Borders & Southern Plc
annual report and accounts 2009

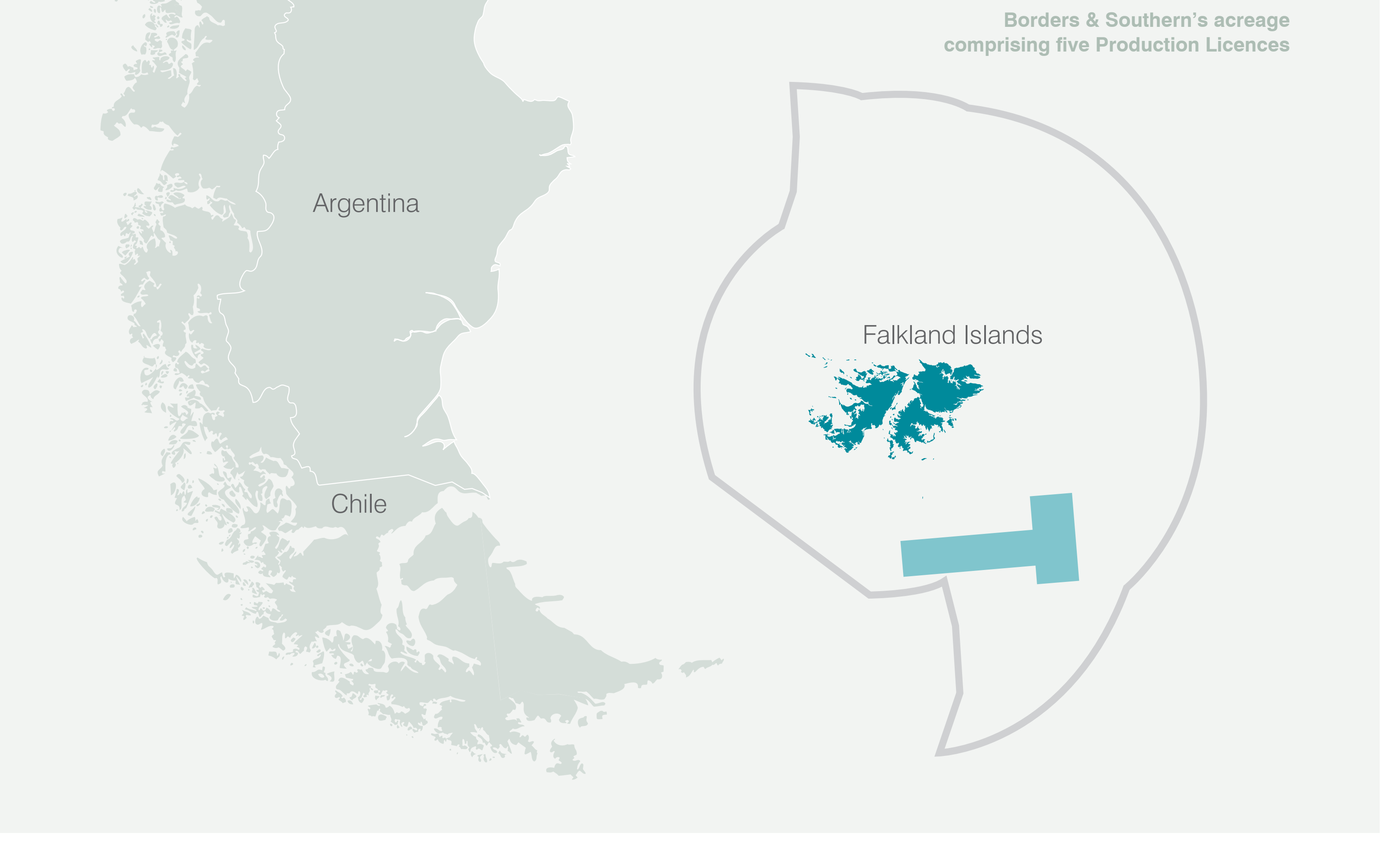
Exploration for oil and gas

borders&southern
petroleum plc

Welcome to the 2009 borders&southern annual report, let us tell you a little more about what we do...

Borders & Southern is focused on exploring frontier or emerging hydrocarbon systems, seeking to identify high value prospects.

The Company's first project is located to the south of the Falkland Islands within a completely untested basin.



Falkland Islands
South Falkland Basin
100% (operator) interest

01 PL018 (Quad 61, blocks 16 to 30)
3,668 sq km

02 PL019 (Quad 62, blocks 16 to 30)
3,668 sq km

03 PL020 (Quad 63, blocks 16 to 30)
3,668 sq km

04 PL021 (Quad 64, blocks 1 to 30)
7,381 sq km

05 PL022 (Quad 73, blocks 1 to 5)
1,213 sq km

highlights of our year

- Consolidated the prospect inventory and submitted Environmental Impact Statement
- Completed initial well designs and cost estimation study
- Received a three year extension to the first Phase Exploration Term with an obligation to drill one exploration well
- Raised $184 million (net of expenses) through the placement of 234,234,234 Ordinary Shares
- Cash balance as at 31 December 2009 was $206.3 million

cash balance

$206.3m

net funds raised

$184m

market capitalisation

$421m

at 31 December 2009

our operations

Borders & Southern holds a 100% equity interest and operatorship in five Production Licences covering an area of nearly 20,000 sq km in the South Falkland Basin.

We have acquired and evaluated 2,862 km of 2D seismic data and 1,492 sq km of 3D seismic data.

Our objective is to test the hydrocarbon potential of our acreage and we have selected the Stebbing and Darwin prospects as the first targets.

For up-to-date information on our share price and all the latest news please visit our website **www.bordersandsouthern.com**

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chairman's statement

During the course of 2009 there was a notable change in sentiment within the oil sector. At the start of the year the oil price was around $35 per barrel, global exploration had been scaled back and share prices of oil companies had fallen. However, the oil price progressively increased towards $80 per barrel by the end of the year and this rise was accompanied by a noticeable change in appetite for exploration risk, including frontier exploration. This was partly to do with success stories in places such as Ghana, Uganda, Kurdistan and Sierra Leone. In the first half of 2010 the oil price has stabilised around the $80 to $85 per barrel mark.

Against this background, our activity during the year involved consolidating our prospect inventory and initiating preliminary well planning. We have also focused on ensuring sufficient funds are available for the initial drilling programme. Deep water wells are expensive and having commissioned a well cost analysis, the board considered that it required around $185 million to fund 2 to 3 wells with contingency, assuming 100% funding of the wells along with all the mobilisation and demobilisation costs of the rig and equipment.

