borders&southern
petroleum plc

2008

annual reports & accounts

Highlights

- Completed 3D seismic acquisition and processing
- Completed the interpretation of the fast track and fully processed data
- Integrated 3D interpretation into regional evaluation
- Compiled ranked prospect inventory
- Concluded benthic sampling programme
- Progressing Environmental Impact Assessment
- Cash balance as at 31 December 2008 was US$19.5 million

Borders & Southern Petroleum has a 100% interest in five deep water production licenses in the South Falkland Basin (80 blocks, nearly 20,000 sq km). The basin is untested, comprising similar geology to the contiguous Malvinas and Magallanes Basins to the west where discoveries of approximately six billion barrels of oil equivalent have been reported.

Chairman's Statement

Activity in 2008 has seen the Company focus on its technical objectives. During this period we have completed the acquisition and processing of a large 3D survey and finalised its interpretation. The results of this work have yielded what we believe to be a very attractive and exciting prospect inventory.

Against a challenging economic background, the Company, whilst experiencing a decrease in value along with market trends, has performed well relative to its peer group of AIM listed Exploration & Production Companies. We also have a strong cash balance.

During the period we have witnessed the oil price decline from $147 per barrel down to around $35 per barrel. Recently the oil price has showed signs of recovery with prices approaching $60 per barrel again. However, it should be noted that our projects in the Falkland Islands are likely to be commercial at the $35 level.

Whilst we cannot impact the external environment, we can influence the technical evaluation by the correct choice of data acquisition and the areas we select in which to collect the data. In this regard, the Board of Directors considers that it has been very successful. Multiple, high quality, large volume prospects have been defined, many of which are supported by geophysical attributes of the type we had hoped for at the onset of the exploration programme.

With the completion of the main phase of 3D seismic interpretation there will be no further requirement for additional data acquisition prior to drilling a well. We are now in a position to define drilling locations on our prioritised prospects. As we have previously reported, the first two high-graded prospects are Darwin and Stebbing.

As we look forward, technical work will continue but our energy will be placed into bringing a partner into the licences to help fund the wells. Given the scale and quality of the prospect inventory we are optimistic that we can attract a credible partner.

Chief Executive's Review

The technical programme undertaken in 2008 involved the acquisition, processing and interpretation of 1,492 sq km of 3D seismic data. The 3D data has been fully integrated into our regional evaluation so that we now have a comprehensive understanding of the South Falkland Basin. As a result, not only have we been able to define a high quality multi-billion barrel (recoverable) prospect inventory, but also identify those play types within the basin that we think are most likely to deliver success.

As previously reported, the step change in understanding from 2D to 3D seismic data has been dramatic and justifies the size and expenditure of the 3D survey. Prospect sizes are large (up to 150 sq km of mapped structural closure) and display important geophysical attributes that help reduce the risk. These include seismic amplitude conformance to structure, flat spot and AVO anomalies, along with gas hydrates located above prospects. We interpret these seismic attributes to indicate that the structures have received a hydrocarbon charge.

Individual prospect volumes in some cases exceed 1 billion barrels of recoverable oil. The previously reported Darwin and Stebbing prospects have P50 recoverable oil volumes of 300 million and 710 million barrels respectively. Additional stacked reservoirs on the same structures could increase these numbers. These prospects represent different play types and have been prioritised due to the chance of success rather than size.

Whilst the exploration drilling programme will target high-graded oil prospects, each prospect has also been considered as a gas case. If gas was the only outcome, and we consider it unlikely, then the prospect gas volumes would be sufficient to justify an LNG development. Individual prospect volumes can exceed (P50) 5 trillion cubic feet of recoverable gas.

Chief Executive's Review (continued)

Aside from producing a ranked prospect inventory we have conducted a benthic sampling programme, one of the key requirements for the Environmental Impact Assessment (EIA). The operations were completed efficiently and the analysis is currently underway. Once the EIA has been submitted and approved we will be ready to drill and should the opportunity arise will be able to share in a combined drilling operation with other operators in the area.

Whilst the Company has a strong cash balance it does not have sufficient funds to execute a two well programme. Given the economic climate the Board has decided the best way to finance our wells is to seek a partner. Within the coming months we will further discussions with third parties and will report later in the year. Given the strength of the prospect inventory, scale of opportunity and the quality of the geophysical attributes, the Board is confident of securing a competent partner.

Prospect Inventory – Key Features

- Multi-billion barrel recoverable prospect potential
- Structurally robust prospects up to 150 sq km in area
- Amplitude conformance to structure
- Credible flat spot and AVO anomalies
- Gas Hydrates above prospects
- Multiple play types and large prospect inventory

The naming theme for our prospects has been chosen to celebrate the exploration voyage of HMS Beagle under the command of Robert FitzRoy. Each prospect is named after a member of the crew or passenger on the ship. During the Beagle's circumnavigation of the world it carried out important surveying work of the South American coastline, including the Falkland Islands where it stopped twice in 1833 and 1834.

Charles Darwin joined the voyage as a companion to Robert FitzRoy. Famous for his observations and theories as a naturalist, which led to the publication of his work On The Origin of Species, Darwin was also a very good geologist. He had been inspired by the work of Charles Lyell and carried Lyell's book "Principles of Geology" with him on the voyage. This book suggested that modern day geological processes such as sediment erosion and deposition and volcanic eruptions had occurred in the past. Because of the incredibly slow pace of many of these processes, it pointed towards a vast timescale for the age of the earth, a very controversial issue at the time. Darwin's own observations from the voyage supported this view. He collected many geological specimens, including fossils from the Falkland Islands, now kept in the Natural History Museum in London.

As explorers for oil and gas we use many of the basic principles of geology described in Lyell's book to help us understand the sedimentary basins responsible for the generation and entrapment of hydrocarbons. Today, with the advancement of science, we now know that the age of the source rocks surrounding the Falklands (those organic rich rocks responsible for the generation of hydrocarbons) are between 120 and 160 million years old.

Financial Review

As you will have read elsewhere in this report, the Company completed the 3D seismic acquisition in the first quarter of the year and spent the balance of the year processing and interpreting the data. All of this was fully funded through the two private share placements during 2007.

As a result, the Company is fortunate to have around US$19.5 million in cash at year end which was held in near term bank deposits and UK Treasury Stock.

