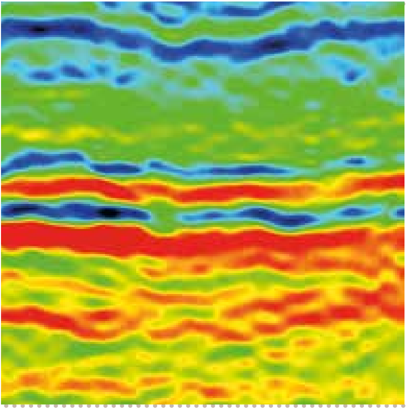


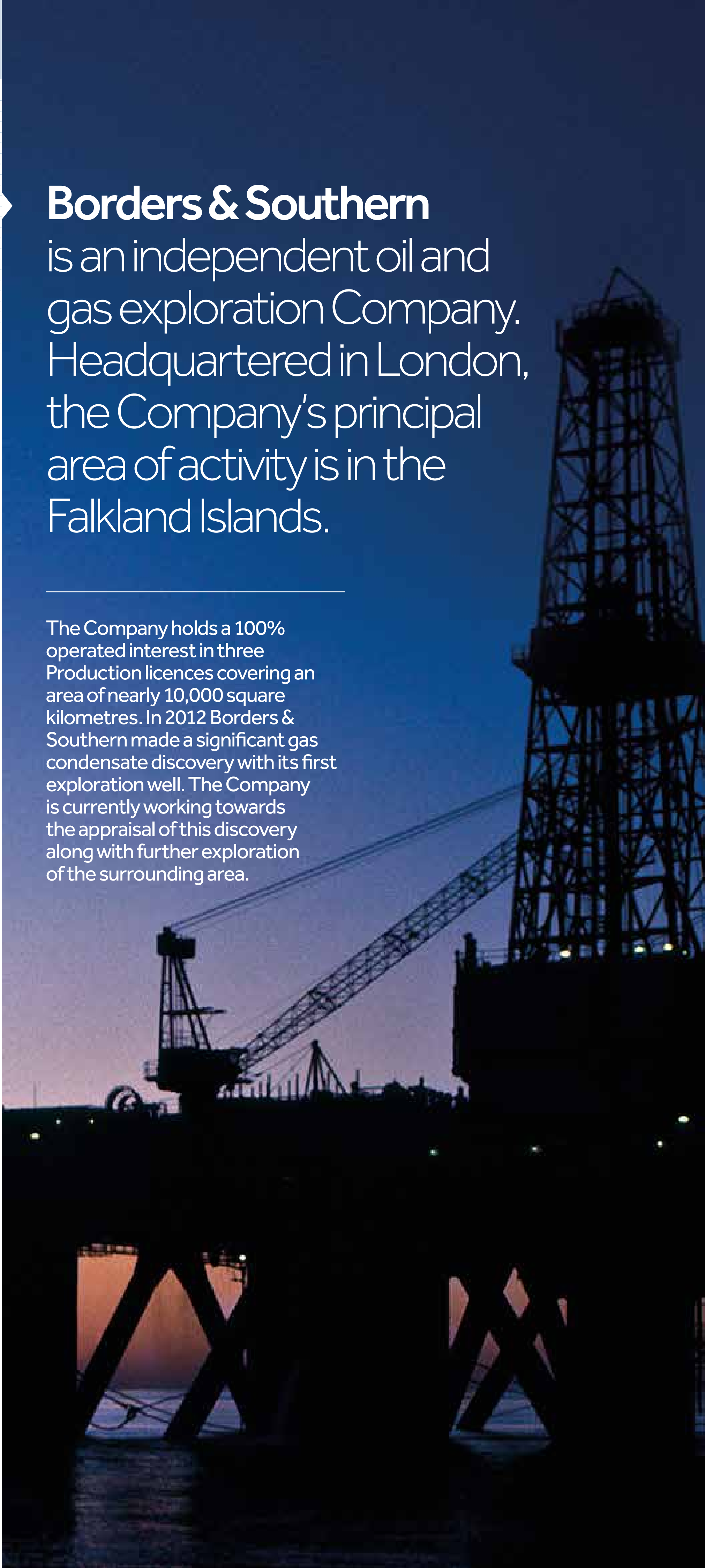
EXPLORING NEW FRONTIERS

Borders & Southern Petroleum plc
Annual Report & Accounts 2014

Borders & Southern

is an independent oil and gas exploration Company. Headquartered in London, the Company's principal area of activity is in the Falkland Islands.

The Company holds a 100% operated interest in three Production licences covering an area of nearly 10,000 square kilometres. In 2012 Borders & Southern made a significant gas condensate discovery with its first exploration well. The Company is currently working towards the appraisal of this discovery along with further exploration of the surrounding area.



HIGHLIGHTS

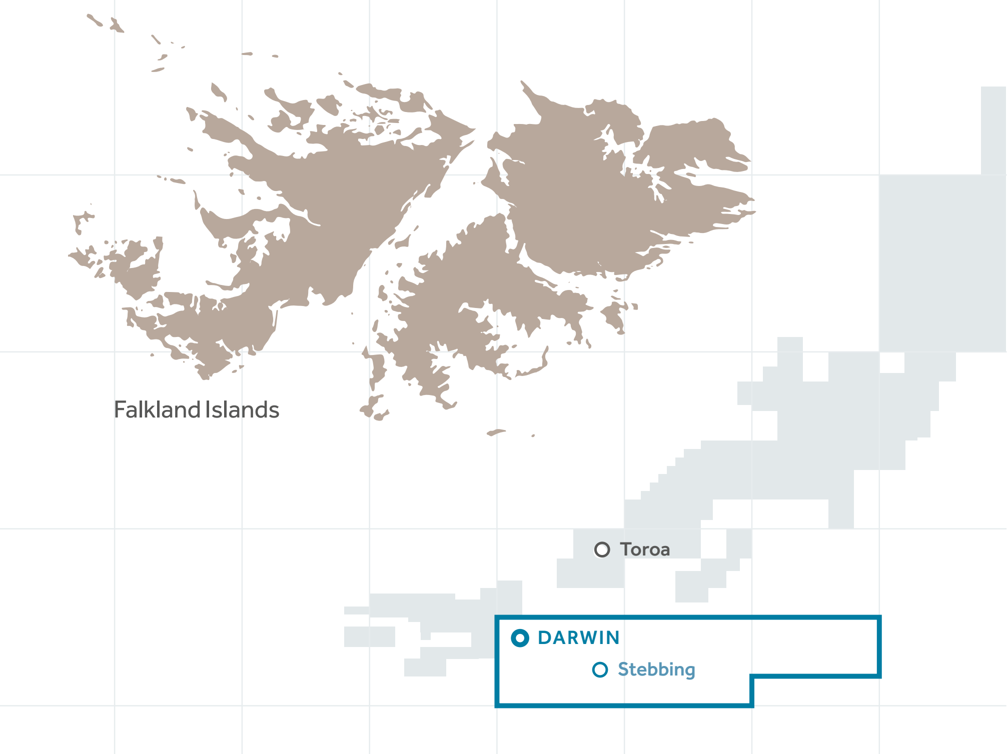
- Sub-surface evaluation of the Darwin discovery and near-field exploration is delivering new insights.
- Recent technical studies have allowed an upwards revision of Darwin's estimated resource. The unrisked P50 estimate for wet gas in place is 3.5 tcf. The unrisked P50 estimate for the recoverable resource is 360 million barrels of condensate.
- Preliminary well planning for an appraisal drilling programme has been completed.
- Discussions with companies with respect to the farm-out of our acreage have continued.
- Cash balance as of 31 December 2014: $16 million.