In November 2009 the Board decided that the market conditions were right to support a major fundraising and the company successfully raised $190 million (before expenses) at a price equivalent to the then market price. The response was incredible and we were delighted with the quality of the new institutional shareholders. We believe that the positive response from major funds reflects the quality of the technical case and the quality of the work undertaken to date but most importantly, the quality of the initial prospects that have been prioritised for drilling.

I would like to welcome our new shareholders and thank them for their support. I would also like to thank our new joint-brokers Mirabaud, along with existing joint-brokers Panmure Gordon and Ocean Equities, for their help in making the issue such a success.

View of Stanley from Mount Tumbledown.

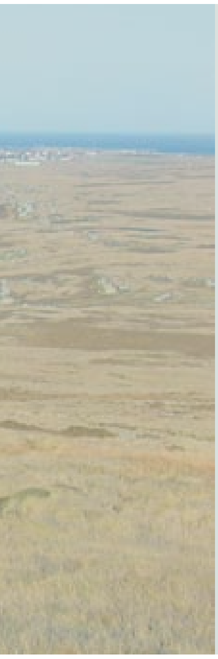
Harry Dobson
Non-Executive Chairman

"The fund raising in November was a tremendous success. **Our forward programme is now fully funded which allows us to control our own destiny.**"

Borders & Southern's cash balance of $206.3 million at year end allows us to move forward independently to fund the wells that we would like to drill and to set our own time line. In this regard, we are currently trying to source a deep water rig to be active in the next summer season in the Falklands (the back end of 2010 and the first quarter of 2011). There are rigs available in this time frame but it is a competitive environment with others competing for the same rigs. However, we are optimistic that we can meet our objectives and will inform shareholders once we have secured a suitable rig.

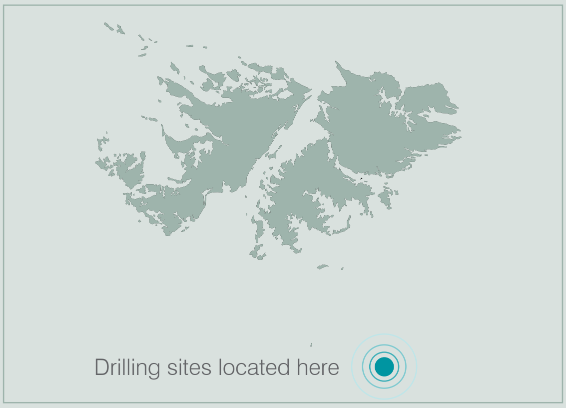
As we look forward, the next twelve months should prove the most exciting in our short history as we source a rig, finalise the well planning and begin drilling the acreage.

Harry Dobson
Non-Executive Chairman



our aims... apply industry leading technology and petroleum systems analysis

We operate from the Falkland Islands



Borders & Southern's objective is to test the hydrocarbon potential of the east-west trending fold belt, located approximately 150 km to the south of the Falkland Islands. This fold belt trend contains numerous large simple structures (up to 150 sq km in area), including thrust cored anticlines and tilted fault blocks. The clear definition of these structures has been achieved through the acquisition of 2,862 km of 2D seismic and 1,492 sq km of 3D seismic.

Our corporate offices. Borders & Southern Petroleum plc, are based in London, UK.

chief executive’s review

In November 2009 the first Exploration phase of our Production Licences reached a conclusion. As Borders & Southern had fulfilled all of its work programme obligations and had worked up an impressive prospect inventory, we requested a three year extension to this first phase from the Falkland Islands Government. This was subsequently granted so long as we commit to drill one exploration well during that period.

During the year we continued to work our seismic data and continued to refine our prospect inventory. In addition, we purchased more 2D non-exclusive regional seismic data covering areas outside our licensed acreage. The purpose of this was to improve our knowledge of the basin as a whole, which could be fed back into the evaluation of our prospects.

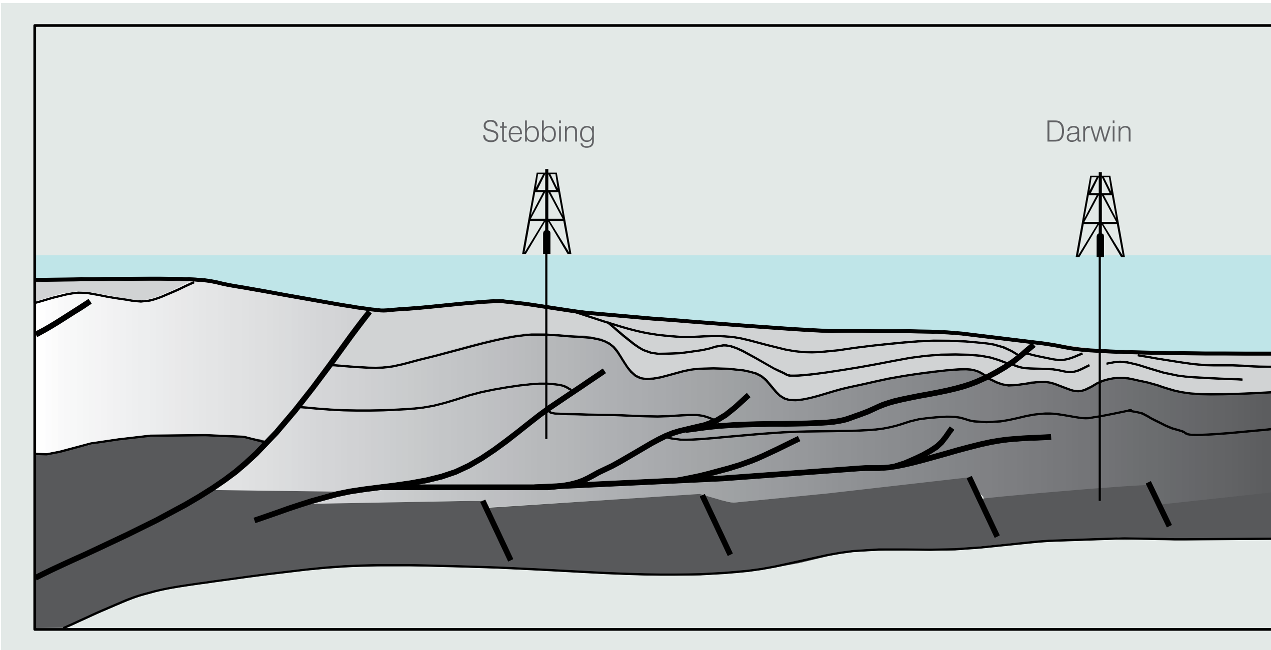
We also progressed our Environmental Impact Assessment. This led to the submission of our Environmental Impact Statement in February 2010. A public consultation was subsequently held in the Falkland Islands allowing feedback on the document and having responded to questions, we now await approval from the Falkland Islands Government.