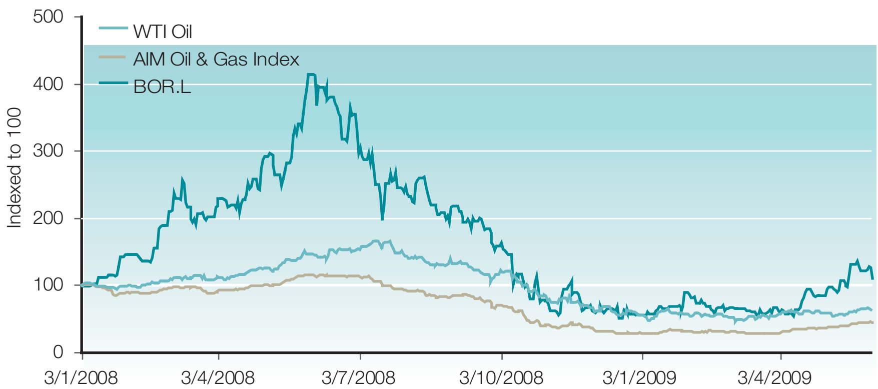
Looking forward, it is clear that drilling activity in the Company's licenses is the next key objective and the most significant potential capital expenditure. We are currently actively seeking a partner, via a farm-out, to fund these costs in return for equity in the licenses. It is not clear, at this stage, the impact such a farm-out transaction would have on the Company's cash position and it's forward capital commitments. However, given that we go into the farm-out process with both a strong cash balance and technical case, we feel that we are well placed to attract a favourable outcome.

This year the Company's functional currency changed to US$ reflecting the nature of the Company's activities and at the same time the presentation currency changed to US$ to be more comparable with peer group companies. As a result, the Group is now exposed to foreign exchange movements on its balances and transactions denominated in £, whereas in the prior year, the Group was exposed on its balances and transactions in US$.

The Group made a loss for the year of $4.7m (2007: $0.3m). This was primarily due to a $4.4m (2007: nil) foreign exchange loss on £ denominated cash and other financial assets due to the devaluation of the £ against the $ during the second half of the year. Administrative costs for the year were $1.3m (2007: $1.7m) and in line with expectations.

Capital additions of $12.9m (2007: $19.9m) to the Group's oil and gas exploration and evaluation assets were made during the year.

As you can see from the charts, despite the financial turmoil during 2008 and 2009 to date, the Company's shares have performed well both in absolute terms and relative to our AIM listed peers.



Board of Directors

Number of Meetings	Board	Remuneration Committee	Audit Committee
Harry Dobson	3	1	2
Howard Obee	3	–	–
Peter Fleming	3	–	–
Stephen Posford	3	1	2
Nigel Hurst-Brown	3	1	2

David Harry Williamson Dobson
(Non-Executive Chairman) age 61

Harry Dobson is a former investment banker and senior partner of Yorkton Securities. He currently engages in various merchant banking and venture capital activities in North America and Europe, and has acted as Chairman of a number of resource companies (including American Pacific Mining Company Inc. and Lytton Minerals Limited). He is currently the Chairman of Kirkland Lake Gold Inc. (a Toronto Stock Exchange and AIM quoted Company) and Rambler Metals and Mining plc (an AIM quoted Company). He is experienced in the organisation and funding of resource projects, including those located in inaccessible locations.

Howard Kevin Obee
(Chief Executive) age 49

Howard Obee was appointed Chief Executive when the Company was incorporated in June 2004. He has a PhD in structural geology from Imperial College, and has spent 20 years in the oil industry, initially with BP (1985-1992), and subsequently with BHP Billiton (1992-2004). He trained as an exploration geologist, but has been appointed to various technical and commercial roles, incorporating exploration, new ventures, strategic planning, and business development. His most recent roles for BHP Billiton were West Africa Asset Team Leader, and Exploration Manager, London. He has experience of executing seismic and drilling programmes in frontier basins, including those in deep water.

Peter William Fleming
(Finance Director) age 47

Peter Fleming has over 12 years of upstream oil and gas experience, the majority of which was gained at BHP Billiton both in London and Melbourne. Whilst at BHP Billiton, Peter held senior positions in exploration and business development, investment evaluation, acquisitions and disposals and strategic planning. Prior to joining BHP Billiton, he worked for Bridge Oil and Banque Indosuez. He holds Masters degrees in Business Administration and Finance.

Stephen James Douglas Posford
(Non-Executive Director) age 62

Stephen Posford was a partner of stockbrokers W.Greenwell and Co. In 1986, he became Managing Director of Greenwell Montagu Gilt Edged, and in 1989 moved to Salomon Brothers to head up their proprietary trading department in London. He then became Salomon Brothers European CEO before retiring in 1996.

Christopher Nigel Hurst-Brown
(Non-Executive Director) age 57

Since qualifying as a Chartered Accountant, Nigel Hurst-Brown has pursued a career in fund management. From 1986-1990 he was Chairman of Lloyd's Investment Managers. In 1990 he moved to Mercury Asset Management as a main board Director and following Mercury's acquisition by Merrill Lynch in 1997 became a Managing Director of Merrill Lynch Investment Managers. Currently he is Chief Executive of Hotchkis and Wiley (UK) Limited and a member of the Executive Committee of its US parent Hotchkis and Wiley Capital Management LLC.

Directors' Report for the Year Ended 31 December 2008

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2008.

Domicile

The parent company of the group (which is also the ultimate parent), Borders & Southern Petroleum Plc, is a public limited company and is registered and domiciled in England.

Principal activity

The principal activity of the group is the exploration for oil and gas.

Results and dividends

The group income statement is set out on page 17 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Review of business and future developments

A review on the operations of the group is contained in the Chief Executive's Review and Financial Review on pages 5-7.

Principal risks and uncertainties and financial risk management

Exploration risk

The exploration for and development of hydrocarbons is speculative and involves a high degree of risk. These risks include the uncertainty that the Group will discover sufficient oil or gas to exploit commercially.

Financial risk management

The company's operations are such that it has a limited exposure to a variety of financial risks. These may, from time to time, include the effects of changes in price risk, liquidity risk and a foreign exchange risk. The company does not use derivative financial instruments to manage interest rate or currency risks and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The company's management implements the policies set by the board of directors.

Price risk

The company is exposed to price risk due to normal inflationary increases in the purchase price of goods and services. The company has no exposure to equity securities price risk, as it holds no listed or other equity investments.