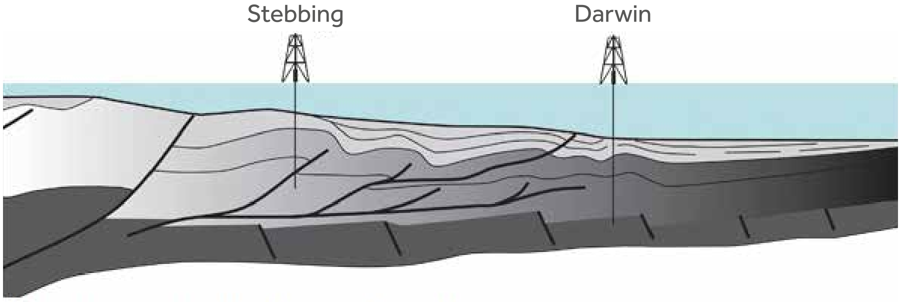
> THE COMPANY HAS MADE A REALLY EXCITING DISCOVERY. OUR AIM IS TO APPRAISE THE DISCOVERY AND ADD TO IT BY FURTHER EXPLORATION DRILLING.
>
> **HOWARD OBEE,** CHIEF EXECUTIVE OFFICER

For more information please visit:
www.bordersandsouthern.com

COMPANY OVERVIEW

BORDERS & SOUTHERN WAS INCORPORATED IN JUNE 2004. THE COMPANY WAS AWARDED ITS FIRST EXPLORATION LICENCES IN THE FALKLAND ISLANDS ON 1 NOVEMBER 2004. THE COMPANY COMPLETED A COMPREHENSIVE SUB-SURFACE EVALUATION PRIOR TO ITS FIRST SUCCESSFUL EXPLORATION DRILLING CAMPAIGN. THE DARWIN GAS CONDENSATE DISCOVERY IS CURRENTLY BEING EVALUATED AHEAD OF AN APPRAISAL PROGRAMME.





North-South cross section through Borders & Southern's acreage

TECHNICAL SUMMARY

Borders & Southern's acreage is located in the South Falkland Basin, a frontier basin extending to the south and east of the Falkland Islands. Five wells have been drilled in the basin so far. In 2012 Borders & Southern made the first significant hydrocarbon discovery in the basin with exploration well 61/17-1.

The South Falkland Basin comprises a marine depositional sequence. This contrasts with the lacustrine sediments found in the North Falkland Basin. Good quality marine source rocks of Early Cretaceous age have been proven in the exploration wells. These source rocks appear to have a wide distribution. Similar Late Jurassic to Early Cretaceous source rocks are recorded in DSDP wells located to the east of the Falkland Islands and in exploration wells located in the contiguous Malvinas and Magellanes Basins to the west.

Early Cretaceous and Tertiary clastic reservoirs provide the main exploration targets. Good quality Early Cretaceous shallow marine sandstone reservoirs have been proven in exploration wells.

Whilst a large part of the basin is represented by a simple passive margin sequence containing mainly stratigraphic traps, Borders & Southern's acreage is characterised by abundant structural traps. These are related to both early extensional faulting and later folding and thrusting.

Natural-gas condensate

Natural-gas condensate is a low density mixture of hydrocarbon liquids that are usually in a gas phase in the reservoir. During production, as the gas is brought to surface, changes in temperature and pressure result in the wet gas dividing into separate gas and liquid phases. The liquid typically has an API of between 45 to 85 degrees and can display a range of colours between dark brown to almost colourless. Those with a lower API are darker in colour similar to crude oil.

The Darwin condensate is an amber coloured liquid with an API of 46 to 49 degrees.

EXPLORATION ACTIVITY

2005	ACQUIRED 2,862 KM OF 2D SEISMIC
2008	ACQUIRED 1,492 SQUARE KM OF 3D SEISMIC
2012	DRILLED TWO EXPLORATION WELLS
2013	ACQUIRED 1,025 SQUARE KM OF 3D SEISMIC

WELL RESULTS

61/17-1 (DARWIN)
TILTED FAULT BLOCK

GAS CONDENSATE IN GOOD QUALITY EARLY CRETACEOUS SANDSTONE RESERVOIR

61/25-1 (STEBBING)
THRUST-CORED ANTICLINE

VERY STRONG GAS SHOWS (C1 TO C5) IN POOR QUALITY TERTIARY RESERVOIR

UNABLE TO REACH UPPER CRETACEOUS TARGETS DUE TO ANOMALOUS PRESSURES

CHAIRMAN'S STATEMENT

> DESPITE MARKET UNCERTAINTY WE REMAIN FOCUSED ON SECURING FUNDING FOR OUR NEXT PHASE OF APPRAISAL DRILLING.
>
> WE WILL CONTINUE TO RUN THE BUSINESS WITH TECHNICAL AND COMMERCIAL DISCIPLINE, COMMITTED TO CREATING VALUE FOR ALL OUR STAKEHOLDERS.

HARRY DOBSON, CHAIRMAN

2014 was a challenging year for the entire oil & gas industry, not just Borders & Southern. The oil price slid from $110 per barrel in the middle of the year to below $50 per barrel in January 2015. The short-term outlook for oil prices remains uncertain, but many analysts are predicting a medium to long-term price of around $70 per barrel once the current supply/demand imbalance corrects.

As a response to this dramatic fall, oil and gas companies have reassessed their capital expenditure plans and are focused on cost efficiencies. Discretionary expenditure on exploration and appraisal activity has been reduced significantly and prioritisation in the short-term is largely focused on current work programme commitments rather than business development.

As the industry has cut expenditure and the number of planned exploration and appraisal wells has fallen, the demand for drilling rigs has weakened. Consequently, the day-rates for deep-water rigs have reduced by as much as 40%. The costs of other well services have also started to fall.

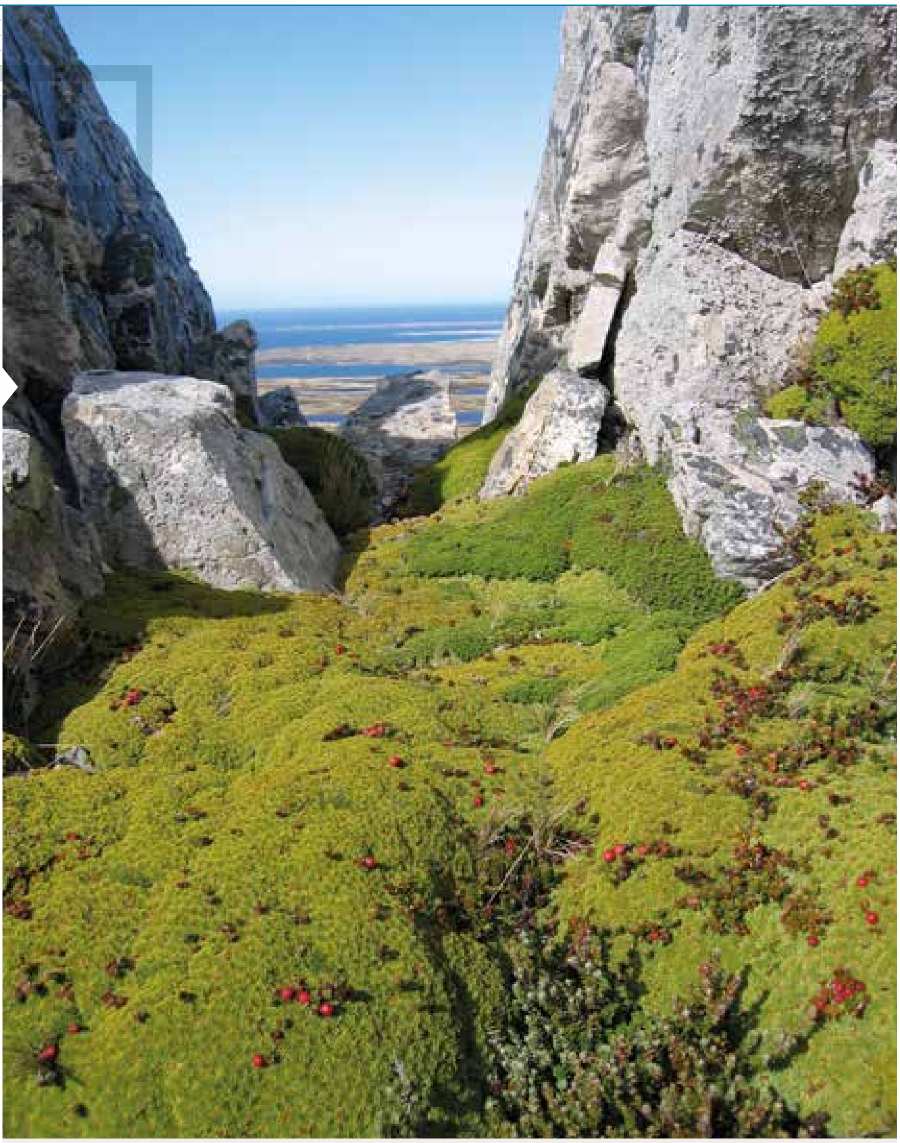
Against this backdrop, Borders & Southern has been looking to secure partners to fund the next phase of Darwin's appraisal. Specific challenges have been to find companies prepared to commit to a multi-well deep-water programme with well-cost estimates (before the oil price drop) of approximately $100 million per well. In addition, for many potential partners, the Falkland Islands would be a new geography, a long way away from the world's current exploration hot spots.