Prior to our fundraising in November 2009, consultants AGR completed initial well designs for our Darwin and Stebbing wells along with some initial cost estimates. Darwin and Stebbing have been high graded as the best first tests of our acreage as they are robust structural traps and have impressive geophysical attributes that help to reduce risk. Also, in the case of Darwin, there are good success case analogues in the contiguous Malvinas and Magellanes basins to the west.

Although exploration risk can never be eliminated, we are particularly excited about drilling these prospects. The two prospects are completely independent of each other except that they require the same source rock to be working. We will therefore be learning as much as we can about the geology and petroleum systems of our acreage.

As I write this review, operations in the North Falkland Basin are underway. As reported previously, the geology in the North Falklands Basin is completely different from that in the South. The prime difference is that the sediments in the North were deposited in lakes whilst the sediments in the South were deposited in a marine environment. Consequently, the outcomes in the north, both positive and negative have absolutely no impact on the prospectivity of our acreage.

Schematic cross section illustrating the Stebbing and Darwin prospects.



Howard Obee
Chief Executive

"Exploration risks can never be eliminated, but we are particularly excited about the drilling of the Darwin and Stebbing prospects."

Shortly, the first well in the South Falkland Basin will be drilled, operated by BHP Billiton. Our understanding is that their prospect is a structural/stratigraphic trap. This contrasts with the structural traps, defined by 3D seismic, that we will be drilling. So whilst their well will be drilling similar geology, in detail the prospects are considered significantly different. The key differences are the age of reservoir and seal, the source kitchen and migration pathways and importantly, the trapping mechanism.

Technical work on our acreage will continue. For instance we have recently kicked off a pre-stack depth migration study of the Stebbing prospect and a pore pressure prediction study for both prospects. However, the majority of the technical activity will be focused on detailed well engineering.

Currently our energies are directed towards accessing a deep water rig. We are fully funded to cover all of the drilling and mobilisation costs. Hopefully, we will be able to share some of the mobilisation and demobilisation costs with other operators in the region.

Howard Obee
Chief Executive

what's next... drilling two of our key prospects

Darwin and Stebbing have been selected as the first targets in our acreage. They are completely independent other than requiring the same source rock. This means that they have different aged reservoirs and seals, different source kitchens and migration pathways and different structural styles.

Darwin in a robust tilted fault block with a Lower Cretaceous aged reservoir interval. The prospect has a flat spot, amplitude conformance to structure and an AVO anomaly. P50 resource estimates for the anomaly alone are 300 million barrels of recoverable oil. P50 resource estimates for the entire structure down to the mapped spill point are 760 million barrels of recoverable oil.

Stebbing is a robust simple fold with reservoir intervals in the Tertiary and Upper Cretaceous. The prospect has AVO anomalies in the Tertiary. P50 resource estimates for the combined reservoir intervals are 1,280 million barrels of recoverable oil.

If either or both of the prospects are successful then there is plenty of follow up potential in the 3D area. Similar folds and tilted fault blocks have been mapped and evaluated along with many interesting structural/stratigraphic traps. The 3D area represents 7.6% of the total area under licence. Success would also lead to an expansion of the area covered by 3D seismic.

financial review

In the 2008 Annual Report, I wrote that we were looking at different options to fund the cost of drilling at least two exploration wells in the Falkland Islands, including the introduction of a partner. In the latter part of last year, higher oil prices, the return of an appetite for risk in the natural resources sector by investors and the broad recognition of the quality of the company's prospects, all combined to make the raising of the funds through a private placement possible and the preferred option. This placement, at 50p/share, raised $184 million after costs from existing and new shareholders. It was a fantastic outcome for the company greatly assisted by the high quality of our brokers and advisors.

Whilst we raised the monies in pounds sterling, we decided to move the bulk of the monies into US$ to reflect both the currency we expect to be invoiced in and our presentational currency. To avoid a currency risk from the time we announced the capital raising and the receipt of the funds post the Extraordinary General Meeting, we took out a forward contract for most of the proceeds. As it happens, the £:$ rate declined during that period so we made a gain on this transaction and this largely accounts for the profit made during the year.

We have placed the company's cash funds with high quality large banks so, whilst we do not get a high interest rate, we are not talking excessive risk with the funds.

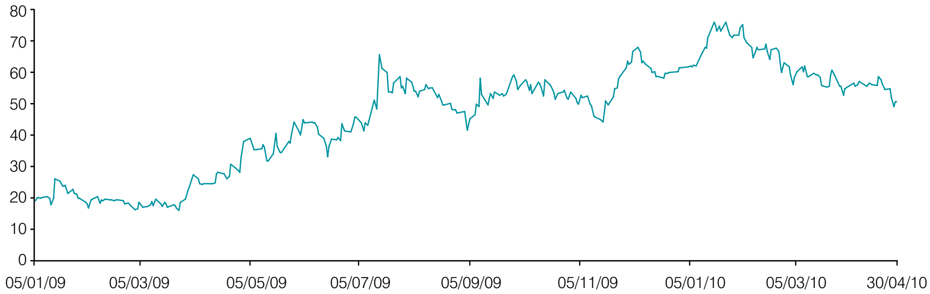
As you will have read elsewhere in this report, we are currently seeking to contract a drilling rig to drill at least two exploration wells either later in 2010 or, more likely, early in 2011. Based on a third party review of drilling costs, we have sufficient funds to drill these two wells with the possibility of drilling a third well under certain circumstances including sharing of mobilisation and demobilisation costs.