Liquidity risk

The company has no long term commitments and is able to satisfy any current liability from cash reserves.

Foreign exchange risk

The company has potential exposure due to some of its purchases being invoiced in currencies other than the US dollar functional currency. The exposure relates mainly to items denominated in £. To mitigate the risk, the company when it becomes aware of a liability in a different currency, seeks to minimise the risk by either immediately converting the required funds to the relevant currency or taking out a forward contract. Other than forward contracts, the company does not use any other type of currency hedging.

Key performance indicators

The Company's key performance indicators (discussed in the Chief Executive's Review and Finance Review on pages 5-7 are the management of its cash position ($19.5m at year end, 2007: $39.1m) and the fulfilment of the exploration program.

Post balance sheet events

No events have occurred since the year end which require reporting or disclosing in the financial statements.

Charitable and political donations

There were no political or charitable contributions made by the company or the group during the period.

Directors' Report (continued)

Health, safety and environment

The group has an overriding commitment to health, safety and environmental responsibility. The group works closely with host governments and communities in the countries in which it operates, together with its contractors and partners, to ensure internationally recognised standards are implemented and maintained along with compliance to local legislation.

The group's exploration activities are subject to the relevant environmental protection acts. The group closely monitors its activities to ensure to the best of its knowledge there is no potential for the breach of such regulations. There have been no convictions in relation to breaches of these Acts recorded against the group during the reporting period.

Creditor payment policy

It is the group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

The amounts owed to the company and group's trade creditors at the year end represented 5 days (2007: 39 days) as a proportion of the total amounts invoiced by suppliers during the year.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertaking are contained in note 21 of the financial statements.

Directors and their interests

The beneficial and other interests of the directors and their families in the share capital at the beginning of the year or the date of their appointment to the board, whichever is later, and at 31 December 2008, were as follows:

	At 31 December 2008 Number	At 31 December 2007 Number
David Harry Williamson Dobson	26,670,000	26,670,000
Stephen James Douglas Posford	26,695,000	26,670,000
Howard Kevin Obee	10,000,000	10,000,000
Christopher Nigel Hurst-Brown	1,330,000	1,330,000
Peter William Fleming	2,200,000	2,200,000

The ordinary shares in which Mr D H W Dobson is interested are held by the Zila Corporation, a company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary.

The group has provided the directors with qualifying third party indemnity insurance.

Share options

	Number of options held at the beginning and end of the year	Fair value of options	Exercise price	Vesting period
Howard Kevin Obee	50,000	21p	48p	3 years
Peter William Fleming	50,000	21p	48p	3 years

Substantial shareholders

At 26 May 2009 the following had notified the company of disclosable interests in 3% or more of the nominal value of the company's shares carrying voting rights:

	Number of ordinary shares	% of share capital
Landsdowne Partners Limited Partnership	27,125,000	13.96
Stephen James Douglas Posford	26,695,000	13.74
Zila Corporation	26,670,000	13.72
Allianz SE	18,460,000	9.50
Petroleum Geo-Services	16,656,670	8.57
Howard Kevin Obee	10,000,000	5.15
Credit Suisse Securities (Europe)	6,792,231	3.49

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the board

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William John Walton Slack
Company Secretary

28 May 2008

Audit Committee Report

The Board has established an Audit Committee comprising Mr Hurst-Brown (Chairman), Mr Dobson and Mr Posford, all independent, non-executive directors.

The Audit Committee meets at least biannually and is responsible for:

- Reviewing the integrity of the financial statements and related disclosures, based on adequate books, records and internal controls and selection and consistent application of appropriate accounting policies;
- The appropriateness of the internal financial controls;
- The independent auditors' qualifications, independence, and performance; and
- The compliance with legal and regulatory requirements.

Remuneration Committee Report

The Board has established a Remuneration Committee comprising Mr Dobson (Chairman), Mr Hurst-Brown and Mr Posford, all independent non-executive Directors.

The Remuneration Committee meets at least annually and is responsible for:

- Reviewing the performance of the CEO and other executive directors and senior management of the company and determines their remuneration and the basis of their service agreements with due regard to the interests of shareholders;
- The payment of any bonuses to the CEO, other executive directors and senior management; and
- Making recommendations to the board with respect to equity-based incentive plans and to act as a preparatory body for the board of directors in the management of any company award and option plans.

Directors' remuneration and service contracts

On 18 May 2005, all of the company's directors entered into a service agreement with the company.

The remuneration of the directors for the year ended 31 December 2008 was as follows:

	Basic salary	Share based payment	Total 2008	Total 2007
	$	$	$	$
David Harry Williamson Dobson	–	–	–	–
Stephen James Douglas Posford	–	–	–	–
Howard Kevin Obee	170,223	6,082	176,305	181,335
Christopher Nigel Hurst-Brown	–	–	–	–
Peter William Fleming	45,135	6,083	51,218	53,170

Pensions

The group does not operate a pension scheme for its directors or employees.

Independent Auditors' Report

Independent auditors' report to the shareholders of Borders and Southern Petroleum Plc

We have audited the group and parent company financial statements (the "financial statements") of Borders and Southern Petroleum plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Highlights, Chairman's Statement, the Chief Executive's Review, the Financial Review, the Board of Directors, the Directors' Report, the Audit Committee Report and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent Company's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

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BDO Stoy Hayward LLP
Chartered Accountants & Registered Auditors
London

Date:................................

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 $	2007 $
Continuing operations			
Administrative expenses		(1,287,544)	(1,715,392)
Loss from operations	2	(1,287,544)	(1,715,392)
Finance income	8	986,177	1,379,691
Finance expense – foreign exchange losses	8	(4,426,533)	–
Loss before tax		(4,727,900)	(335,701)
Income tax expense	9	–	–
Loss for the year		(4,727,900)	(335,701)
Loss per share - basic and diluted (see note 3)		(2.43) cents	(0.23) cents

The notes on pages 24 to 38 form an integral part of these financial statements.

