owners** | | - | - | - | - | 75,345 | - | 75,345 |
| **Balance at 31** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **December 2013** | | **37,253** | **78,185,102** | **77,130,684** | **(53,846,526)** | **1,781,098** | **(41,270,041)** | **62,017,570** |
| **Balance at 1 January 2014** | | 37,253 | 78,185,102 | 77,130,684 | (53,846,526) | 1,781,098 | (41,270,041) | 62,017,570 |
| **Comprehensive income** | | | | | | | | |
| Total comprehensive loss for the year | | - | - | - | - | - | (4,668,179) | (4,668,179) |
| **Total Comprehensive Income** | | - | - | - | - | - | (4,668,179) | (4,668,179) |
| **Transactions with owners** | | | | | | | | |
| Share options - value of services | 18 | - | - | - | - | 69,375 | - | 69,375 |
| **Total transactions with owners** | | - | - | - | - | 69,375 | - | 69,375 |
| **Balance at 31 December 2014** | | **37,253** | **78,185,102** | **77,130,684** | **(53,846,526)** | **1,850,473** | **(45,938,220)** | **57,418,766** |

The notes set out below form part of these consolidated Financial Statements

### Consolidated cash flow statement for the year ended 31 December 2014

| | Note | **2014 Group $** | 2013 Group $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 19 | **(4,560,392)** | (5,849,231) |
| **Net cash used in operating activities** | | **(4,560,392)** | (5,849,231) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | **(76,964)** | (15,782) |
| Proceeds from disposal of property, plant and equipment | | **-** | 42,357 |
| Payments for exploration and evaluation assets | 13 | **(408,952)** | (653,474) |
| Decrease in restricted cash | 11 | **112,173** | - |
| Other income | | **96,000** | 51,208 |
| Interest received | 6 | **14,700** | 23,696 |
| **Net cash used in investing activities** | | **(263,043)** | (551,995) |
| **Net decrease in cash and cash equivalents** | | **(4,823,435)** | (6,401,226) |
| **Cash and cash equivalents at the beginning of the year** | 14 | **14,863,287** | 21,311,937 |
| Effects of exchange rate changes on cash and cash equivalents | | **(7,725)** | (47,424) |
| **Cash and cash equivalents at the end of the year** | 14 | **10,032,127** | 14,863,287 |

The notes set out below form part of these consolidated Financial Statements

## Notes to the 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 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 and principal activities is set out in the Directors' Report.

Following simplification of the Group structure during the prior year to remove legacy holding companies in the Falklands and Jersey, 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 |
| 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 |
| Island Petroleum 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 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRIC (International Financial Reporting Interpretations Committee) interpretations. 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 more than adequate financial reserves 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 and amended standards adopted by the Group**

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014.

IFRS 10, Consolidated Financial Statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated Financial Statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has adopted the new IFRS and it has no material impact on the Group.

IFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group has adopted the new IFRS and it has no material impact on the Group.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has adopted the new IFRS and it has no material impact on the Group.

IAS 27 (revised 2011), 'Separate Financial Statements', effective 1 January 2013, includes the requirements relating to separate Financial Statements, following the issue of IFRS 10. The Group has adopted the new IFRS and it has no material impact on the Group.

IAS 28 (revised 2011), 'Associates and joint ventures' effective 1 January 2013, includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. The Group has adopted the new IFRS and it has no material impact on the Group.

**b) Standards, amendments and interpretations to existing standards that are in issue and relevant to the Group but not yet effective or adopted by the EU and have not been early adopted**

At the date of authorisation of these Financial Statements the following standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective, or in some cases not yet adopted by the EU.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

IAS 1, 'Presentation of Financial Statements' (issued December 2014), effective 1 January 2016, addresses a number of disclosure changes in the financial statements. The Group is yet to fully assess the impact of these changes and intends to adopt these no later than the accounting period beginning on or after 1 January 2016, subject to endorsement by the EU.

IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' (issued July 2014) on depreciation and amortisation, effective 1 January 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than

the consumption of the economic benefit embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The Group is yet to fully assess the impact of the changes and intends to adopt these no later than the accounting period beginning on or after 1 January 2016, subject to endorsement by the EU.