Peter Fleming
Finance Director

Peter Fleming
Finance Director

Pence/Share

BOR.L



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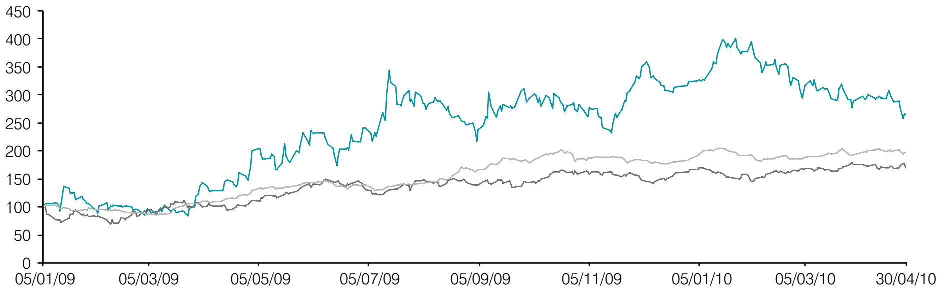
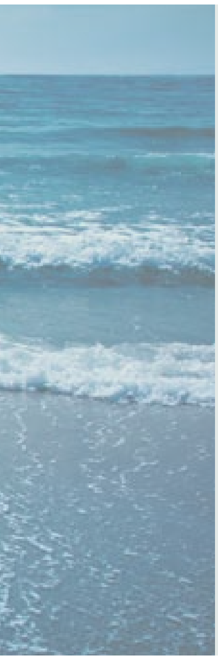
BOR.L
AIM Oil & Gas
WTI Oil





we are now one of the largest AIM companies

- The company's share price has performed well over the last two years relative to other AIM listed oil and gas companies and the oil price.
- The market capitalisation places the company in the top 40 of the total AIM listed companies across all sectors.
- The company was ranked 15th in Deloitte's UK upstream independents league table 2009.
- The company's annual overhead is one of the lowest for a company of it's size.

board of directors

01. David Harry Williamson Dobson
(Non-executive Chairman) age 62

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.

Harry is Chairman of the Remuneration Committee and sits on the Audit Committee.

02. Howard Kevin Obee
(Chief Executive) age 50

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.

03. Peter William Fleming
(Finance Director) age 48

Peter Fleming has over 15 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 Master's degrees in Business Administration and Finance.

04. Stephen James Douglas Posford
(Non-executive Director) age 63

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.

Stephen sits on the Audit and Remuneration Committees.

05. Christopher Nigel Hurst-Brown
(Non-executive Director) age 58

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.

Nigel is Chairman of the Audit Committee and sits on the Remuneration Committee.

Number of board meetings
Attendance

	Board	Remuneration Committee	Audit Committee
Harry Dobson	4	1	2
Howard Obee	4	—	2
Peter Fleming	4	—	2
Stephen Posford	4	1	2
Nigel Hurst-Brown	4	1	2

directors' report
for the year ended 31 December 2009

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2009.

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 statement of comprehensive income is set out on page 18 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 4 and 6.

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 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.

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 UK sterling. To mitigate the risk, the company retains funds on UK sterling bank accounts to settle these liabilities.

The company also has potential exposure to cash being raised in UK Sterling but planned future expenditure being in US Dollars. To mitigate against this risk the company may take out forward exchange contracts when necessary.

Key performance indicators
The company's key performance indicators (discussed in the Chief Executive's Review and Finance Review on pages 4 to 7) are on the management of its cash position ($206.3m at year end, 2008: $19.5m including UK Government bond) and the fulfilment of the exploration program.

Post balance sheet events

All events that have occurred since the year end which require reporting have been disclosed in note 21.

Charitable and political donations

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

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 14 days (2008: 5 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 22 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 2009, were as follows:

	At 31 December 2009 Number	At 31 December 2008 Number
David Harry Williamson Dobson	**26,670,000**	26,670,000
Stephen James Douglas Posford	**27,500,000**	26,695,000
Howard Kevin Obee	**10,000,000**	10,000,000
Christopher Nigel Hurst-Brown	**1,530,000**	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.

directors' report continued
for the year ended 31 December 2009

Share options

	Number of options held at the beginning of the year	Number of options held at the end of the year	Exercise price
Howard Kevin Obee	50,000	300,000	56p
Peter William Fleming	50,000	300,000	56p
Christopher Nigel Hurst-Brown	—	250,000	58p

Substantial shareholders

At 19 May 2010 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	67,979,000	15.86%
Stephen James Douglas Posford	27,500,000	6.40%
Zila Corporation	26,670,000	6.22%
Blackrock Investment Management (UK) Limited	25,920,085	6.05%
Henderson Global Investors Ltd	22,248,512	5.19%
Allianz SE	18,460,000	4.30%

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements and have elected to prepare the parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company'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 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

William John Walton Slack
Company Secretary
19 May 2010

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 2009 was as follows:

	Basic salary $	Share-based payment $	**Total 2009 $**	Total 2008 $
David Harry Williamson Dobson	—	—	**—**	—
Stephen James Douglas Posford	—	—	**—**	—
Howard Kevin Obee	148,365	11,428	**159,793**	176,305
Christopher Nigel Hurst-Brown	—	8,321	**8,321**	—
Peter William Fleming	39,417	11,428	**50,845**	51,218

Pensions

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

independent auditor's report
to the members of Borders and Southern Petroleum Plc

We have audited the financial statements of Borders and Southern Petroleum Plc for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the company statement of financial position, the company statement of changes in equity, the consolidated statement of cash flows, the company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
19 May 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

consolidated statement of comprehensive income
for the year ended 31 December 2009

	Note	2009 $	2008 $
Administrative expenses		**(1,209,977)**	(1,287,544)
Loss from operations	2	**(1,209,977)**	(1,287,544)
Finance income	8	**4,587,604**	986,177
Finance expense	8	**(226,891)**	(4,426,533)
Profit/(loss) before tax		**3,150,736**	(4,727,900)
Income tax expense	9	**—**	—
Profit/(loss) for the year and total comprehensive income/(loss) for the year attributable to owners of the parent		**3,150,736**	(4,727,900)
Earnings/(loss) per share – basic and diluted	3	**1.54 cents**	(2.43) cents

The notes on page 25 to 39 form part of these financial statements.

consolidated statement of financial position
at 31 December 2009

	Note	2009 $	2009 $	2008 $	2008 $
Assets					
Non-current assets					
Property, plant and equipment	10		**19,516**		14,929
Intangible assets	11		**36,619,040**		36,040,860
Total non-current assets			**36,638,556**		36,055,789
Current assets					
Trade and other receivables	13	**100,191**		251,788	
Other financial assets	14	**—**		9,950,668	
Cash and cash equivalents		**206,321,177**		9,522,035	
Total current assets			**206,421,368**		19,724,491
Total assets			**243,059,924**		55,780,280
Liabilities					
Current liabilities					
Trade and other payables	15		**(244,680)**		(194,770)
Total net assets			**242,815,244**		55,585,510
Equity					
Share capital	16		**7,675,453**		3,867,741
Share premium reserve			**238,034,095**		57,906,686
Other reserves			**353,286**		209,409
Retained deficit			**(3,231,194)**		(6,381,930)
Foreign currency reserve			**(16,396)**		(16,396)
Total equity			**242,815,244**		55,585,510

The notes on page 25 to 39 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 19 May 2010.