Consolidated Balance Sheet

for the year ended 31 December 2008

	Note	2008 $	2008 $	2007 $	2007 $
Assets					
Non-current assets					
Property, plant and equipment	10		14,929		7,749
Intangible assets	11		36,040,860		23,155,802
Total non-current assets			36,055,789		23,163,551
Current assets					
Trade and other receivables	13	251,788		313,400	
Other financial assets	14	9,950,668		–	
Cash and cash equivalents		9,522,035		39,064,938	
Total current assets			19,724,491		39,378,338
Total assets			55,780,280		62,541,889
Liabilities					
Current liabilities					
Trade and other payables	15		(194,770)		(2,309,741)
Total net assets			55,585,510		60,232,148
Capital and reserves					
Share capital	16		3,867,741		3,867,741
Share premium reserve			57,906,686		57,906,686
Other reserves			209,409		108,032
Retained earnings			(6,381,930)		(1,654,030)
Foreign currency reserve			(16,396)		3,719
Total equity			55,585,510		60,232,148

The financial statements were approved by the board of directors and authorised for issue on 28 May 2009.

HOWARD KEVIN OBEE
Director

PETER WILLIAM FLEMING
Director

The notes on pages 24 to 38 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Share capital $	Share premium reserve $	Other reserves $	Foreign currency reserve $	Retained earnings $	Total $
Balance at 1 January 2007 brought forward	2,541,173	21,018,756	30,209	–	(1,318,330)	22,271,808
Loss for the year and total recognised income and expense for the year	–	–	–	–	(335,700)	(335,700)
Issue of share capital	1,326,568	36,887,930	–	–	–	38,214,498
Recognition of share based payments	–	–	77,823	–	–	77,823
Foreign exchange on change in presentation currency	–	–	–	3,719	–	3,719
Balance at 31 December 2007	3,867,741	57,906,686	108,032	3,719	(1,654,030)	60,232,148
Loss for the year and total recognised income and expense for the year	–	–	–	–	(4,727,900)	(4,727,900)
Recognition of share based payments	–	–	101,377	–	–	101,377
Foreign exchange on change in functional currency	–	–	–	(20,115)	–	(20,115)
Balance at 31 December 2008	3,867,741	57,906,686	209,409	(16,396)	(6,381,930)	55,585,510

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium reserve	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Presentation currency reserve	Differences arising on change of presentation and functional currency to $.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

The notes on pages 24 to 38 form an integral part of these financial statements.

Company Balance Sheet

for the year ended 31 December 2008

	Note	2008 $	2008 $	2007 $	2007 $
Assets					
Non-current assets					
Property, plant and equipment	10		14,929		7,749
Investments	12		2		2
			14,931		7,751
Current assets					
Trade and other receivables	13	36,388,685		23,549,349	
Other financial assets	14	9,950,668		–	
Cash and cash equivalents		9,522,035		39,064,938	
			55,861,388		62,614,287
Total assets			55,876,319		62,622,038
Liabilities					
Current liabilities					
Trade and other payables	15		(187,583)		(2,298,257)
Total net assets			55,688,736		60,323,781
Capital and reserves					
Called up share capital	16		3,867,741		3,867,741
Share premium reserve			57,906,686		57,906,686
Other reserves			209,409		108,032
Retained earnings			(6,276,415)		(1,562,643)
Foreign currency reserve			(18,685)		3,965
Total equity			55,688,736		60,323,781

The financial statements were approved by the board of directors and authorised for issue on 28 May 2009.

HOWARD KEVIN OBEE
Director

PETER WILLIAM FLEMING
Director

The notes on pages 24 to 38 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2008

	Share capital $	Share premium reserve $	Other reserves $	Foreign currency reserve $	Retained earnings $	Total $
Balance at 1 January 2007 brought forward	2,541,173	21,018,756	30,209	–	(1,266,983)	22,323,155
Loss for the year and total recognised income and expense for the year	–	–	–	–	(295,660)	(295,660)
Issue of share capital	1,326,568	36,887,930	–	–	–	38,214,498
Recognition of share based payments	–	–	77,823	–	–	77,823
Foreign exchange on change in presentation currency	–	–	–	3,965	–	3,965
Balance at 31 December 2007	3,867,741	57,906,686	108,032	3,965	(1,562,643)	60,323,781
Loss for the year and total recognised income and expense for the year	–	–	–	–	(4,713,772)	(4,713,772)
Recognition of share based payments	–	–	101,377	–	–	101,377
Foreign exchange on change in functional currency	–	–	–	(22,650)	–	(22,650)
Balance at 31 December 2008	3,867,741	57,906,686	209,409	(18,685)	(6,276,415)	55,688,736

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium reserve	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Foreign currency reserve	Differences arising on change of presentation and functional currency to $.
Retained earnings	Cumulative net gains and losses recognised in the income statement.

The notes on pages 24 to 38 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

		2008		2007
	$	$	$	$
Cash flow from operating activities				
Loss before tax		(4,727,901)		(335,700)
Adjustments for:				
Depreciation		9,850		16,074
Exploration and evaluation expenditure transferred to income statement		–		5,054
Share-based payment		101,377		77,823
Finance income		(986,177)		(1,379,691)
Finance expense		4,426,533		–
Foreign exchange differences		(20,116)		–
Cash flows from operating activities before changes in working capital		(1,196,434)		(1,616,440)
Decrease/(increase) in trade and other receivables		65,881		(7,576)
(Decrease)/increase in trade and other payables		(2,114,973)		2,178,754
Net cash (outflow)/inflow from operating activities		(3,245,526)		554,738
Cash flows used in investing activities				
Interest received	981,912		1,343,856	
Purchase of other financial assets	(9,950,668)		–	
Purchase of intangible assets	(12,885,058)		(19,902,084)	
Purchase of property, plant and equipment	(17,030)		(3,543)	
Net cash used in investing activities		(21,870,844)		(18,561,771)
Cash flows from financing activities				
Proceeds from issue of shares and share options (net of issue costs)	–		38,214,498	
Net cash from financing activities		–		38,214,498
Net (decrease)/increase in cash and cash equivalents		(25,116,370)		20,207,463
Cash and cash equivalents at the beginning of the year		39,064,938		18,847,347
Exchange (loss)/gain on cash and cash equivalents		(4,426,533)		10,128
				–
Cash and cash equivalents at the end of the year		9,522,035		39,064,938

	2008	2007
Group and company	$	$
Cash available on demand	584,285	741,614
Cash on deposit	8,937,750	38,323,324
Total	9,522,035	39,064,938

Cash and cash equivalents consist of cash at bank on demand and balances on deposit with an original maturity of three months or less.

The notes on pages 24 to 38 form an integral part of these financial statements.