In our favour, however, is the fact that Darwin is a very robust project due to the competitive fiscal terms offered by the Falkland Islands Government and Darwin's high quality reservoir (resulting in a low number of required production wells). Consequently, we believe that the development of Darwin would prove to be economic, even at oil prices lower than current levels. Certainly, when we benchmark Darwin with other offshore development projects on a cost curve, it is well positioned. So whilst we recognise the challenge in achieving a successful farm-out in the present environment, we remain optimistic that a project as robust as Darwin will attract a partner.

It is worth noting that companies that have entered our data room have found the technical merits of the project very attractive. Darwin is a gas condensate discovery with a high liquids component (46 to 49 degrees API). This means that it has the condensate gravity typical of an ultra light crude oil. Those potential partner companies that undertook detailed technical analysis confirmed that, following a successful appraisal programme, an FPSO development would be commercially viable.

In some cases, farm-out talks advanced from technical to commercial discussions. Unfortunately, these negotiations ended before a deal could be secured, either due to a change in the potential partner's strategic focus or because terms fair for both parties could not be agreed.

A Falkland Islands drilling campaign is currently under way but without funding we have been unable to join the programme. The Erik Raude drilling rig has embarked on a six well work programme, split between the north and south Falkland basins. Our aim is to secure partners as soon as possible in the hope that we can take advantage of the rig's location and negotiate a new contract at the end of its current work schedule. If that proves to be unachievable in the current environment, we would seek to mobilise another rig as soon as we have secured funding. In essence, this latter scenario would be similar to what we did for our 2012 programme when we negotiated the Leiv Eiriksson drilling rig with only two firm wells. With rig demand and rates now much reduced, the capital commitment is likely to be materially lower and the number of available rigs is likely to be much higher.



Meanwhile, our technical work continues to progress. Analysis of our two merged 3D seismic surveys leads us to believe that the area surrounding the Darwin discovery could represent an important sweet spot in the South Falkland basin. Our understanding of the geology of the basin continues to grow but questions remain. Such as: Does Darwin have an oil leg? And: Do the mapped amplitude anomalies close to Darwin represent oil? Ultimately, these questions can only be answered by the drill bit. However, reservoir characterisation studies currently reaching a conclusion will certainly impact our confidence levels. We plan to report to shareholders on the first phase of our prospect evaluation in the area surrounding Darwin in the very near future.

The Company's balance sheet remains strong. We have cash reserves of $16 million and a lower overhead than many of our peer group. We will continue to run a strict budget in this current low oil price environment. Most commentators believe that the oil price will make a recovery, as it has done in the past, but perhaps not to the levels seen before the recent drop. Global exploration activity should pick up. We believe the Darwin discovery is too good to remain static, so we are still confident that funding will be found to continue the appraisal programme.

BOARD OF DIRECTORS

HARRY DOBSON NON-EXECUTIVE CHAIRMAN	A R
HOWARD OBEE CHIEF EXECUTIVE	E
PETER FLEMING FINANCE DIRECTOR	E
NIGEL HURST-BROWN NON-EXECUTIVE DIRECTOR	A R
STEPHEN POSFORD NON-EXECUTIVE DIRECTOR	A R
WILL SLACK COMPANY SECRETARY	

A Audit Committee

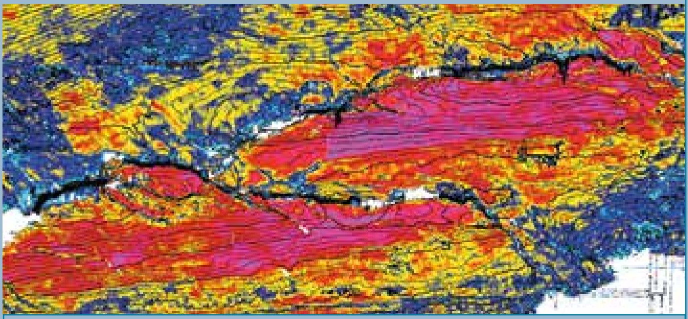
R Remuneration Committee

E Executive Director

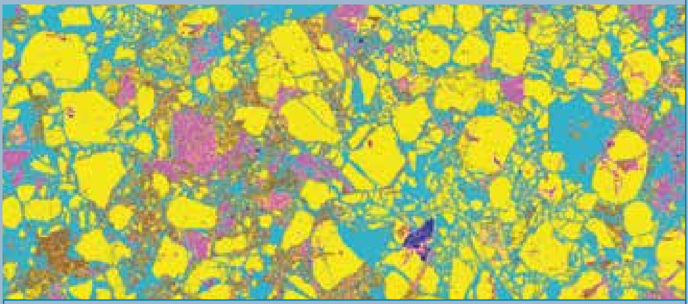
DARWIN

GAS CONDENSATE DISCOVERY

THE DARWIN DISCOVERY CONSISTS OF TWO ADJACENT TILTED FAULT BLOCKS CONTAINING HIGH QUALITY CLASTIC RESERVOIR, CLEARLY IMAGED ON 3D SEISMIC DATA.



Darwin Structure – map view of two tilted fault blocks (Darwin West & Darwin East). Seismic amplitude anomalies show strong amplitude conformance to structure.



Darwin Reservoir – quartz rich sandstone deposited in a shallow marine shelf environment. Yellow = quartz grains, Pink = feldspar grains and Blue = porosity.

Technical Summary

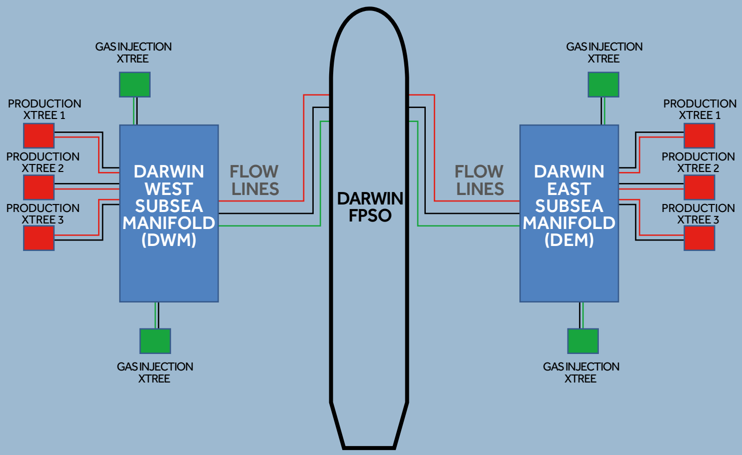
The Darwin reservoir comprises Early Cretaceous shallow marine sandstone. The hydrocarbons have been trapped in two simple tilted fault blocks, fault sealed to the north and dip closed to the south. The gas condensate is highlighted seismically by amplitude conformance to structure and an associated flat spot. The gas condensate/water contact was not seen in the discovery well.

LICENCE	PL018
B&S INTEREST	100%
STRUCTURE	TILTED FAULT BLOCK
AREA OF SEISMIC ANOMALY	26 SQUARE KILOMETRES
RESERVOIR	EARLY CRETACEOUS (APTIAN)
WATER DEPTH	2011m
TOTAL DEPTH	4876m
GROSS INTERVAL	84.5m
NET PAY	67.8m
AVERAGE POROSITY	22% (UP TO 30%)
AVERAGE PERMEABILITY	337 MD (UP TO 1D)
ESTIMATED GAS IN PLACE	3.5 TCF
ESTIMATED RECOVERABLE CONDENSATE	360 MMBBL (MID CASE)
CONDENSATE API	46 TO 49 DEGREES
MODELLED POTENTIAL FLOW RATES	70 MMSCFD (PER WELL)
MODELLED POTENTIAL LIQUID PRODUCTION	9,500 BBL/D (PER WELL)

Potential Development Concept

A screening feasibility study has highlighted that a development is technically feasible using proven technology. The development concept comprises subsea wells, FPSO with processing and gas re-injection capability along with condensate storage.