Howard Kevin Obee
Director

Peter William Fleming
Director

Company number:
5147938

consolidated statement of changes in equity
for the year ended 31 December 2009

	Share capital $	Share premium reserve $	Other reserves $	Foreign currency reserve $	Retained deficit $	Total $
Balance at 1 January 2008	3,867,741	57,906,686	108,032	3,719	(1,654,030)	60,232,148
Total comprehensive loss for the year	—	—	—	—	(4,727,900)	(4,727,900)
Recognition of share based payments	—	—	101,377	—	—	101,377
Foreign exchange on change in presentation 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
Total comprehensive income for the year	—	—	—	—	3,150,736	3,150,736
Issue of share capital	3,807,712	180,127,409	—	—	—	183,935,121
Recognition of share based payments	—	—	143,877	—	—	143,877
Balance at 31 December 2009	**7,675,453**	**238,034,095**	**353,286**	**(16,396)**	**(3,231,194)**	**242,815,244**

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 the change of subsidiaries functional currency to a presentational currency of $.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on page 25 to 39 form part of these financial statements.

company statement of financial position
as at 31 December 2009

	Note	2009 $	2009 $	2008 $	2008 $
Assets					
Non-current assets					
Property, plant and equipment	10		**19,516**		14,929
Investments	12		**2**		2
			19,518		14,931
Current assets					
Trade and other receivables	13	**36,845,926**		36,388,685	
Other financial assets	14	**—**		9,950,668	
Cash and cash equivalents		**206,321,177**		9,522,035	
			243,167,103		55,861,388
Total assets			**243,186,621**		55,876,319
Liabilities					
Current liabilities					
Trade and other payables	15		**(237,495)**		(187,583)
Total net assets			**242,949,126**		55,688,736
Equity					
Called up share capital	16		**7,675,453**		3,867,741
Share premium reserve			**238,034,095**		57,906,686
Other reserves			**353,286**		209,409
Retained deficit			**(3,095,023)**		(6,276,415)
Foreign currency reserve			**(18,685)**		(18,685)
Total equity			**242,949,126**		55,688,736

The notes on page 25 to 39 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 19 May 2010.

Howard Kevin Obee
Director

Peter William Fleming
Director

company statement of changes in equity
for the year ended 31 December 2009

	Share capital $	Share premium reserve $	Other reserves $	Foreign currency reserve $	Retained deficit $	Total $
Balance at 1 January 2008	3,867,741	57,906,686	108,032	3,965	(1,562,643)	60,323,781
Total comprehensive loss for the year	—	—	—	—	(4,713,772)	(4,713,772)
Recognition of share-based payments	—	—	101,377	—	—	101,377
Foreign exchange on change in presentation 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
Total comprehensive income for the year	—	—	—	—	3,181,392	3,181,392
Issue of share capital	3,807,712	180,127,409	—	—	—	183,935,121
Recognition of share based payments	—	—	143,877	—	—	143,877
Balance at 31 December 2009	**7,675,453**	**238,034,095**	**353,286**	**(18,685)**	**(3,095,023)**	**242,949,126**

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 the change of subsidiaries functional currency to a presentational currency of $.
Retained deficit	Cumulative net gains and losses recognised in the statement of comprehensive income.

The notes on page 25 to 39 form part of these financial statements.

consolidated statement of cash flows
for the year ended 31 December 2009

	2009		2008	
	$	$	$	$
Cash flow from operating activities				
Profit/(loss) before tax		**3,150,736**		(4,727,900)
Adjustments for:				
Depreciation		**9,206**		9,850
Share-based payment		**143,877**		101,377
Finance income		**(4,587,604)**		(986,177)
Finance expense		**226,891**		4,426,533
Foreign exchange differences		**—**		(20,115)
Cash flows from operating activities before changes in working capital		**(1,056,894)**		(1,196,432)
Decrease in trade and other receivables		**12,841**		65,881
Increase/(decrease) in trade and other payables		**49,910**		(2,114,975)
Net cash outflow from operating activities		**(994,143)**		(3,245,526)
Cash flows used in investing activities				
Interest received	**359,490**		981,912	
Redemption/(purchase) of other financial assets	**9,950,668**		(9,950,668)	
Purchase of intangible assets	**(578,180)**		(12,885,058)	
Purchase of property, plant and equipment	**(13,793)**		(17,030)	
Net cash used in investing activities		**9,718,185**		(21,870,844)
		8,724,042		(25,116,370)
Cash flows from financing activities				
Gain on forward contract	**4,366,870**		—	
Proceeds from issue of shares and share options (net of issue costs)	**183,935,121**		—	
Net cash from financing activities		**188,301,991**		—
Net increase/(decrease) in cash and cash equivalents		**197,026,033**		(25,116,370)
Cash and cash equivalents at the beginning of the year		**9,522,035**		39,064,938
Exchange (loss on cash and cash equivalents)		**(226,891)**		(4,426,533)
Cash and cash equivalents at the end of the year – see note 17		**206,321,177**		9,522,035

The notes on page 25 to 39 form part of these financial statements.

company statement of cash flows
for the year ended 31 December 2009

	2009		2008	
	$	$	$	$
Cash flow from operating activities				
Profit/(loss) before tax		**3,181,392**		(4,713,772)
Adjustments for:				
Depreciation		**9,206**		9,850
Share-based payment		**143,877**		101,377
Finance income		**(4,587,604)**		(986,177)
Finance expense		**226,891**		4,426,533
Foreign exchange differences		**—**		(22,651)
Cash flows from operating activities before changes in working capital		**(1,026,238)**		(1,184,840)
Decrease in trade and other receivables		**12,840**		74,879
Increase/(decrease) in trade and other payables		**49,912**		(2,110,676)
Net cash outflow from operating activities		**(963,486)**		(3,220,637)
Cash flows from investing activities				
Interest received	**359,491**		981,913	
Redemption/(purchase) of other financial assets	**9,950,668**		(9,950,668)	
Increase in amounts due from group undertaking	**(608,838)**		(12,909,948)	
Purchase of intangible assets	**(13,793)**		(17,030)	
Net cash from investing activities		**9,687,528**		(21,895,733)
Cash flows from financing activities		**8,724,042**		(25,116,370)
Gain on forward contract	**4,366,870**		—	
Proceeds from issue of shares and share options (net of issue costs)	**183,935,121**		—	
Net cash from financing activities		**188,301,991**		—
Net increase/(decrease) in cash and cash equivalents		**197,026,033**		(25,116,370)
Cash and cash equivalents at the beginning of the year		**9,522,035**		39,064,938
Exchange loss on cash and cash equivalents		**(226,891)**		(4,426,533)
Cash and cash equivalents at the end of the year – see note 17		**206,321,177**		9,522,035

The notes on page 25 to 39 form part of these financial statements.

notes to the financial statements
for the year ended 31 December 2009

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 and parent company 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 2006 applicable to companies preparing their accounts under IFRS.