Company Cash Flow Statement

for the year ended 31 December 2008

		2008		2007
	$	$	$	$
Cash flow from operating activities		(4,713,772)		
Loss before tax				(295,660)
Adjustments for:		9,850		
Depreciation		–		16,074
Share-based payment		101,377		77,823
Finance income		(986,177)		(1,379,691)
Finance expense		4,426,533		–
Foreign exchange differences		(22,651)		–
Cash flows from operating activities before changes in working capital		(1,184,840)		(1,581,454)
(Increase) in trade and other receivables		(12,835,069)		(23,196,643)
(Decrease)/increase in trade and other payables		(2,110,676)		2,177,223
Decrease in intangibles		–		3,253,717
Net cash (outflow) from operating activities		(16,130,585)		(19,347,157)
Cash flows used in investing activities				
Interest received	981,913		1,343,856	
Purchase of other financial assets	(9,950,668)		–	
Purchase of intangible assets	(17,030)		(3,543)	
Net cash used in investing activities		(8,985,785)		1,340,313
Cash flows from financing activities				
Proceeds from issue of shares and share options (net of issue costs)	–		38,214,498	
Net cash from financing activities		–		38,214,498
Net (decrease)/increase in cash and cash equivalents		(25,116,370)		20,207,654
Cash and cash equivalents at the beginning of the year		39,064,938		18,847,347
Exchange (loss)/gain on cash and cash equivalents		(4,426,533)		9,937
Cash and cash equivalents at the end of the year		9,522,035		39,064,938

The notes on pages 24 to 38 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years presented.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The parent company financial statements have also been prepared in accordance with International Financial Reporting Standards.

Effective 1 July 2008, the Company's functional currency changed from Pounds sterling ('£') to the US dollar ('$'). This change was made as, due to the $ being the currency that mainly influences significant transactions and balances, the directors considered the $ to most faithfully represent the economic effects of the underlying transactions, events and conditions in the Company. Concurrent with this change in functional currency, the Group adopted the $ as its presentation currency and consequently the financial information for the year ended 31 December 2007 has been re-presented in $.

In accordance with International Accounting Standards, this change in functional currency has been accounted for prospectively by translating all items using the $:£ exchange spot rate on that date, being $1.9902:£1. In the parent company accounts the resulting translated amounts for non monetary items at this date have been treated as their historic cost.

For the purposes of changing the Group's presentation currency, the comparatives for the year ended 31 December 2007 were translated for the balance sheet using $:£ exchange spot rate on that date, being $1.9906:£1, for the income statement using the average $:£ exchange rate during the year being $2.0015:£1, and for the opening the balances as at 1 January 2007 using the $:£ spot rate on that date being $1.9728:£1. Resulting exchange differences have been taken to the Foreign currency reserve.

New and revised Standards effective for 31 December 2008 year ends but are not currently relevant to the group

Amendments

IAS39 & IFRS7- Amendment - Reclassification of Financial Instruments (effective from 1 July 2008).

IAS39 & IFRS7 – Reclassification of financial assets: effective date and transition (effective from 1 July 2008).

Interpretations

IFRIC 11 – (IFRS 2) Group and treasury share transactions (effective from 1 March 2007).

IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for accounting periods commencing on or after 1 January 2008).

New and revised Standards issued but not effective for 31 December 2008 year ends

New Standards

IFRS 8 – Operating segments (effective for accounting periods commencing on or after 1 January 2009). The group will apply this standard in the accounting period commencing 1 January 2009.

Amendments

IAS 1 – Presentation of financial statements: a revised presentation (effective for accounting periods commencing on or after 1 January 2009). The group will apply this standard in the accounting period commencing 1 January 2009.

IAS 23 – Borrowing costs (effective for accounting periods commencing on or after 1 January 2009). This is not considered relevant to the group's operations.

IFRS 2 – Share based payment: vesting conditions and cancellations (effective for accounting periods commencing on or after 1 January 2009). The group will apply this amendment in the accounting period commencing 1 January 2009.

IAS 27 – Consolidated and separate financial statements (effective for accounting periods commencing on or after 1 July 2009). The group will apply this amendment in the accounting period commencing 1 January 2010.

IAS32 & IAS1 – Puttable financial instrument and obligations arising on liquidation (effective for accounting periods commencing on or after 1 January 2009). This is not considered relevant to the group's operations.

IFRS1 & IAS27 – Cost of an investment in a subsidiary, jointly-controlled entity or associate (effective for accounting periods commencing on or after 1 January 2009). The group will apply this amendment in the accounting period commencing 1 January 2009.

IAS39 – Financial Instruments: recognition and measurement: eligible hedged Items (effective for accounting periods commencing on or after 1 July 2009). This is not considered relevant to the group's operations.

IFRS7 – Improving disclosures about financial Instruments (effective for accounting periods commencing on or after 1 January 2009). The group will apply this amendment in the accounting period commencing 1 January 2009.

IFRIC 9 & IAS39 – Embedded derivatives (effective for accounting periods ending on or after 30 June 2009). This is not considered relevant to the group's operations.

Improvements to IFRSs (2009) – effective for accounting periods commencing on or after 1 January 2009. The group will apply this amendment in the accounting period commencing 1 January 2009.

Improvements to IFRSs (2010) – generally effective for accounting periods commencing on or after 1 January 2010. The group will generally apply this amendment in the accounting period commencing 1 January 2010.

Revisions

IFRS 3 – Business combinations (effective for accounting periods commencing on or after 1 July 2009). This is not considered relevant to the group's operations.

IFRS 1 – First time adoption of IFRS (effective for accounting periods commencing on or after 1 January 2009). This is not considered relevant to the group's operations.

Interpretations

IFRIC 13 – Customer loyalty programmes (effective for accounting periods commencing on or after 1 July 2008). This is not considered relevant to the group's operations.

IFRIC 15 – Agreements for the construction of real estate (effective for accounting periods commencing on or after 1 January 2009). This is not considered relevant to the group's operations.

IFRIC 16 – Hedges of a net investment in a foreign operation (effective for accounting periods commencing on or after 1 October 2008). This is not considered relevant to the group's operations.

IFRIC 17 – Distributions of non-cash assets to owners (effective for accounting periods commencing on or after 1 July 2009). This is not considered relevant to the group's operations.