PRODUCTION WELLS	6
GAS RE-INJECTION WELLS	4
INITIAL PRODUCTION RATE	56,000 BOPD



Sub-surface developments

The reprocessed 3D seismic data has provided greater definition of the reservoir interval, allowing increased confidence in the resource estimates. A seismic inversion study has identified additional potential hydrocarbon bearing sands not encountered in the discovery well.

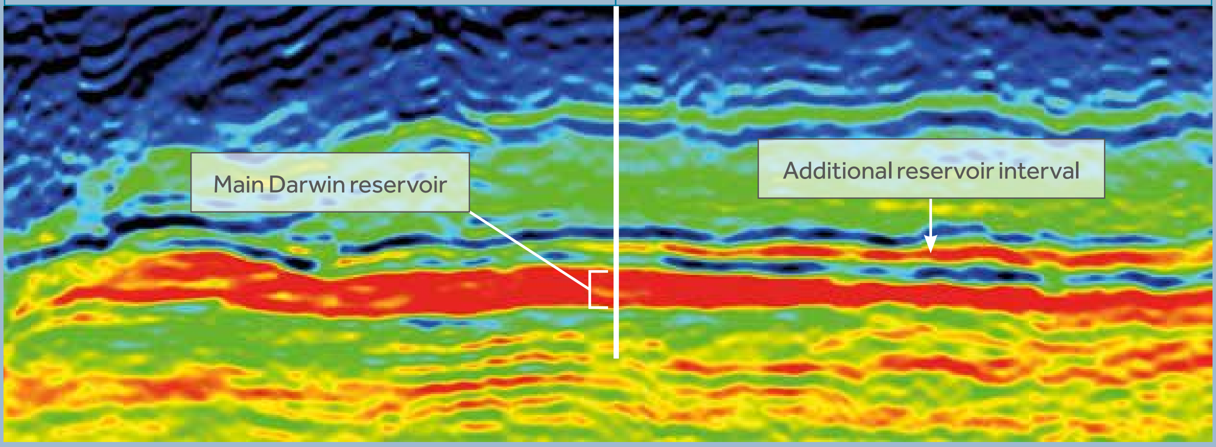
3.5tcf

Management unrisked P50 estimate of wet gas in-place

360MMbbl

Management unrisked P50 estimate of recoverable condensate

West to east seismic line through the Darwin East well location displaying VpVs ratio inversion data. The Darwin reservoir interval penetrated by the well is clearly highlighted along with a newly identified additional potential reservoir interval.



BUSINESS MODEL & STRATEGY

OUR BUSINESS MODEL IS ALL ABOUT VALUE CREATION THROUGH THE DISCOVERY AND APPRAISAL OF HYDROCARBONS.

1. Access

NEW OPPORTUNITIES

The first stage is to access new opportunities, either through Licence Rounds or Open Door policies.

Our Frontier Exploration strategy directs us to focus on untested or emerging basins where significant acreage positions can be accessed at relatively low cost.

Comprehensive technical screening prior to access helps mitigate geological risk, however the project risk profile is relatively high at this stage.

Economic modeling of fiscal terms and potential discovery volumes is undertaken to ensure project rewards merit the investment decision.

2. Explore

COMMENCE OPERATIONS

Our Exploration work is underpinned by rigorous petroleum systems analysis.

Operations will typically begin with a 2D seismic survey, with limited financial exposure.

If positive results are gained from the 2D survey, giving confidence in a working source rock, reservoirs and trapping geometries, then further investment in 3D seismic will be made.

Following detailed analysis of the 3D survey a prospect inventory will be generated, prospects risks and volumetrics assessed.

Finally prospects will be high-graded for drilling and a rig mobilised.

OUR TECHNICAL WORK IS MAKING GREAT STRIDES FORWARD. WE NEED TO SECURE PARTNERS IN ORDER TO TEST OUR GEOLOGICAL MODELS BY APPRAISAL DRILLING.

PROGRESS IN 2014

- The Company's acreage in the Falkland Islands covers an area of around 10,000km^2. Only 2,500km^2 is covered with 3D seismic so there is ample room for further exploration within the Company's existing licenses

OUTLOOK

- Whilst the Company seeks to get a partner to fund the next phase of activity, we do not intend to add additional licenses outside the Falkland Islands

PROGRESS IN 2014

- Received merged 3D PSDM seismic data volume and commenced interpretation and undertook a seismic inversion project to help de-risk the portfolio and identify additional targets

OUTLOOK

- We are working on fully evaluating the inversion data in the Early Cretaceous shallow marine focus area and assessing the potential of the slope and basin floor portfolio
- We continue planning for the Darwin appraisal and further exploration wells

3. Appraise

ASSESS THE COMMERCIALITY

If the drilling campaign results in the successful discovery of hydrocarbons, then an appraisal programme will be executed in order to constrain the resource estimates and to assess the commerciality of a potential development project.

Typically, several more wells will be drilled. Coring and reservoir flow tests will be undertaken and exhaustive reservoir studies completed.

Positive results from this technical work will lead to detailed facilities engineering studies prior to a Final Investment Decision ahead of proceeding into a Development project.

PROGRESS IN 2014

- The Company, with its adviser, continued to seek partners to fund the next phase of operations which would include the appraisal of the Darwin discovery and potentially other exploration

OUTLOOK

- Whilst the decline in oil prices during 2014 has put considerable pressure on oil projects around the world, Darwin is robust at oil prices lower than current levels. Further, exploration costs are declining so the capital required to fully appraise Darwin has significantly reduced
- The Company remains confident that a partner will be found and the appraisal programme advanced

4. Accrete

BUILD A STRONG POSITION

Once a working petroleum system has been demonstrated through the discovery of hydrocarbons, the objective will be to maximise the acreage position and add value to the asset.

Near field targets will be tested to extend the discovery and exploration will continue focusing on analogue prospects within the prospect inventory.

Alternative play types will also be tested in order to assess the overall value of the acreage.

PROGRESS IN 2014

- We received the processed merged PSDM 3D data and we carried out an initial interpretation
- We initiated a seismic inversion project to aide the reservoir characterisation and help de-risk the prospect portfolio and identify additional targets
- We also evaluated the shelf portfolio to assess volumes and to help high grade exploration targets
- The Darwin field volumetrics were re-assessed incorporating additional stacked pay intervals

OUTLOOK

- We plan to fully integrate the inversion data to continue with the portfolio assessment
- We will also evaluate the slope and basin floor targets to integrate into the prospect portfolio

5. Monetise

MAXIMISE ASSET VALUE

Partial monetisation can occur at all stages of the business cycle. Partners can be brought into a project soon after Access or during the Exploration, Appraisal and Accrete phases in order to help fund further work.

But maximum value will be obtained following the Appraisal and Accrete phases.

B&S believes its core skills lie in the pre-development phase of the Exploration and Production cycle and will seek to monetise pre-production or partially monetise and retain a lower interest non-operated role through production.

PROGRESS IN 2014

- The Company believes that bringing in a partner is the best option to fund the next phase of work
- Once the Darwin discovery is appraised, the Company will have more options of funding the development

OUTLOOK

- The oil and gas industry has witnessed oil price rises and declines many times. During oil price declines, the industry tends to allocate funding to the best/lowest cost projects and Darwin is such a project so we are confident that a fully appraised Darwin will attract development funding

OPERATIONS REVIEW

WITH HOWARD OBEE AND PETER FLEMING

> “OUR TECHNICAL UNDERSTANDING OF THE DARWIN DISCOVERY IS BEING ENHANCED ALL THE TIME. WE CONTINUE TO BELIEVE IT IS A SIGNIFICANT, ROBUSTLY DEFINED GAS CONDENSATE ACCUMULATION.”

The Company has concentrated on two main areas of activity during the past year. Firstly, the farm-out of our acreage which is needed to help fund the next phase of drilling and secondly, the sub-surface technical evaluation which was aimed at improving our resource estimates of Darwin, identifying the best locations for appraisal wells and evaluating near-field prospects.

The farm-out process has been a frustrating one, not helped by the dramatic decrease in oil price and the continued poor exploration success track record of the industry. Despite these negative factors we remain confident in the quality of our discovery and surrounding acreage and we are focused on securing a suitable partner.