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of available for sale financial assets.

Effective 1 July 2008, the Company's functional currency changed from Pounds sterling (£) to the US dollar ($). This change was made as, due to significant balances being denominated in $, 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.

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.

New and revised Standards effective for 31 December 2009 year ends that are not currently relevant to the Group

Amendments

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 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.

IAS 32 & IAS 1: Puttable financial instruments 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.

Interpretations

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.

New and revised Standards effective for 31 December 2009 year ends which are currently relevant to the group

The IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 December 2008. The following standards, interpretations and amendments to existing standards have been adopted for the first time in 2009.

New Standards

IFRS 8: Operating segments (effective for accounting periods commencing on or after 1 January 2009).

Amendments

IAS 1: Presentation of financial statements: a revised presentation (effective for accounting periods commencing on or after 1 January 2009).

IFRS 2: Share based payment: vesting conditions and cancellations (effective for accounting periods commencing on or after 1 January 2009).

IFRS 1 & IAS 27: Cost of an investment in a subsidiary, jointly-controlled entity or associate (effective for accounting periods commencing on or after 1 January 2009).

IFRS 7: Improving disclosures about financial Instruments (effective for accounting periods commencing on or after 1 January 2009).

The adoption of these standards, interpretations and amendments did not affect the Group statement of comprehensive income or financial positions. The presentation of these financial statements incorporates changes arising from adoption of these standards, interpretations and amendments.

notes to the financial statements continued
for the year ended 31 December 2009

1 Accounting policies continued

New and revised Standards issued but not effective for 31 December 2009 year ends

The IASB and IFRIC have issued the following standards and interpretations which are effective for reporting periods beginning after the date of these financial statements, and which the group is not early adopting.

New Standards

IFRS 9*: New standard replacing IAS 39 (effective for accounting periods commencing on or after 1 January 2013). This is not considered relevant to the group's operations.

Amendments

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.

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.

IAS 39: 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.

IAS 39: Reclassification of financial assets: effective date and transition (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.

IFRIC 9 & IAS 39: Embedded derivatives (effective for accounting periods commencing on or after 1 June 2009). This is not considered relevant to the group's operations.

Improvements to IFRSs (2010): Amendments to various standards issued 16 April 2009 (effective for accounting periods commencing on or after 1 January 2010). The group will apply these improvements in the accounting period commencing 1 January 2010.

IFRS 2*: Group cash-settled share-based payment transactions (effective for accounting periods commencing on or after 1 January 2010). This is not considered relevant to the group's operations.

IFRS 1*: Additional exemptions for first-time adopters (effective for accounting periods commencing on or after 1 February 2010). This is not considered relevant to the group's operations.

IAS 32*: Classification of Rights Issues (effective for accounting periods commencing on or after 1 February 2010). This is not considered relevant to the group's operations.

IAS 24 (revised)*: Revised definition of related party (effective for accounting periods commencing on or after 1 January 2011). The group will apply this amendment in the accounting period commencing 1 January 2011.

IAS 19 and IFRIC 14*: Limit of a defined benefit asset, minimum funding requirements and their interaction (effective for accounting periods commencing on or after 1 January 2011). This is not considered relevant to the group's operations.

Interpretations

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.

IFRIC 19*: Extinguishing financial liabilities with equity instruments (effective for accounting periods commencing on or after 1 July 2010). This is not considered relevant to the group's operations.

The group is evaluating the impact of the above pronouncements but they are not expected to have a material impact on the group's earnings or to shareholders' funds.

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.

* These standards, interpretations and amendments have not been endorsed by the EU.

1 Accounting policies continued

Profit/(loss) for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. The group profit for the year includes a profit after tax of $3,181,392 (2008: loss of $4,713,772) 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 consists of interest on cash deposits, treasury stock interest and foreign exchange gains.

The treatment of foreign exchange gains on derivatives is discussed under financial instruments.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment and that make strategic decisions, has been identified as the Board of Directors.

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 33⅓%

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. 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.

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 statement of comprehensive income whenever the carrying amount of the asset exceeds its recoverable amount.

Provisions

A provision is recognised in the statement of financial position 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 dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the closing rates at the statement of financial position date and the exchange differences are included in the statement of comprehensive income. The functional and presentational currency of the parent and all group companies is in dollars.

Operating leases

Rentals payable under operating leases are charged in the statement of comprehensive income on a straight line basis over the lease term.

notes to the financial statements continued
for the year ended 31 December 2009

1 Accounting policies continued

Share based payments

The fair value of employee share option plans is calculated using the Black-Scholes pricing model. Non-employee options granted as part of consideration for services rendered are valued at the fair value of those services. Where information on the fair value of services rendered is not readily available, the fair value of is calculated using the Black-Scholes 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, 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 may use derivative financial instruments such as currency forward contracts to manage the risks associated with foreign exchange. They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line.
- 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 equity. 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 assets 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 will be reclassified from the previously reported results to take into account presentational changes.

1 Accounting policies continued

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 judgemental assessment 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 70% volatility rate. See note 7.

2 Loss from operations

	2009 $	2008 $
Staff costs (note 5)	**375,968**	431,120
Share-based payment-equity settled	**143,877**	101,377
Auditors remuneration:		
Audit: fees payable to the company's auditors for the audit of the parent company and consolidated financial statements	**32,146**	31,517
Fees payable to the company's auditor:		
Tax services	**4,442**	58,257
Other services	**6,902**	—
Exchange differences	**—**	21,627
Depreciation of office equipment	**9,206**	9,850
Operating lease expenses-property	**185,200**	256,834
Sundry items	**452,236**	376,963
	1,209,977	1,287,545

3 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The profit for the financial year for the group was $3,150,736 (2008: loss of $4,727,900) and the weighted average number of shares in issue for the year was 204,611,972 (2008: 194,344,170).

Potentially dilutive share options

At 31 December 2009 there were options over 2,250,000 shares outstanding which are potentially dilutive (2008: 1,000,000). 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 have been excluded from the calculation of diluted EPS. As a result the diluted earnings per share is not materially different to the basic earnings per share.

notes to the financial statements continued
for the year ended 31 December 2009

4 Segment analysis

The company operates in one operating segment (exploration and gas) and in substantially one geographical market (the Falkland Islands); therefore no additional segmental information is presented.