IFRIC 18 – Transfers of assets from customers (effective for accounting periods commencing on or after 1 July 2009). This is not considered relevant to the group's operations.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Profit/(loss) for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The group loss for the year includes a loss after tax of $4,713,772 (2007 - $295,660) which is dealt with in the financial statements of the parent company.

The company's investments in subsidiaries

In the parent company's accounts subsidiaries are carried at cost less amounts provided for impairment.

Income

At the end of the year the group had not commenced commercial production from its exploration sites and therefore has no revenue in the year.

Finance income

Finance income is measured and recognised using the effective rate of interest. The income consists of interest on cash deposits.

Segment reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The group has only one business segment, which is the exploration for oil and gas, and is its primary reporting segment.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. The group's geographical segments are the United Kingdom, the Falkland Islands and other areas Worldwide, and make up the group's secondary reporting segment.

Property, plant and equipment

Office equipment is initially recorded at cost. Depreciation is provided on office equipment so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Office equipment	33 1/3%

Assets are depreciated from the date of acquisition, and on a straight line basis.

Exploration and evaluation expenditure

As permitted under IFRS 6, the group has accounted for exploration and evaluation expenditure using the full cost method, whereby all costs associated with oil exploration are capitalised as intangible assets on a project-by-project basis, pending determination of feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures will be transferred to tangible assets and amortised over the estimated life of the commercial reserves. Where a licence is relinquished, a project is abandoned, or is considered to be of no further value to the group the related costs are written off. All capitalised costs are reviewed annually against the underlying value of oil and gas reserves, unless the expenditure relates to an area where it is too early to make a decision about the value of the assets.

Impairment

Exploration assets are reviewed regularly for indication of impairment, if any, where circumstances indicate that the carrying value may not be recoverable. If an indication of impairment exists, the asset is tested for impairment in accordance with IAS36- Impairment of Assets.

The carrying value is compared against the expected recoverable amount, generally by reference to the present value of future net cash flows expected to be generated from the production of commercial reserves. The cash generating unit ("CGU") applied for impairment testing is usually the individual field, except that a number of fields may be grouped together to form a single CGU where the cash flows are interdependent.

Any impairment loss arising from the review is charged to the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Foreign currencies

Transactions in foreign currencies are translated into US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the closing rates at the balance sheet date and the exchange differences are included in the income statement. The functional and presentational currency of the parent and all group companies is US dollars.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Share based payments

The fair value of employee share option plans is calculated using the Black-Scholes-Merton pricing model. In accordance with IFRS 2 'Share-based Payments' the resulting cost is charged to the income statement over the vesting period of the options. The amount of charge is adjusted each year to reflect expected and actual levels of options vesting.

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement 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 the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent measurement depends on the designation of the instrument, as follows:-

- Trade and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest, net of allowances for impairment.
- Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest.
- The group does not hold or issue derivative financial instruments for trading purposes.
- Financial instruments issued by group companies are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's and company's ordinary shares are all classified as equity instruments.
- Cash and cash equivalents consist of cash at bank on demand and balances on deposit with an original maturity of three months or less.
- Assets available for sale comprise of government treasury stock. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset, the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement.

Taxes

The major components of income tax on the profit or loss include current and deferred tax.

Current tax is based upon the profit or loss for the year adjusted for items that are non-assessable or disallowed and is calculated using tax rates that have been enacted, or substantively enacted, by the balance sheet date.

Income tax is charged or credited to the income statement, except where the tax relates to items credited or charged directly to equity, in which case the tax is also dealt within equity.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when deferred tax liabilities and assets are settled or recovered.

Critical accounting estimates and judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions with be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into accounts presentational changes.

Management has made the following judgements which have the most significant effects on the amounts recognised in the financial statements:

- Recoverability of exploration and evaluation costs

  The group uses the full cost method of accounting, whereby exploration and evaluation costs are capitalised as intangible assets if the associated project is commercially viable, and reviewed for impairment. This requires judgement assessments as to (a) the likely future commerciality of the asset, and (b) future revenues and costs relating to the project in order to determine the recoverable value of the asset.

The key sources of estimation uncertainty at the balance sheet date, which have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

- Share options

The group's share based payments were recognised at fair value, as in the prior period, using a 65% (2007: 50%) volatility rate. This is set out in greater detail in note 7.

2 EXPENSES BY NATURE

	2008 $	2007 $
Staff costs (note 5)	431,120	441,254
Share-based payment-equity settled	101,377	77,823
Exploration and evaluation expenditure	–	237,338
Services provided by the auditors:	–	–
Audit fee	31,517	32,024
Other services:		
Auditing of the accounts of the associate of the company under legislation	–	8,006
Other taxation services	58,257	–
Exchange differences	21,627	263,191
Depreciation of office equipment	9,850	16,074
Operating lease expenses-property	256,834	227,262
Sundry items	376,962	412,420
Total administrative expenses	1,287,544	1,715,392

3 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The loss for the financial year for the group was $4,727,900 (2007 - $335,701) and the weighted average number of shares in issue for the year was 194,344,170 (2007 - 144,351,668).

Potentially Dilutive Share Options

Due to the loss in the year for 2008 and 2007, the effect of the share options in issue is anti-dilutive and therefore diluted earnings per share has not been calculated.

At 31 December 2008 there were options over 1,000,000 shares outstanding which are potentially dilutive (2007 - 700,000). These options are described in Note 7. For the majority of the options their exercise price is greater than the weighted average share price during the year and it would not be advantageous of the holders to exercise these, therefore these options do not have a diluted effect.

4 SEGMENT ANALYSIS

For the purpose of segmental information the operations of the group consist of one class of business, the exploration for hydrocarbon liquids and gas.

During the year the group's exploration and evaluation activities took place outside the UK, substantially in the Falkland Islands. These costs are capitalised, where appropriate, in accordance with the accounting policies as set out in note 1 above.

The operating profit/(loss) of the group is analysed as follows:

	2008 $	2007 $
United Kingdom	1,287,544	(1,478,054)
Falkland Islands	–	(60,660)
Worldwide (excluding UK and Falkland Islands)	–	(176,678)
	1,287,544	(1,715,392)

Total assets are analysed as follows:

	Group		Company	
	2008 $	2007 $	2008 $	2007 $
United Kingdom	19,739,420	39,386,087	55,876,319	62,622,038
Falkland Islands	36,040,860	23,155,802	–	–
	55,780,280	62,541,889	55,876,319	62,622,038

Capital expenditure for the group during the year of $12,885,058 (2007 - $19,902,084) relates solely to the Falkland Islands. Depreciation expense for the group during the year of $9,850 (2007: $16,074) relates solely to the United Kingdom.