DARWIN RESOURCE ESTIMATE

We have made good progress in the technical evaluation. During 2014 we received the final processed data from our 2013 seismic acquisition programme. This was merged with the reprocessed data from our 2008 survey, giving us approximately 2500 sq km of high quality 3D PSDM data. In mid-year we announced the results from our Phase 2 engineering study. This increased the resource estimate of Darwin to 263 million barrels. Subsequent technical work has enhanced our understanding of the reservoir distribution and has allowed a further revision of numbers. Our current best estimate P50 unrisked recoverable resource is 360 million barrels of condensate.

3D SEISMIC INTERPRETATION

The mapping of the new seismic data not only confirmed our previous structural interpretation, but also provided new stratigraphic insights. The main insight was that the Early Cretaceous shallow marine prospectivity was likely to be based on a structural/stratigraphic trapping mechanism rather than purely structural. Numerous amplitude anomalies have been mapped in the play fairway. Whilst recognising that our 10,000 sq km acreage contains several exciting other plays such as deep-water channels and fans and large scale folds, it was decided to focus in the short term on the Early Cretaceous play fairway close to the discovery as the anomalies appeared so interesting.

SEISMIC INVERSION

The next phase of the evaluation centred around trying to understand the areas with mapped amplitude anomalies in a little more detail. To this end we initiated a seismic inversion project. With normal seismic reflection data the interpretation is based on mapping the interface between different rock units. A map is generated for the top of the reservoir, but it tells us little of the actual reservoir interval itself. However, the inverted seismic data describes the internal rock properties of the reservoir such as lithology type, porosity or fluid type, rather than just the boundaries. The processed data incorporates the well log data into a quantitative rock-property description of the reservoir.

The results from this out-sourced study are just being made available. Early signs are that an additional potential hydrocarbon bearing sand interval has been identified over part of both Darwin East and West. The interval is not well developed at the Darwin East well location where only thin hydrocarbon sands were encountered. The new data has revealed that this unit expands to the east and south of the well location. Also, to the north of Darwin our confidence has been enhanced that some of the mapped structural/stratigraphic traps could contain hydrocarbons. This work is ongoing, and will be reported on once it has been fully integrated into our existing interpretations. Hopefully we are laying the foundations of future success.

A story of exploration and discovery...

2004 ▼ Following incorporation the Company was awarded its first exploration licences to the south of the Falkland Islands, effective 1st November.

2005 ▼ Borders & Southern listed on AIM of the London Stock Exchange. Funds were raised in order to acquire a regional grid of 2D seismic data.

2006 ▼ A comprehensive regional evaluation and detailed mapping of the 2D seismic confirmed that the acreage contained numerous robust structural traps and that a working petroleum system was likely to be present.

2007 ▼ Raised funds through a Placing and a Subscription Agreement in order to acquire an extensive 3D seismic grid over high-graded leads.

2008 ▼ Acquired and processed 1,492 square kilometres of high quality 3D data. Detailed interpretation revealed numerous prospects, some with direct hydrocarbon indicators.

2009 ▼ The Company raised funds for its initial drilling campaign in the Falkland Islands.

2010 ▼ The subsurface evaluation identified the first two prospects to be tested by the drill bit. Two different play types were selected in order to learn most about the geology of the basin. At the end of the year the Company negotiated a rig contract for two firm wells plus options.

2011 ▼ In preparation for the drilling campaign the Company completed detailed well design and logistical planning.

2012 ▼ In January Borders & Southern spudded its first operated exploration well (Darwin). The result was a significant Gas Condensate discovery. The second well (Stebbing) had strong gas shows but was unable to test all target reservoir intervals. Additional funds were raised in between the two wells.

In November the Company relinquished 50% of its original licenced area and entered the second exploration phase of its licences.

2013 ▼ The Company acquired 1,025 square kilometres of 3D seismic data on the northern margin of its 2008 survey in order to follow the Darwin reservoir over nearby prospects and leads. The earlier 3D was reprocessed and merged with the new data. The Company initiated a farm-out of its acreage.

2014 ⏸ Whilst the farm-out process continued, the interpretation of the merged 3D seismic data focused on refining the interpretation of Darwin and providing enhanced definition of Early Cretaceous prospects.

FINANCIAL REVIEW

The Company reported a loss for the year of $3.8 million compared to $2.9 million for 2013. The increase in losses is mainly due to unrealised exchange rate losses from deposits held in Sterling. Administrative expenses for the year were $3 million compared to $2.8 million in 2013. The balance sheet remains strong with $16 million in cash deposits. Whilst this balance is sufficient to cover overheads and all technical studies that are needed to enhance our understanding and therefore value of the Company's acreage, we need to bring partners in to the licenses in order to fund the next phase of drilling.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK STATUS KEY
(*RS refers to Risk Status)

▲ Risk increase
= Risk unchanged
▼ Risk decrease

RISK	NATURE OF RISK	RS*	RISK MITIGATION
EXPLORATION	Exploration for oil and gas is inherently risky and whilst many of these risks can be mitigated, they cannot be eliminated.	=	Risk mitigation has been the Company's priority through its history. Measures the Company has taken include the employment of experienced technical people and acquisition of data such as 3D seismic so that the risks are understood and assessed before drilling commences.
HEALTH, SAFETY, SECURITY AND ENVIRONMENT INCIDENTS	The Company's licenses are located in a remote, environmentally sensitive environment and these factors together with the challenges associated with deep water come with risks to health, safety and security of the people involved and to the environment.	=	Before and during operations, the Company develops and follows detailed project specific health, safety and environmental management procedures. Operations also ensure that policies and actions closely followed industry best practice.
FUNDING RISK	There are significant costs associated with oil and gas exploration, especially in deep water offshore.	=	The Company has sufficient funds for day to day overheads for the foreseeable future. The challenge for the Company is to bring in a partner to help fund the Darwin field appraisal programme and potentially further exploration and the Company is confident of achieving this.
OIL PRICE	Liquids from the Darwin development are likely to be based on the Brent oil price and changes to this benchmark impact the economic viability of the project.	▲	Darwin is a very economically robust project and would be viable even under oil prices lower than the current.
RELIANCE ON KEY PERSONNEL	Like many small exploration companies the Company is reliant upon a small number of employees.	=	The Company has service contracts with key employees that provide for notice periods that would allow sufficient time to source replacements. Also, the Company has a wide network of consultants and other industry experience to call upon for specific areas of expertise and during operations.
SUPPLY CHAIN	The Falkland Islands are geographically isolated and, because of political issues, most of the Company's supplies need to be sourced from the UK or USA.	▼	There have been four drilling campaigns in the Falkland Islands, including one currently under way, which demonstrates that all the necessary supplies could both be sourced without disruption to operations.
AVAILABILITY OF DRILLING RIGS AND SERVICES	There is a very limited number of harsh environment, deep-water drilling rigs that the Company requires for its operations.	▼	With the reduction in oil prices during 2014 and the cuts to global exploration spending, the availability of deep-water drilling rigs has improved and the cost has significantly reduced.
COUNTRY RISK	There is a ongoing dispute over the sovereign status of the Falkland Islands.	=	The British Government strongly supports the Falkland Islanders' rights for self-determination. During the Company's operations in 2012, there was no disruption due to political issues.

CORPORATE RESPONSIBILITY

Corporate responsibility at a glance

- Conducting business in a responsible and sustainable way
- Focusing on limiting and mitigating the environmental impact
- Ensuring health and safety practices follow best practice
- Using local suppliers and service providers where possible

In all of its activities, including the 2012 drilling operations, the Company has demonstrated that it conducts its activities in a responsible and sustainable way in line with industry best practices. It continues to be a priority that all employees, contractors and suppliers have the necessary experience and competence and are made aware of the policies and procedures developed for operations.

We have sought to use local suppliers in the Falkland Islands where possible.

The Strategic Report is issued and signed on behalf of the Board by:

Howard Obee
Chief Executive
13 May 2015

BOARD OF DIRECTORS

HARRY DOBSON
(NON-EXECUTIVE CHAIRMAN)

BACKGROUND
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., Lytton Minerals Limited, Kirkland Lake Gold Inc and Rambler Metals and Mining plc. 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.

HOWARD OBEE
(CHIEF EXECUTIVE)

BACKGROUND
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 30 years in the oil industry, initially with BP (1985–1992), and subsequently with BHP Billiton (1992–2004). He trained as an exploration geologist and has held numerous technical and commercial roles, incorporating exploration, new ventures, strategic planning and business development. He has experience of executing seismic and drilling programmes in frontier basins, including those in deep water.