Of the Group's total non-current assets, the property, plant and equipment is based in the UK, all other non-current assets are located in the Falkland Islands.

5 Staff costs

Company and group

Staff costs (including directors) comprise:

	2009 $	2008 $
Wages and salaries	**336,203**	385,581
Employers national insurance contribution	**39,765**	45,539
Share based payment-equity settled	**134,996**	101,377
	510,964	532,497

The average number of employees (including directors) employed during the year by the company was six (2008: six) and for the group was six (2008: six). All employees and directors of the group and the company were involved in management.

In 2009 the group granted to staff (including directors) of Borders and Southern Petroleum Plc, for nil consideration, share options with a total fair value of $490,362 (2008: $208,635), of which $37,666 (2008: $27,532) has been expensed during the year. In addition $8,881 has been charged during the year in respect of share options granted to external parties and $97,330 (2008: $73,846) has been charged during the year in respect of share options granted in prior years to staff (including directors).

6 Directors' emoluments

The directors' emoluments for the period are as follows:

	2009 $	2008 $
Directors' fees	**187,782**	215,358
Share based payments – equity settled	**31,176**	12,165
	218,958	227,523

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

In 2009, the group granted to three directors of Borders and Southern Petroleum Plc, for nil consideration, 250,000 share options each, with a total fair value of $374,446. Of this amount $24,963 has been expensed during the year.

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 $6,213 has been expensed during the year (2008: $12,165).

The directors are the key management personnel.

7 Share-based payment

On 2 September, 10 September and 19 October 2009, the group granted a total of 1,250,000 share options to an employee and three directors of Borders and Southern Petroleum Plc and to an external party, for nil consideration. The options vest after three years and expire after ten years. Unvested options will be cancelled if the employee/director leaves the group.

	31 December 2009 Weighted average exercise price	31 December 2009 Number	31 December 2008 Weighted average exercise price	31 December 2008 Number
Outstanding at the beginning of the year	50p	1,000,000	42p	700,000
Granted during the year	53p	1,250,000	70p	300,000
Outstanding at the end of the year	52p	2,250,000	50p	1,000,000

The weighted average contractual life of the options outstanding at the year end was four years (2008: four 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.

Equity-settled scheme Option pricing model used	31 December 2009 Black-Scholes	31 December 2008 Black-Scholes
Weighted average share price at grant date	53p	70p
Exercise price	53p	70p
Weighted average contractual life (days)	1,460	1,460
Expected volatility	70%	65%
Risk-free interest rate	4%	1.5%
Fair value of options	30p	35p

The expected volatility used to calculate the share-based remuneration expense was based on the standard deviation of the Company's monthly close share prices since inception.

Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during the year	$46,547	—
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during 2006	$31,066	$13,016
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during 2007	$11,483	$60,829
Share-based remuneration expense for the year in respect of the equity-settled scheme for options granted during 2008	$54,781	$27,532
Total share-based remuneration expense for the year	$143,877	$101,377

notes to the financial statements continued
for the year ended 31 December 2009

8 Finance income and expense
Finance income

	2009 $	2008 $
Bank interest receivable Fin	171,075	951,024
Treasury stock interest	49,659	35,153
Foreign exchange gain	4,366,870	—
	4,587,604	986,177

The foreign exchange gain includes a gain of $4,366,870 in respect of a forward contract. See note 22 for further details.

Finance expense

	2009 $	2008 $
Exchange loss on cash and other financial assets	226,891	4,426,533

9 Tax expense
Current tax expense

	2009 $	2008 $
UK corporation tax on profit/(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/(losses) for the year are as follows:

	2009 $	2008 $
Profit/(loss) before and after taxation	3,150,736	(4,727,900)
Standard rate corporation tax charge (28%)	882,206	(1,347,452)
Expenses not deductible for tax purposes	158,500	134,289
Capital allowances in excess of depreciation	(1,970)	(2,988)
Unutilised tax losses carried forward	8,585	1,216,151
Tax losses brought forward utilised	(1,047,321)	—
Total current tax for the year	—	—

Factors that may affect future tax charges
The group has a deferred tax asset of approximately $192,000 (2008: $1,205,000) in respect of unrelieved tax losses of approximately $686,000 at 31 December 2009 (2008: $4,305,000). The rate of tax used in the calculation of the deferred tax asset is 28% (2008: 28%). The deferred tax asset has not been recognised in the financial statements as the timing of the utilisation of the economic benefit is uncertain.

10 Property, plant and equipment

Group and company

Office equipment	$
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
As at 31 December 2007	7,749

	$
Cost	
As at 1 January 2009	69,464
Additions	13,793
As at 31 December 2009	**83,257**
Depreciation	
As at 1 January 2009	54,535
Charge for the year	9,206
As at 31 December 2009	**63,741**
Net book value	
As at 31 December 2009	**19,516**

notes to the financial statements continued
for the year ended 31 December 2009

11 Intangible assets

Group	Exploration and evaluation costs $
Cost	
As at 1 January 2008	23,155,801
Additions	12,885,059
As at 31 December 2008	36,040,860
Net book value	
As at 31 December 2008	36,040,860
As at 31 December 2007	23,155,802

Group	Exploration and evaluation costs $
Cost	
As at 1 January 2009	36,040,860
Additions	578,180
As at 31 December 2009	**36,619,040**
Net book value	
As at 31 December 2009	**36,619,040**

12 Investments in subsidiary

Company	**2009 $**	2008 $
Cost		
As at 1 January and 31 December	**2**	2
Net book value		
As at 31 December	**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 & Wales and its principal activity is oil and gas exploration.

13 Trade and other receivables

	Group		Company	
	2009 $	2008 $	**2009 $**	2008 $
Amounts owed by group undertakings	**—**	—	**36,745,735**	36,136,897
Other receivables	**52,980**	66,492	**52,980**	66,492
Prepayments and accrued income	**47,211**	185,296	**47,211**	185,296
	100,191	251,788	**36,845,926**	36,388,685

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

14 Other financial assets

	Group		Company	
	2009 $	2008 $	**2009 $**	2008 $
Available for sale investments	**—**	9,950,668	**—**	9,950,668

Available for sale investments consisted of treasury stock denominated in £.