IFRS 15, 'Revenue from contracts with customers' (issued May 2014), effective 1 January 2017, is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The Group is yet to fully assess the impact of the changes and intends to adopt these no later than the accounting period beginning on or after 1 January 2017, subject to endorsement by the EU.

**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.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

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 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 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 consolidated 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 consolidated 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:

| | |
|---|---|
| - Computer equipment | 3 years |
| Furniture, fittings and equipment | 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 consolidated statement of comprehensive income.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated 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 consolidated 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**

In accordance with IFRS 6, exploration and evaluation assets are regularly reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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).

**2.8 Financial instruments**

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

At 31 December 2014 and 2013 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 are non-derivative financial assets with fixed or determinable payments that are not quoted in any active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are stated initially at their fair value and subsequently at amortised cost using the effective interest rate method. The Group's loans and receivables consist of 'cash and cash equivalents' at variable interest rates, 'restricted cash' and 'other receivables' excluding 'prepayments'.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group classifies its financial liabilities in the following categories: at fair value through profit or loss and other liabilities. As at 31 December 2014 and 2013 the Group did not have any financial liabilities at fair value through profit or loss. Other liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. Other liabilities consist of 'trade and other payables'. These amounts represent liabilities for goods and services provided to the Group prior to the end of 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 options are awarded to employees or Directors, the fair value of the options at the date of grant is charged to the consolidated 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 options that eventually vest. Market vesting conditions are factored into the fair value of the options 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 consolidated 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 publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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 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 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.

## 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 co-operation 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 cashflow 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 intends to raise 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 2014 the Group held $276,827 of cash in UK Sterling (December 2013: $1,784,266) and had an immaterial amount of trade and other payables denominated in UK Sterling.

At 31 December 2014, 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 would have been reduced/increased by approximately $28,000 (31 December 2013: reduced/increased by $178,000), 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 2014 and 2013 short term deposit rates were in the range of 0% to 1% 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 immaterial effect of 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 deposits with banks and financial institutions. 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 assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 be able to meet its liabilities as and when they fall due.

The Directors are of the opinion that the Group has more than adequate financial resources to meet its working capital needs through to the end of 2016 based on cash flow forecasts and the Group's existing liquid cash resources.

The Group's ability to meet its obligations beyond 2016 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. The ability of the Group to discharge this obligation is contingent on the successful completion of a farm in arrangement or equity raise.

**(b) Carrying value of exploration expenditure**

Expenditure of $46,778,928 relating to the cost of exploration licences, geological and geophysical consultancy and seismic data acquisition and interpretation has been capitalised as at 31 December 2014 (2013: $46,369,976).

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 10 March 2013, the Government of The Bahamas announced its intentions to proceed with oil and gas exploration drilling in Bahamian waters. Additionally, the Government clarified its intentions for a public consultation on the creation of an oil and gas extraction and production industry, noting that any such consultation process would only take place in the event that commercial reserves of hydrocarbons are discovered in Bahamian waters. Following this decision, the future recoverability of the Group's intangible assets are contingent upon the discovery of commercial reserves and the presentation of all relevant data before the Government and thus the people of The Bahamas.

On 15 May 2015 the Government of The Bahamas renewed and extended the Group's four southern exploration licences in Bahamian waters for at least a further three years to 2018. As part of this renewal, the southern boundaries of the four southern licences were adjusted to conform to the maritime boundary between The Bahamas and Cuba, providing tenure over the full extent of the existing mapped structures. Under the terms of the renewed licences, the Group is obliged to commence drilling activities by 30 April 2017.

Renewal of the Miami licence remains under review, see note 22 for further details.

## 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 2014 is $2,431 (31 December 2013: $8,575), and the total of such non-current assets located in The Bahamas is $46,889,101 (31 December 2013: $46,470,536).