PETER FLEMING
(FINANCE DIRECTOR)

BACKGROUND
Peter Fleming has over 20 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. He holds masters degrees in business administration and finance.

Left to right

Peter Fleming
Howard Obee
Harry Dobson
Nigel Hurst-Brown
Stephen Posford

NIGEL HURST-BROWN
(NON-EXECUTIVE DIRECTOR)

BACKGROUND

Since qualifying as a Chartered Accountant, Nigel Hurst-Brown has pursued a career in fund management. From 1986 to 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 and Non-Executive Chairman of Central Asia Metals plc.

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

STEPHEN POSFORD
(NON-EXECUTIVE DIRECTOR)

BACKGROUND

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 its proprietary trading department in London. He then became Salomon Brothers European CEO before retiring in 1996.

Stephen sits on the Audit and Remuneration Committees.

CORPORATE GOVERNANCE

Borders & Southern is committed to applying robust corporate governance practices across all its activities. Throughout the year the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ("the Code") in so far as it considers them to be appropriate to a Company of its size and nature.

THE BOARD

Borders & Southern recognises that an effective Board facilitates the efficient discharge of the duties imposed by law on Directors and contributes to the delivery of the Company's strategic objectives. Accordingly, Borders & Southern has structured its Board so that it:

- has a proper understanding of, and the competencies to deal with, the current and emerging issues in the Company's business;
- exercises independent judgement; and
- effectively reviews and challenges management's performance and exercises independent judgement.

The Board currently comprises the Chairman, two Executive Directors and two Non-Executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry combined with general business and financial skills. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

ROLE OF THE CHAIRMAN

Harry Dobson was appointed Chairman of the Company at its inception. As Chairman, he is responsible for the effective running of the Board and for ensuring that it plays a constructive role in the development of the Company. Together with the Chief Executive Officer, the Chairman sets and runs the agenda for Board meetings.

ROLES OF THE NON-EXECUTIVE DIRECTORS

The Non-Executive Directors bring a wealth of business experience to the Board and its Committees. They provide independent views on the Company's performance, operations and strategy. All Directors retire by rotation.

REMUNERATION COMMITTEE

The Board has a Remuneration Committee comprising three Non-Executive Directors. The members of the Remuneration Committee and their attendance at meetings of the Remuneration Committee during 2014 are detailed in the Directors' Report.

The strategy of the Remuneration Committee is to ensure the Company:

- remunerates fairly and responsibly. Borders & Southern's policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable;
- includes both short-term and long-term performance-based components in its remuneration practices; and
- benchmarks it's remuneration with comparable companies.

AUDIT COMMITTEE

The Board has an Audit Committee comprising the Chairman and two Non-Executive Directors. The members of the Audit Committee and their attendance at meetings of the Audit Committee during 2014 are detailed in the Directors' Report.

The objectives of the Audit Committee are to ensure:

- the accuracy and integrity of the financial statements and related disclosures;
- the keeping of adequate books, records and internal controls;
- the auditor is independent and is qualified and its performance is monitored; and
- compliance with legal and regulatory requirements.

INSURANCES

The Company has taken out Directors' and Officers' insurance that provides insurance cover for all Directors and senior officers of the Company. This insurance is reviewed annually.

DIRECTOR'S REPORT

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2014.

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 2014, were as follows:

	At 31 December 2014 Number	At 31 December 2013 Number
Harry Dobson	**26,670,000**	26,670,000
Stephen Posford	**27,500,000**	27,500,000
Howard Obee	**10,000,000**	10,000,000
Peter Fleming	**2,200,000**	2,200,000
Nigel Hurst-Brown	**1,530,000**	1,530,000

The ordinary shares in which Harry 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

Share options	Number of options held at the beginning of the year	Number of options held at the end of the year	Fair value of options	Exercise price	Vesting period
Howard Obee	1,300,000	1,300,000	24–30 pence	48–58 pence	3 years
Peter Fleming	1,300,000	1,300,000	24–30 pence	48–58 pence	3 years
Nigel Hurst-Brown	250,000	250,000	32 pence	58 pence	3 years

SUBSTANTIAL SHAREHOLDERS

At 27 March 2015 the following held 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	67,613,605	13.97%
Allianz Global Investors	42,296,549	8.74%
Stephen Posford	27,500,000	5.68%
The Capital Research Global Investors	27,293,100	5.64%
Zila Corporation	26,670,000	5.51%
Ignis Investment Services Limited	23,549,230	4.86%
TD Bank Financial Group	20,186,701	4.17%
Vestra Wealth	17,793,530	3.68%
Barclays Wealth	14,871,327	3.07%
M&G Investment Management	14,742,535	3.05%

DOMICILE

The Parent Company of the Group, Borders & Southern Petroleum Plc, is a public limited Company and is registered and domiciled in England.

RESULTS AND DIVIDENDS

The Group statement of comprehensive income is set out on page 21 and shows the result for the year.

The Directors do not recommend the payment of a dividend (2013: $nil).

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A review of the operations of the Group is contained in the Operations review on pages 10 to 11.

POST REPORTING DATE EVENTS

There are no events that have occurred since the year end which require reporting.

CHARITABLE AND POLITICAL DONATIONS

There were no political or charitable contributions made by the Company or the Group during the year (2013: $nil).

DIRECTOR'S REPORT CONTINUED

FINANCIAL INSTRUMENTS

Details of the use of financial instruments by the Company and its subsidiary undertaking are contained in note 20 of the financial statements.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report, the Strategic 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 have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and elected to prepare the Company financial statements in accordance with IFRSs. 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 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 AIM.

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.

NUMBER OF BOARD MEETINGS DURING 2014

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	5	1	2
Howard Obee	5	–	–
Peter Fleming	5	–	–
Nigel Hurst-Brown	5	1	2
Stephen Posford	5	1	2

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.

AUDITOR

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 auditor for the purposes of its audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

BDO LLP has expressed its 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 Slack
Company Secretary
13 May 2015

REMUNERATION COMMITTEE REPORT

On 18 May 2005 all of the Company's Directors entered into a service agreement with the Company.

The strategies the Remuneration Committee uses to set the remuneration of Directors and senior management are outlined on page 16.

The remuneration of the Directors for the year ended 31 December 2014 was as follows:

	Basic salary $	Share-based payment $	**Total 2014 $**	Total 2013 $
Harry Dobson	–	–	**–**	–
Stephen Posford	49,661	–	**49,661**	46,960
Howard Obee	413,840	61,617	**475,457**	524,707
Nigel Hurst-Brown	66,214	–	**66,214**	62,613
Peter Fleming	331,072	61,617	**392,689**	446,441
	860,787	123,234	**984,021**	1,080,721

The share-based payments are the amortisation over the vesting period of the fair value of options issued to Directors in previous years. See note 7 for more details.

The Group does not operate a pension scheme for its Directors or employees.

From 1 January 2015, the Non-Executive Directors have elected not to receive a salary until further notice.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC

We have audited the financial statements of Borders & Southern Petroleum Plc for the year ended 31 December 2014 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of the Group's loss 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 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 Strategic report and 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.

Anthony Perkins (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
13 May 2015

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 2014

	Note	2014 $000	2013 $000
Administrative expenses		(3,037)	(2,820)
Loss from operations	2	(3,037)	(2,820)
Finance income	8	59	71
Finance expense	8	(910)	(207)
Loss before tax		(3,888)	(2,956)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to owners of the parent		(3,888)	(2,956)
Basic and diluted loss per share (see note 3)		(0.8) cents	(0.6) cents

The notes on pages 28 to 38 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

		2014		2013	
	Note	$000	$000	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		11		13
Intangible assets	11		289,966		286,950
Total non-current assets			289,977		286,963
Current assets					
Other receivables	13	329		1,017	
Cash and cash equivalents		16,079		23,290	
Total current assets			16,408		24,307
Total assets			306,385		311,270
Liabilities					
Current liabilities					
Tax payables	9		–		(185)
Trade and other payables	14		(250)		(1,307)
Total net assets			306,135		309,778
Equity					
Share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			2,280		2,035
Retained deficit			(13,261)		(9,373)
Foreign currency reserve			(16)		(16)
Total equity			306,135		309,778

The notes on pages 28 to 38 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 May 2015.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital $000	Share premium $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2013	8,530	308,602	1,608	(6,417)	(16)	312,307
Loss and total comprehensive loss for the year	–	–	–	(2,956)	–	(2,956)
Recognition of share-based payments	–	–	427	–	–	427
Balance at 31 December 2013	8,530	308,602	2,035	(9,373)	(16)	309,778
Loss and total comprehensive loss for the year	–	–	–	(3,888)	–	(3,888)
Recognition of share-based payments	–	–	245	–	–	245
Balance at 31 December 2014	**8,530**	**308,602**	**2,280**	**(13,261)**	**(16)**	**306,135**

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	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign currency reserves	Differences arising on change of presentation and functional currency to US dollars.