5 STAFF COSTS

Company and Group:

Staff costs (including directors) comprise:

	2008 $	2007 $
Wages and salaries	385,581	394,733
Employers national insurance contribution	45,539	46,521
Share based payment-equity settled	101,377	77,823
	532,497	519,077

The average number of employees (including directors) employed during the year by the company was 6 (2007 - 6) and for the group was 6 (2007 - 6). All employees and directors of the group and the company were involved in management.

In 2008 the group granted to staff of Borders and Southern Petroleum Plc, for nil consideration, share options with a total fair value of $208,635 (2007 - $45,164), of which $27,532 (2007 - $7,466) has been expensed during the year. In addition $73,845 (2007 - $70,357) has been expensed during the year in respect of share options granted in prior years.

6 DIRECTORS' EMOLUMENTS

The directors' emoluments for the period are as follows:

	2008 $	2007 $
Directors' fees	215,358	220,434
Share based payments – equity settled	12,165	14,071
	227,523	234,505

The fees and share-based payments made to each director are disclosed in the Remuneration Committee Report.

In 2006, the group granted to two directors of Borders and Southern Petroleum Plc, for nil consideration, 50,000 share options each, with a total fair value of $42,214. Of this amount $12,165 (2007 - $14,071) has been expensed during the year.

The directors are the key management personnel.

7 SHARE-BASED PAYMENT

On 18 July 2008, the group granted 300,000 share options to an employee of Borders and Southern Petroleum Plc, for nil consideration. The options will be cancelled if the employee leaves the company.

	31 December 2008 Weighted average exercise price	31 December 2008 Number	31 December 2007 Weighted average exercise price	31 December 2007 Number
Outstanding at the beginning of the year	42p	700,000	48p	500,000
Granted during the year	70p	300,000	26p	200,000
Outstanding at the end of the year		1,000,000		700,000

The exercise price of the options outstanding at the year end ranged between 26p and 70p and their weighted average contractual life was 4 years.

The following information is relevant in the determination of the fair value of the options granted during the year under the equity-settled share based remuneration scheme operated by the company.

	31 December 2008	31 December 2007
Equity-settled scheme		
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date	70p	26p
Exercise price	70p	26p
Weighted average contractual life (days)	1,460	1,460
Expected volatility	65%	50%
Expected dividend growth rate	0%	0%
Risk-free interest rate	1.5%	4.10%
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during the year.	\$27,532	\$7,466
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during 2006.	\$13,016	\$70,357
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during 2007.	\$60,829	–
Total share-based remuneration expense for the year	\$101,377	\$77,823

8 FINANCE INCOME AND EXPENSE

Finance income

	2008 \$	2007 \$
Bank interest receivable	951,024	1,379,691
Treasury stock interest	35,153	–
	986,177	1,379,691

Finance expense

Finance expense	2008 \$	2007 \$
Exchange loss on cash and other financial assets	4,426,533	–

The foreign exchange loss arises on the treasury stock and cash balances held in £ due to the devaluation of the £ against the \$ during the second half of the year.

9 TAX EXPENSE

Current tax expense

	2008 $	2007 $
UK corporation tax on loss for the year	–	–

Factors affecting current period tax charge

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2008 $	2007 $
Loss before and after taxation	(4,727,900)	(335,701)
Standard rate corporation tax charge of 28.5% (2007: 30%)	(1,347,452)	(100,710)
Expenses not deductible for tax purposes	134,289	28,103
Depreciation in (deficit)/excess of capital allowances	(2,988)	3,218
Unutilised tax losses carried forward	1,216,151	69,389
Total current tax for the year	–	–

The rate of UK corporation tax changed from 30% to 28% with effect from 1 April 2008. The average rate applicable for the period is therefore 28.5% (2007: 30%).

Factors that may affect future tax charges

The group has a deferred tax asset of $1,205,527 (2007 - $489,794) in respect of unrelieved tax losses of $4,305,453 at 31 December 2008 (2007 - $1,632,647), and a deferred tax asset of $nil in respect of accelerated capital allowances (2007- $3,305). The rate of tax used in the calculation of the deferred tax assets is 28% (2007-30%). The deferred tax asset has not been recognised in the financial statements as the economic benefit is uncertain.

10 PROPERTY, PLANT AND EQUIPMENT

Group and company

	Office equipment $
Cost	
As at 1 January 2007	48,891
Additions	3,543
As at 31 December 2007	52,434
Depreciation	
As at 1 January 2007	28,611
Charge for the year	16,074
As at 31 December 2007	44,685
Net book value	
As at 31 December 2007	7,749
As at 31 December 2006	20,280

	$
Cost	
As at 1 January 2008	52,434
Additions	17,030
As at 31 December 2008	69,464
Depreciation	
As at 1 January 2008	44,685
Charge for the year	9,850
As at 31 December 2008	54,535
Net book value	
As at 31 December 2008	14,929

11 INTANGIBLE ASSETS

Group

	Exploration and evaluation costs $
Cost	
As at 1 January 2007	3,258,772
Additions	19,902,084
Disposal to income statement	(5,054)
As at 31 December 2007	23,155,802
Net book value	
As at 31 December 2007	23,155,802
As at 31 December 2006	3,258,771

Group

	Exploration and evaluation costs $
Cost	
As at 1 January 2008	23,155,802
Additions	12,885,058
As at 31 December 2008	36,040,860
Net book value	
As at 31 December 2008	36,040,860

12 INVESTMENTS IN SUBSIDIARY

Company

	2008 $	2007 $
Cost		
As at 1 January 2008 and 31 December 2008	2	2
Net book value		
As at 31 December 2007 and 31 December 2008	2	2

The company owns the one ordinary £1 subscriber share, being 100% of the issued share capital, in Borders and Southern Falkland Islands Limited. The company was registered in England and its principal activity is oil and gas exploration.

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	$	$	$	$
Amounts owed by group undertakings	–	–	36,136,897	23,235,949
Other receivables	66,492	114,543	66,492	114,543
Prepayments and accrued income	185,296	198,857	185,296	198,857
	251,788	313,400	36,388,685	23,549,349

All amounts shown under receivables fall due for payment within one year.