## 6 Finance income

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Finance income - interest income on short-term bank deposits | **14,700** | 23,696 |

## 7 Employee benefit expense

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Directors and employees salaries and fees | **1,702,822** | 1,704,240 |
| Social security costs | **71,743** | 64,298 |
| Pension costs - defined contribution | **120,974** | 114,487 |
| Share based payments (see note 18) | **69,375** | 75,345 |
| Other staff costs | **153,222** | 83,237 |
| | **2,118,136** | 2,041,607 |

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. See note 18 for further details.

## 8 Other expenses

| | | 2014 Group $ | | 2013 Group $ |
|---|---|---|---|---|
| Travel and accommodation | | **311,553** | | 224,367 |
| Operating lease payments | | **469,073** | | 479,054 |
| Legal and professional | | **1,234,627** | | 1,704,724 |
| Net foreign exchange (gain)/loss | | **(23,886)** | | 61,656 |
| Loss on disposal of fixed assets | | **-** | | 1,357 |
| Other | | **505,650** | | 553,451 |
| Fees payable to the Company's auditor for the audit of the parent company and consolidated Financial Statements | **71,673** | | 94,319 | |
| Fees payable to the Company's auditors for other services: | | | | |
| - Audit related assurance services | **12,465** | | 13,533 | |
| - Tax advisory services | **6,095** | | 7,607 | |
| Total auditor's remuneration | | **90,233** | | 115,459 |
| Total other expenses | | **2,587,249** | | 3,140,068 |

## 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.

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.

| | 2014 Group | 2013 Group |
|---|---|---|
| Loss attributable to equity holders of the Company (US$) | **(4,668,179)** | (5,193,412) |
| Weighted average number of ordinary shares in issue (number) | **1,230,479,096** | 1,230,479,096 |
| Basic loss per share (US Cents per share) | **(0.38)** | (0.42) |

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

| | 2014 Group | 2013 Group |
|---|---|---|
| Total share options in issue (number) (see note 18) | **64,500,000** | 61,500,000 |

The effect of the above share options at 31 December 2014 and 2013 is anti-dilutive; as a result they have been omitted from the calculation of diluted loss per share.

## 11 Restricted cash

| | **2014** | 2013 |
|---|---|---|

| | Group<br>$ | Group<br>$ |
|---|---|---|
| *Non-current assets* | | |
| Bank deposits | **46,635** | 165,040 |

Non-current bank deposits consist of funds held as security for Company credit card facilities.

## 12 Property, plant & equipment

**Group**

| | Leasehold Improvements | Furniture, fittings and equipment | Motor Vehicles | Total |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **At 1 January 2013** | | | | |
| Cost | 85,427 | 319,309 | 183,035 | 587,771 |
| Accumulated depreciation | (68,517) | (220,624) | (74,922) | (364,063) |
| **Net book amount** | **16,910** | **98,685** | **108,113** | **223,708** |
| **Year ended 31 December 2013** | | | | |
| Opening net book amount | 16,910 | 98,685 | 108,113 | 223,708 |
| Additions | - | 15,782 | - | 15,782 |
| Disposals - cost | (29,010) | (104,530) | (96,095) | (229,635) |
| Depreciation charge | (4,058) | (52,382) | (30,201) | (86,641) |
| Disposals - accumulated depreciation | 29,010 | 104,530 | 52,381 | 185,921 |
| **Closing net book amount** | **12,852** | **62,085** | **34,198** | **109,135** |
| **At 31 December 2013** | | | | |
| Cost | 56,417 | 230,561 | 86,940 | 373,918 |
| Accumulated depreciation | (43,565) | (168,476) | (52,742) | (264,783) |
| **Net book amount** | **12,852** | **62,085** | **34,198** | **109,135** |
| **Year ended 31 December 2014** | | | | |
| Opening net book amount | 12,852 | 62,085 | 34,198 | 109,135 |
| Additions | - | 7,719 | 69,245 | 76,964 |
| Depreciation charge | (4,058) | (41,924) | (27,512) | (73,494) |
| **Closing net book amount** | **8,794** | **27,880** | **75,931** | **112,605** |
| **At 31 December 2014** | | | | |
| Cost | 56,417 | 238,280 | 156,185 | 450,882 |
| Accumulated depreciation | (47,623) | (210,400) | (80,254) | (338,277) |
| **Net book amount** | **8,794** | **27,880** | **75,931** | **112,605** |