The notes on pages 28 to 38 form part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

		2014		2013	
	Note	$000	$000	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		11		13
Investments	12		–		–
Total non-current assets			11		13
Current assets					
Other receivables	13	290,472		288,142	
Cash and cash equivalents		16,079		23,290	
Total current assets			306,551		311,432
Total assets			306,562		311,445
Liabilities					
Current liabilities					
Tax payable			–		(185)
Trade and other payables	14		(250)		(1,307)
Total net assets			306,312		309,953
Equity					
Called up share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			2,280		2,035
Retained deficit			(13,082)		(9,196)
Foreign currency reserve			(18)		(18)
Total equity			306,312		309,953

The notes on pages 28 to 38 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 May 2015.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

COMPANY STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2014

	Share capital $000	Share premium reserve $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2013	8,530	308,602	1,608	(6,240)	(18)	312,482
Loss and total comprehensive loss for the year	–	–	–	(2,956)	–	(2,956)
Recognition of share-based payments	–	–	427	–	–	427
Balance at 31 December 2013	8,530	308,602	2,035	(9,196)	(18)	309,953
Loss and total comprehensive loss for the year	–	–	–	(3,886)	–	(3,886)
Recognition of share-based payments	–	–	245	–	–	245
Balance at 31 December 2014	**8,530**	**308,602**	**2,280**	**(13,082)**	**(18)**	**306,312**

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	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign currency reserve	Differences arising on change of presentation and functional currency to US dollars.

The notes on pages 28 to 38 form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014		2013	
	Note	$000	$000	$000	$000
Cash flow from operating activities					
Loss before tax			(3,888)		(2,956)
Adjustments for:					
Depreciation			2		9
Share-based payment			245		427
Net finance costs			851		136
Realised foreign exchange gains			5		49
Cash flows from operating activities before changes in working capital			(2,785)		(2,335)
Decrease in other receivables			689		528
Decrease in trade and other payables			(518)		(2,087)
Tax paid			(185)		–
Net cash outflow from operating activities			(2,799)		(3,894)
Cash flows used in investing activities					
Interest received		59		71	
Purchase of intangible assets		(3,555)		(28,939)	
Purchase of property, plant and equipment		–		(1)	
Net cash used in investing activities			(3,496)		(28,869)
Cash flows from financing activities			–		–
Net decrease in cash and cash equivalents			(6,295)		(32,763)
Cash and cash equivalents at the beginning of the year	16		23,290		56,436
Exchange loss on cash and cash equivalents			(916)		(383)
Cash and cash equivalents at the end of the year			16,079		23,290

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014		2013	
	Note	$000	$000	$000	$000
Cash flow from operating activities					
Loss before tax			(3,886)		(2,956)
Adjustments for:					
Depreciation			2		9
Share-based payment			245		427
Net finance costs			851		136
Realised foreign exchange gains			3		49
Cash flows from operating activities before changes in working capital			(2,785)		(2,335)
Decrease in other receivables			689		528
Decrease in trade and other payables			(518)		(2,087)
Tax paid			(185)		–
Net cash outflow from operating activities			(2,799)		(3,894)
Cash flows from investing activities					
Interest received		59		71	
Increase in amounts due from Group undertaking		(3,555)		(28,939)	
Purchase of property, plant and equipment		–		(1)	
Net cash used in investing activities			(3,496)		(28,869)
Net decrease in cash and cash equivalents			(6,295)		(32,763)
Cash and cash equivalents at the beginning of the year			23,290		56,435
Exchange loss on cash and cash equivalents			(916)		(383)
Cash and cash equivalents and cash held in escrow at the end of the year			16,079		23,290

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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 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 under the historical cost convention.

NEW AND REVISED STANDARDS EFFECTIVE FOR 31 DECEMBER 2014 YEAR END

There were no new standards issued in respect of the year ended 31 December 2014 that were relevant for adoption by the Group.

NEW AND REVISED STANDARDS ISSUED BUT NOT EFFECTIVE FOR 31 DECEMBER 2014 YEAR END

There were no new standards issued but not effective for the year ended 31 December 2014 that would be relevant for adoption by the Group.

BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

GOING CONCERN

The Directors are of the opinion that the Group has adequate financial resources to enable it to undertake its planned programme of exploration and appraisal activities for a period of at least 12 months.

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 loss for the year includes a loss after tax of $3,887,512 (2013: loss after tax of $2,955,526) which is dealt with in the financial statements of the Parent Company.

THE COMPANY'S INVESTMENTS IN SUBSIDIARIES

The Parent Company's subsidiaries are carried at cost less amounts provided for impairment.

FINANCE INCOME

Finance income consists of interest on cash deposits and foreign exchange gains.

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 segments, 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	33 1/3%

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

1 ACCOUNTING POLICIES CONTINUED

EXPLORATION AND EVALUATION EXPENDITURE

The Group applies the requirements of IFRS 6 Exploration for and evaluation of mineral resources in respect of its exploration and evaluation expenditure. The requirements of IFRS 6 are not applied to expenditure incurred by the Group before legal title to explore for and evaluate hydrocarbon resources in a specific area, generally referred to as pre-licence expenditure. Likewise the Group do not apply the requirements of IFRS 6 after the point at which the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable.

The costs of exploring for and evaluating hydrocarbon resources are accumulated and capitalised as intangible assets by reference to appropriate cash-generating units (CGU), generally referred to as full cost accounting. Such CGUs have been determined by the Group to be a Darwin CGU and a Stebbing CGU and are noted as not being larger than an operating segment as determined in accordance with IFRS 8 Operating segments.

Capitalised exploration and evaluation expenditure may include, amongst other costs, costs of licence acquisition, third party technical services and studies, seismic acquisition, exploration drilling and testing but do not include general overheads. Any property, plant and equipment (PPE) acquired for use in exploration and evaluation activities is classified as property, plant and equipment. However, to the extent that such PPE is consumed in developing an intangible exploration and evaluation asset the amount reflecting that consumption is recorded as part of the cost of the intangible exploration and evaluation asset.

Intangible exploration and evaluation assets are not depreciated and are carried forward, subject to the provisions of the Group's impairment of exploration and evaluation policy, until the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable. At such point exploration and evaluation assets are assessed for impairment and any impairment loss is recognised before reclassification of the assets to a category of property, plant and equipment.

IMPAIRMENT OF EXPLORATION AND EVALUATION EXPENDITURE

The Group's exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the exploration and evaluation assets may exceed the assets recoverable amount.

In accordance with IFRS 6 the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:

- whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- whether exploration for and evaluation of hydrocarbons in a specific area have not led to the discovery of commercially viable quantities of hydrocarbons and the Group has decided to discontinue such activities in the specific area; and
- whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluations assets is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell.

The Group has identified two cash-generating units, a Darwin CGU and a Stebbing CGU. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Group's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

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 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 reporting 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 the US dollar.

OPERATING LEASES

Rentals payable under operating leases are charged to 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 2014

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 is calculated using the Black-Scholes pricing model.

In accordance with IFRS 2 share-based payments the resulting cost is charged to the statement of comprehensive income 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 statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting 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 statement of comprehensive income 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.
- 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. Some of these funds are held in restricted deposits or escrow accounts as security for suppliers to the Company.

TAXES

The major components of 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 reporting date.

Tax is charged or credited to the statement of comprehensive income, 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 statement of financial position 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 reporting 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 will 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

Expenditure is capitalised as an intangible asset by reference to appropriate CGUs and is assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to:

(i) the timing of future development of the asset;
(ii) funding structures and financing costs of development;
(iii) commercial development opportunities for extracting value from the asset; and
(iv) modelling inputs such as the appropriateness of discount rates, reserve and resource estimates, oil and gas pricing predictions, etc.