14 OTHER FINANCIAL ASSETS

	Group		Company	
	2008	2007	2008	2007
	$	$	$	$
Available for sale investments	9,950,668	–	9,950,668	–

Available for sale investments consist of UK Treasury Stock denominated in £.

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	2008	2007
	$	$	$	$
Trade payables	124,649	2,213,884	124,649	2,213,884
Other taxes and social security costs	12,281	16,092	12,281	16,092
Other payables	11,831	2,092	11,831	2,092
Accruals and deferred income	46,009	77,673	38,822	66,189
	194,770	2,309,741	187,583	2,298,257

16 SHARE CAPITAL

	2008	2007
	$	$
Authorised		
750,000,000 ordinary shares of 1 pence each	14,926,125	14,926,125
Allotted, called up and fully paid		
194,344,170 ordinary shares of 1 pence each	3,867,741	3,867,741

17 RELATED PARTY TRANSACTIONS

Company

During the year Borders & Southern Petroleum Plc paid expenses of $11,359,028 (2007 - $19,935,351) on behalf of Borders & Southern Falkland Islands Limited. At the year end $36,136,897 (2007 - $23,235,949) was due from the subsidiary.

There have been no transactions with directors during the year. The remuneration paid to each director is disclosed in the Remuneration Committee Report.

18 OPERATING LEASES

As at 31 December 2008 the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2008	2007
	$	$
Within one year	202,723	125,468

19 CONTINGENT LIABILITIES

The group and company had no contingent liabilities at 31 December 2008.

20 CAPITAL COMMITMENTS

The group and company had no capital commitments at 31 December 2008

21 FINANCIAL INSTRUMENTS

The main risks arising from the group's operations are interest rate risk and foreign currency translation risk. The group monitors risk on a regular basis and takes appropriate measures to ensure risks are managed in a controlled manner.

a) Interest rate risk

The group's financial assets and liabilities accrue interest at prevailing floating rates in the United Kingdom or at pre-arranged fixed rates, as described further below. The group does not currently use derivative instruments to manage its interest rate risk.

At 31 December 2008 the company held cash at bank and in deposits under its control of $9,522,035 (2007 - $39,064,938), in addition to UK Treasury stock of $9,950,668, which matures in March 2009. These form the majority of the group's working capital. Of the cash at bank and in deposit, $584,285 (2007 - $741,614) relates to deposits placed with banking institutions that are available on demand which carry interest at prevailing United Kingdom deposit floating rates. The balance represents restricted deposits of $8,937,750 (2007 - $38,323,324) with weighted average fixed interest rate of 1.7% for three months.

b) Foreign currency translation risk

The operational currency of the oil and gas exploration and evaluation activities of the group is US $, services and treasury function is UK £. Balances are held in £ sterling and US $ are purchased when required and used to meet exploration and evaluation needs.

The interest rate risk and foreign currency profile of financial assets and liabilities of the group and the company are as follows:

Current financial assets	Group		Group	
	Assets available for sale 2008 $	Loans and receivables 2008 $	Assets available for sale 2007 $	Loans and receivables 2007 $
Held in UK £:				
Trade and other receivables	–	66,492	–	114,543
Other financial assets	9,950,668	–	–	–
Cash and cash equivalents	–	1,668,280	–	17,848,167
Total current financial assets held in UK £	9,950,668	1,734,772	–	17,962,710
Held in US $:				
Cash and cash equivalents	–	7,853,755	–	–
Total financial assets	9,950,668	9,588,527	–	17,962,710

Current financial assets	Company		Company	
	Assets available for sale 2008 $	Loans and receivables 2008 $	Assets available for sale 2007 $	Loans and receivables 2007 $
Held in UK £:				
Trade and other receivables	–	66,492	–	23,350,492
Other financial assest	9,950,668	–	–	–
Cash and cash equivalents	–	1,668,280	–	17,848,167
Total current financial assets held in UK £	9,950,668	1,734,772	–	41,198,659
Held in US $:				
Trade and other receivables	–	36,136,897	–	–
Cash and cash equivalents	–	7,853,755	–	–
Total financial assets	9,950,668	45,725,424	–	41,198,659

Following on from the change in the Company's functional currency, the amount owed by group undertaking was re-denominated into a US$ balance.

Foreign currency translation risk:

If there was a 10% change in the year end exchange rate there would be a movement in the US$ equivalent of financial assets held in UK£ of $1,167,718 for the group and $3,789,745 for the company (2007 - $1,796,271 for the group and $4,119,866 for the company).

	Group		Company	
Current financial liabilities	Financial liabilities measured at amortised cost 2008 $	Financial liabilities measured at amortised cost 2007 $	Financial liabilities measured at amortised cost 2008 $	Financial liabilities measured at amortised cost 2007 $
Held in UK£:				
Trade and other payables	103,242	371,269	96,053	359,785
Held in US $:				
Trade and other payables	79,247	1,922,380	79,247	1,922,380
Total financial liabilities	182,489	2,293,649	175,300	2,282,165

Foreign currency translation risk:

If there was a 10% change in the year end exchange rate there would be a movement in the US$ equivalent of financial liabilities held in UK£ of $10,324 for the group and $9,605 for the company (2007 - $37,127 for the group and $35,979 for the company).

c) Credit risk

The group has no customers so formal credit procedures are in the process of being established. Credit risk on cash balances is managed by only banking with reputable financial institutions with a high credit rating. The only significant concentration of credit risk is cash held at bank and the maximum credit risk exposure for the group and company is detailed in the table below:

	2008		2007	
	Carrying Value $	Maximum exposure $	Carrying Value $	Maximum exposure $
Cash and cash equivalents	9,522,035	9,522,035	39,064,938	39,064,938
Maximum credit risk exposure	9,522,035	9,522,035	39,064,938	39,064,938

Fair values

The fair values of the group's financial assets and liabilities at 31 December 2008 and at 31 December 2007 are materially equivalent to their carrying value as disclosed in the balance sheet and related notes.

Capital

The objective of the directors is to maximise shareholder return and minimise risk by keeping a reasonable balance between debt and equity. To date the group has minimised risk by being purely equity financed. The group considers its capital to comprise its ordinary share capital, share premium, accumulated retained earnings and other reserves.

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Christopher Nigel Hurst-Brown
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William John Walton Slack

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