## 13 Intangible exploration and evaluation assets

**Group**

| | Licence costs<br>$ | Geological, Geophysical and Technical Analysis<br>$ | **Total**<br>**$** |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| Opening cost / net book amount | 2,081,250 | 43,635,252 | 45,716,502 |
| Additions | - | 653,474 | 653,474 |
| **Closing cost / net book amount** | **2,081,250** | **44,288,726** | **46,369,976** |
| **Year ended 31 December 2014** | | | |
| Opening cost / net book amount | 2,081,250 | 44,288,726 | 46,369,976 |
| Additions | - | 408,952 | 408,952 |
| **Closing cost / net book amount** | **2,081,250** | **44,697,678** | **46,778,928** |

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

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Cash at bank | **10,032,127** | **14,863,287** |

The 2014 balance includes interest bearing accounts at rates between 0% and 1% (2013: 0% to 1%).

## 15 Other receivables

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Other receivables (note (a)) | **141,272** | 90,620 |
| Prepayments (note (b)) | **738,443** | 797,831 |
| | **879,715** | 888,451 |

**(a) Other receivables**

As at 31 December 2014 and 2013, these amounts predominantly consist of VAT recoverable.

**(b) Prepayments**

As at 31 December 2014 prepayments include $500,000 (2013: $500,000) in application fees paid to the Government of the Commonwealth of The Bahamas for additional exploration licences, pending award. In the event that the Group's applications are unsuccessful, 50% of this amount is refundable to the Group. No provision has been made in the consolidated Financial Statements to write down the carrying value of these prepayments in the event that the applications are unsuccessful.

## 16 Trade and other payables

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Accruals | **210,265** | 216,069 |
| Trade payables | **208,979** | 154,250 |
| Other payables | **12,000** | 8,000 |
| | **431,244** | 378,319 |

## 17 Share capital, share premium and merger reserve

| **Group** | **Number of shares issued** | **Issue price $** | **Ordinary shares $** | **Share Premium reserve $** | **Merger reserve $** |
|---|---|---|---|---|---|
| **At 1 January 2013** | **1,230,479,096** | **-** | **37,253** | **78,185,102** | **77,130,684** |
| **At 31 December 2013 and 31 December 2014** | **1,230,479,096** | **-** | **37,253** | **78,185,102** | **77,130,684** |

The total authorised number of ordinary shares at 31 December 2014 and 2013 was 5,000,000,000 shares with a par value of 0.002p per share.

All issued shares of 0.002 pence are fully paid.

## 18 Share based payments

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 outstanding during the year are as follows:

| | **2014 Group** | | 2013 Group | |
|---|---|---|---|---|
| | **Average exercise price per share** | **No. Options** | Average exercise price per share | No. Options |
| At beginning of year | **17.64p** | **61,500,000** | 17.77p | 69,500,000 |
| Granted | **7.40p** | **3,000,000** | - | - |
| Relinquished | **-** | **-** | 18.75p | (8,000,000) |
| At end of year | **17.32p** | **64,500,000** | 17.64p | 61,500,000 |
| Exercisable at end of year | **21.25p** | **6,750,000** | 21.25p | 6,750,000 |

On 3 July 2013, 8 million options granted on 2 April 2012 were forfeited as follows:

- 4 million share options becoming exercisable on (a) the conclusion of a suitable farm in agreement to allow the drilling of a well or (b) the securing of independent finance for the drilling of a well (tranche 2).
- 4 million share options becoming exercisable in the event of a corporate sale of the Company at a price per share equal to or exceeding 37.5 pence each (tranche 4).

No adjustment was made to the share based payments reserve or charge for the year following the above forfeitures.

On 25 September 2014 2 million options were granted and on 17 December 2014 1 million options were granted, all of which carrying the following terms:

- The options have an exercise price of 7.4 pence
- The options become exercisable only once the Company share price reaches 18.75 pence
- The options expire after 5 years
- The options require the option holder to remain in office, with the provision of this service requirement to be waived at the discretion of the Company.