15 Trade and other payables

	Group		Company	
	2009 $	2008 $	**2009 $**	2008 $
Trade payables	**47,566**	124,649	**47,566**	124,649
Other taxes and social security costs	**13,588**	12,281	**13,588**	12,281
Other payables	**23,396**	11,831	**23,396**	11,831
Accruals and deferred income	**160,130**	46,009	**152,945**	38,822
	244,680	194,770	**237,495**	187,583

16 Share capital

	2009 $	2008 $
Authorised		
750,000,000 ordinary shares of 1 pence each (2008: 750,000,000)	**14,926,125**	14,926,125
Allotted, called up and fully paid		
428,578,404 ordinary shares of 1 pence each (2008: 194,344,170)	**7,645,453**	3,867,741

During the year the company issued 234,234,234 ordinary shares of 1 pence for a total of $190,385,588, from which costs of $6,450,467 were deducted for share issue costs.

notes to the financial statements continued
for the year ended 31 December 2009

17 Cash and cash equivalents

Group and company

	2009 $	2008 $
Cash available on demand	**950,774**	584,285
Cash on deposit	**205,370,403**	8,937,750
Total	**206,321,177**	9,522,035

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

18 Related party transactions

Company

During the year Borders & Southern Petroleum Plc paid expenses of $608,838 (2008: $11,359,028) on behalf of Borders & Southern Falkland Islands Limited. At the year end $36,745,735 (2008: $36,136,897) 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.

The directors are considered to be the key management of the Group. Director's remuneration is disclosed in note 6.

19 Operating leases

The total future value of minimum lease payments on office property is due as follows:

	Land and Buildings	
	2009 $	2008 $
Not later than one year	**224,470**	202,700
Later than one year but not later than five years	**112,230**	304,100
	336,700	506,800

20 Contingent liabilities

The group and company had no contingent liabilities at 31 December 2009 or 31 December 2008.

21 Post balance sheet events

The exploration licenses expired on 31 December 2009. On 19 January 2010 it was confirmed by the Acting Governor of the Falkland Islands that it consented to extend the licences to 1 November 2012 with a commitment to drill one well prior to 1 November 2012. The Directors anticipate receiving a Deed of Variation reflecting the changes to the licenses shortly.

22 Financial instruments

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

Liquidity is not considered a risk due to the sufficient cash funds readily available to the group at the year end.

The group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the group from which financial instrument risk arises, held by category, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

The treasury stock classified as available for sale is measured at a fair value by reference to quoted prices in active markets.

The fair values of the group's financial assets and liabilities at 31 December 2009 and at 31 December 2008 are materially equivalent to their carrying value as disclosed in the balance sheet and related notes.

a) Cash flow interest rate risk

The group is exposed to cash flow interest rate risk from monies held at bank and on deposit at variable rates.

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 2009 the group and company held cash at bank and in deposits under its control of $206,321,177 (2008: $9,522,035). It also held treasury stock of $9,950,668 in 2008, which matured in March 2009. This forms the majority of the group's working capital. Of the cash at bank and in deposit, $950,774 (2008: $584,285) 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 $205,370,403 (2008: $8,937,750) with a weighted average fixed interest rate of 0.5% (2008: 1.7%) for three months. If there was 1% change in interest rates the impact on the statement of comprehensive income would be $441,500 (2008: $580,000).

notes to the financial statements continued
for the year ended 31 December 2009

22 Financial instruments continued

b) Foreign currency translation risk

The operational currency of the oil and gas exploration and evaluation activities of the group is US$ and the group's functional and presentational currency is US$. Foreign exchange risk arises because the group's services and treasury function is UK sterling, which results in gains or losses on retranslation into US$. To minimise this foreign currency risk cash balances are held in both £ sterling and US$.

In general the group does not enter into derivatives to manage currency risks, however during the year the group entered into a forward contract for the purchase of US$ for a period of 21 days. This was taken out in order to mitigate the foreign exchange risk of receiving the sales proceeds from the share issue during the year in UK £. There were no forward contracts outstanding at the year end.

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

	Group		Group	
Current financial assets	**Assets available for sale 2009 $**	**Loans and receivables 2009 $**	Assets available for sale 2008 $	Loans and receivables 2008 $
Held in UK £:				
Trade and other receivables	**—**	**52,980**	—	66,492
Other financial assets	**—**	**—**	9,950,668	—
Cash and cash equivalents	**—**	**17,297,060**	—	1,668,280
Total current financial assets held in UK £	**—**	**17,350,040**	9,950,668	1,734,772
Held in US$:				
Cash and cash equivalents	**—**	**189,024,117**	—	7,853,755
Total financial assets	**—**	**206,374,157**	9,950,668	9,588,527

	Company		Company	
Current financial assets	**Assets available for sale 2009 $**	**Loans and receivables 2009 $**	Assets available for sale 2008 $	Loans and receivables 2008 $
Held in UK £:				
Trade and other receivables	**—**	**52,980**	—	66,492
Other financial assets	**—**	**—**	9,950,668	—
Cash and cash equivalents	**—**	**17,297,060**	—	1,668,280
Total current financial assets held in UK £	**—**	**17,350,040**	9,950,668	1,734,772
Held in US$:				
Trade and other receivables	**—**	**36,745,735**	—	36,136,897
Cash and cash equivalents	**—**	**189,024,117**	—	7,853,755
Total financial assets	**—**	**243,119,892**	9,950,668	45,725,424

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 $1,735,004 (2008: $1,168,544) for the group and the company.

22 Financial instruments continued

b) Foreign currency translation risk continued

Current financial liabilities	Group: Financial liabilities measured at amortised cost 2009 $	Group: Financial liabilities measured at amortised cost 2008 $	Company: Financial liabilities measured at amortised cost 2009 $	Company: Financial liabilities measured at amortised cost 2008 $
Held in UK £:				
Trade and other payables	**231,092**	103,242	**223,907**	96,055
Held in US$:				
Trade and other payables	**—**	79,247	**—**	79,247
Total financial liabilities	**231,092**	182,489	**223,907**	175,302

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 the UK£ of $23,109 for the group and $22,391 for the company (2008: $10,324 for the group and $9,605 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 and treasury stock 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 treasury stock and the maximum credit risk exposure for the group and company is detailed in the table below:

	2009: Carrying value $	2009: Maximum exposure $	2008: Carrying value $	2008: Maximum exposure $
Cash and cash equivalents	**206,321,177**	**206,321,177**	9,522,035	9,522,035
Assets available for sale: treasury stock	**—**	**—**	9,950,668	9,950,668
Maximum credit risk exposure	**206,321,177**	**206,321,177**	19,472,703	19,472,308

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 deficit and other reserves.

corporate directory

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