The fair value of the options granted in the year is estimated using the Black Scholes model or, where there are market based vesting conditions, the Black Scholes Barrier model. The inputs and assumptions used in calculating the fair value of options granted in the year are as follows:

| | **Date of Grant** | |
|---|---|---|
| | **25 Sept 2014** | **17 Dec 2014** |
| Number of options granted | 2,000,000 | 1,000,000 |
| Share price at date of grant | 2.65p | 1.98p |
| Exercise price | 7.4p | 7.4p |
| Expected volatility | 29% | 29% |
| Expected life | 1.25 years | 1.00 years |
| Risk free return | 0.35% | 0.35% |
| Dividend yield | Nil | Nil |
| Hurdle rate | 18.75p | 18.75p |
| Fair value per option | nil | Nil |

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 are to be forgone until a farmout or other arrangement sufficient to finance the first exploration well is completed
- The value of fees/salary forgone shall accrue at the end of each month as an entitlement to ordinary shares in the Company
- 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 farmout or other arrangement sufficient to finance the first exploration well
- The agreement is effective for all parties from 1 October 2014

Under IFRS 2, the above agreement constitutes the issuance of equity settled share based payment instruments with the following terms:

- All instruments granted on 1 October 2014 with individual tranches vesting at the end of each month based on the monthly volume weighted average share price
- Total number of instruments granted estimated based on forecast fee deferral quantum and average Company share price over the preceding 15 months
- Instruments shall only be issued on conclusion of financing for the Group's first exploration well
- Estimated issue date of 31 December 2015 and consequent 15 month life of instruments
- Estimated fair value of instruments being the share price on the date of grant

The value of the instruments has been estimated and shall be charged to the Statement of Total Comprehensive Income in monthly tranches over the estimated life of the instruments.

**Expense arising from share based payment transactions**

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

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Expense in relation to share based payment transactions | **69,375** | **75,345** |

## 19 Cash used in operations

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Loss after income tax | **(4,668,179)** | (5,193,412) |
| Adjustments for: | | |
| - Depreciation (note 12) | **73,494** | 86,641 |
| - Share based payment (note 18) | **69,375** | 75,345 |
| - Finance income (note 6) | **(14,700)** | (23,696) |
| - Other income | **(96,000)** | (51,208) |
| - Loss on disposal of fixed assets | **-** | 1,357 |
| - Foreign exchange (gain)/loss on operating activities (note 8) | **(23,886)** | 61,656 |
| Changes in working capital: | | |
| - Other receivables | **(20,881)** | 115,676 |
| - Trade and other payables | **120,385** | (921,590) |
| Cash used in operations | **(4,560,392)** | (5,849,231) |

## 20 Contingencies and commitments

***(i) Contingencies***

As at 31 December 2014, the Group had no contingent liabilities that require disclosure in theses financial statements.

***(ii) Expenditure commitments***

As at 31 December 2014 the Group had discharged all of its work obligations under the terms of the existing exploration licence period.

The terms of the Groups licence renewal, effected on 15 May 2015, require the commencement of an exploration well in the licenced area by 30 April 2017.

***(iii) Annual rental commitments***

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

On 15 May 2015, the Group's four southern exploration licences were renewed for a further three years to 2018. However, as at 31 December 2014 the formal execution of the renewed licences had not yet taken place and, as a consequence, no licence rental fees have been paid or accrued during the calendar year or prior year. Under the renewed terms, the licences attract a rental fee of $250,000 per licence per annum, totalling $1,000,000 annually for all four licences held by the Group. Prepaid rentals submitted to the Bahamian Government in 2012 totalling $287,500 have been agreed as offsetable against the above rental obligation, giving rise to a net cash payable of $712,500.

Renewal of the Group's Miami licence remains under review pending negotiations with the Bahamian Government regarding the terms of renewal. See note 22 for further details.

The Group leases various premises 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:

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| No later than 1 year | **343,300** | 291,300 |
| Later than 1 year and no later than 5 years | **302,250** | 544,050 |
| | **645,550** | 835,350 |

During the prior year the Group entered into a two year lease to sublet a portion of the Nassau office building, which had been unutilised, for $48,000 per annum. On 1 January 2014 the Group entered into a four year lease to sublet the remainder of the unutilised office space for $48,000 per annum. The above minimum lease payment obligations are shown gross of this income source which is recognised as Other Income in the Consolidated Statement of Comprehensive Income for the year.

## 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 - appointed during the year |
| James Smith | Non-Executive Deputy Chairman - appointed during the year |
| Simon Potter | Director and Chief Executive Officer |
| Ross McDonald | Non-Executive Director |
| Steven Weyel | Non-Executive Director - Resigned during the year |
| Edward Shallcross | Non-Executive Director |

**Key Management Compensation**

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Short term employee benefits | **1,419,826** | 1,396,709 |
| Share based payments (see note 18) | **69,375** | 75,345 |
| | **1,489,201** | 1,472,054 |

Simon Potter's key remunerative terms as Chief Executive Officer of the Company are as follows:

- Annual salary of $1,000,000 with minimum CPI indexation.
- Mr Potter is entitled to receive pension contributions from the Company equal to 10% of his annual salary.
- The term of the contract expires on 16 October 2017. Benefits arising from termination during the term range from nil to payment of salary over the full term, depending on the circumstances surrounding termination.
- Effective 1 October 2014, Mr Potter agreed to defer 20% of his salary, equating to $200,000 annually, to be received in Company shares contingent on the successful conclusion of a farm out or other arrangement sufficient to finance the Company's first exploration well.

During the year, Simon Potter was provided with housing in Nassau, The Bahamas for his exclusive use at a cost to the Company of $194,133 (2013: $144,000). These amounts have been recognised in the Financial Statements as premises expenses under the categorisation "other costs". Following the balance sheet date, notice of termination was served on all housing contracts entered into by the Company.

**Directors' remuneration**

| | **2014 Group $** | 2013 Group $ |
|---|---|---|
| Simon Potter; | | |
| - Salary | ***950,000*** | *1,000,000* |
| - Pension benefits | ***98,792*** | *96,122* |
| Total | **1,048,792** | 1,096,122 |
| William Schrader | **62,574** | - |
| James Smith | **48,210** | - |
| Adrian Collins | **85,729** | 101,940 |
| Ross McDonald | **66,549** | 66,038 |
| Edward Shallcross | **78,532** | 78,225 |
| Steven Weyel | **29,440** | 54,384 |
| Total | **1,419,826** | 1,396,709 |

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. See note 18 for further details.

Share options granted to Directors during the year are as follows:

| | Number of options granted | Exercise price per Ordinary Share | Date of Grant |
|---|---|---|---|
| William Schrader | 2,000,000 | 7.40p | 25 September 2014 |
| James Smith | 1,000,000 | 7.40p | 17 December 2014 |

Details of share options granted are disclosed in note 18 to these Financial Statements.

**Other related party transactions**

During the prior year, disbursements totalling $1,000 were reimbursed to Royal Fidelity Merchant Bank & Trust. Ross McDonald, a director of the Company, is also a director of Royal Fidelity Merchant Bank & Trust.

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 2014, $68,230 was held on deposit with RBC Royal Bank (Bahamas) Limited (31 December 2013: $50,300).

## 22 Events After the Balance Sheet Date

On 18 May 2015, the Group announced the renewal and extension of its four southern licences with the following terms:

- The licences are renewed for a further three year period to 2Q 2018
- The licence boundaries have been amended to conform to the recently ratified Bahamas - Cuba maritime border
- The Group is obliged to commence its first exploration well by 30 April 2017
- The licences are confirmed as being grandfathered under the old Petroleum Act

On 18 May 2015 the Group announced that renewal of the Miami licence was under review, pending negotiations with the Government of the Bahamas regarding the work commitment and annual rentals associated with entering into a further three year licence period. Should the results of these negotiations be unsatisfactory, the Group may elect not to renew this licence. Intangibles exploration and evaluation assets include $416,250 of expenditure relating to annual rentals for the Miami licence which will, should the licence not be renewed, be subject to impairment.

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