SHARE OPTIONS

The Group's share-based payments were recognised at fair value using a 60% volatility rate based on long-term average standard deviation of the Company's share price and a 1.5% risk free rate based on current UK Government bond yields. See note 7.

2 LOSS FROM OPERATIONS

	2014 $000	2013 $000
Staff costs (note 5)	**1,321**	1,185
Share-based payment – equity settled	**245**	427
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	**74**	69
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**9**	2
Consultancy	**27**	61
Depreciation of office equipment	**2**	9
Operating lease expenses – property	**329**	294
Foreign exchange loss	**910**	207

3 BASIC AND DILUTIVE LOSS PER SHARE

The calculation of the basic and dilutive 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 $3,887,512 (2013 – loss $2,955,526) and the weighted average number of shares in issue for the year was 484,098,484 (2013 – 484,098,484). During the year the potential ordinary shares are anti-dilutive and therefore diluted loss per share has not been calculated. At the statement of financial position date, there were 6,150,000 (2013 – 6,150,000) potentially dilutive ordinary shares being the share options (see note 7 for further details).

4 SEGMENT ANALYSIS

The Company operates in one operating segment (exploration for oil 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 and all other non-current assets are located in the Falkland Islands.

5 STAFF COSTS

COMPANY AND GROUP:

Staff costs (including Directors) comprise:

	2014 $	2013 $
Wages and salaries	**1,172**	1,049
Employers national insurance contribution	**149**	137
	1,321	1,186
Share-based payment – equity settled	**201**	427
	1,522	1,613

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

5 STAFF COSTS CONTINUED

The average number of employees (including Directors) employed during the year by the Company was six (2013 – six) and for the Group was six (2013 – six). All employees and Directors of the Group and the Company are considered to be the key management personnel.

Of the $244,715 (2013 – $427,109) share-based payment charge included in the consolidated statement of comprehensive income, $201,053 (2013 – $427,109) has been charged in respect of share options granted to staff (including Directors) in the current and prior years. The remaining $43,662 (2013 – $nil) relates to share options granted to external parties, see note 7 for further details.

6 DIRECTORS' EMOLUMENTS

The Directors' emoluments for the year are as follows:

	2014 $	2013 $
Directors' fees	**861**	814
Share-based payments – equity settled	**123**	267
	984	1,081

The fees and share-based payments made to each Director are disclosed in the Remuneration Committee Report. During the year, the highest paid Director received total remuneration of $475,457 (2013 – $391,333).

In 2011, the Group granted to two Directors of Borders and Southern Petroleum Plc, for nil consideration, 1,000,000 share options each, with a total fair value of $774,447. Of this amount $123,234 has been expensed during the year.

7 SHARE-BASED PAYMENT

In July 2014, the Group granted 1,400,000 share options to an employee of the Group. The options vest after three years and expire after 10 years. Because of the difficulty in measuring the fair value of the services received, this has been determined by reference to the fair value of the options granted. A Black-Scholes model has been used to determine the fair value of the options granted (see below).

	2014 Weighted average exercise price	2014 Number	2013 Weighted average exercise price	2013 Number
Outstanding at the beginning of the year	**56p**	**6,150,000**	50p	5,500,000
Granted during the year	**11.25p**	**1,400,000**	15p	600,000
Cancelled during the year	**52p**	**1,400,000**		
Outstanding at the end of the year	**39p**	**6,150,000**	47p	6,150,000
Exercisable at the end of the year	**52p**	**3,750,000**	56p	2,250,000

The weighted average contractual life of the options outstanding at the year end was seven years (2013 – eight years).

The range of exercise prices of share options outstanding at the end of the year is 11.25–74p (2013: 15p – 74p).

The following information is relevant in the determination of the fair value of the options granted during the year under the scheme operated by the Company.

	2014	2013
Equity-settled scheme		
Option pricing model used	**Black-Scholes**	Black-Scholes
Weighted average share price at grant date	**11.25p**	15p
Exercise price	**11.25p**	15p
Weighted average contractual life (days)	**1,460**	1,460
Expected volatility	**60%**	75%
Risk-free interest rate	**1.5%**	1.25%
Fair value of options	**5p**	9p

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.

8 FINANCE INCOME AND EXPENSE

FINANCE INCOME

	2014 $000	2013 $000
Bank interest received	**59**	71
	59	71

FINANCE EXPENSE

	2014 $000	2013 $000
Foreign exchange loss	**910**	207
	910	207

9 TAX EXPENSE

CURRENT TAX EXPENSE

	2014 $000	2013 $000
UK corporation tax on loss for the year at 21.5% (2013 – 23%)	**–**	178
Adjustments recognised in the current year in relation to the current tax of prior years	**–**	–
Total current and deferred tax for the year	**–**	178

FACTORS AFFECTING CURRENT YEAR 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 losses for the year are as follows:

	2014 $000	2013 $000
Loss before and after taxation	**(3,888)**	2,955
Standard rate corporation tax charge at 21.5% (2013 – 23%)	**(836)**	(687)
Expenses not deductible for tax purposes	**466**	484
Capital allowances in excess of depreciation	**2**	2
Unrelieved tax losses arising in the period	**368**	201
Small companies relief	**–**	–
Total current and deferred tax for the year	**–**	–

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Group has a deferred tax asset of approximately $546,848 (2013 – $201,652) in respect of unrelieved tax losses of approximately $2,734,239 at 31 December 2014 (2013 – $866,661). The rate of tax used in the calculation of the deferred tax asset is 21.5% (2013 – 23%). The deferred tax asset has not been recognised in the financial statements as the timing of the economic benefit is uncertain.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

10 PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Office equipment $000
Cost	
As at 1 January 2013	113
Additions	–
As at 31 December 2013	113
Depreciation	
As at 1 January 2013	91
Charge for the year	9
As at 31 December 2013	100
Net book value	
As at 31 December 2013	13

	Office equipment $000
Cost	
As at 1 January 2014	113
Additions	–
As at 31 December 2014	113
Depreciation	
As at 1 January 2014	100
Charge for the year	2
As at 31 December 2014	102
Net book value	
As at 31 December 2014	11

11 INTANGIBLE ASSETS

Group	Exploration and evaluation costs $000
Cost	
As at 1 January 2013	258,011
Additions	28,939
As at 31 December 2013	286,950
Net book value	
As at 31 December 2013	286,950

Group	Exploration and evaluation costs $000
Cost	
As at 1 January 2014	286,950
Additions	3,016
As at 31 December 2014	289,966
Net book value	
As at 31 December 2014	289,966

On 8 November 2012 the Company received approval from The Falkland Islands Government to proceed into the second term for Production Licences PL018, PL019 and part of PL020. The other part of PL020, Licence PL021 and PL022 were relinquished. The second term of the licences expires on 1 November 2017.

12 INVESTMENTS IN SUBSIDIARY

COMPANY

	2014 $	2013 $
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 and its principal activity is oil and gas exploration.

13 OTHER RECEIVABLES

	Group		Company	
	2014 $000	2013 $000	2014 $000	2013 $000
Amounts owed by Group undertakings	**–**	–	**290,143**	287,125
Other receivables	**204**	247	**204**	247
Prepayments and accrued income	**125**	770	**125**	770
	329	1,017	**290,472**	288,142

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

Amounts owed by Group undertakings are not interest bearing and are payable on demand.

There are no past dues or impaired receivables at year end (2013: nil).

14 TRADE AND OTHER PAYABLES

	Group		Company	
	2014 $000	2013 $000	2014 $000	2013 $000
Trade payables	**24**	613	**24**	613
Other taxes and social security costs	**48**	48	**48**	48
Accruals and deferred income	**178**	646	**178**	646
	250	1,307	**250**	1,307

15 SHARE CAPITAL

	2014 $000	2013 $000
Authorised		
750,000,000 ordinary shares of 1 pence each (2013 – 750,000,000)	**14,926**	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2013 – 484,098,484)	**8,530**	8,530
Share capital		
Brought forward	**8,530**	8,530
Carried forward	**8,530**	8,530
Share premium		
Brought forward	**308,602**	308,602
Carried forward	**308,602**	308,602

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

16 CASH AND CASH EQUIVALENTS AND RESTRICTED USE CASH

Group and Company	**2014 $000**	2013 $000
Cash available on demand	**540**	1,852
Cash on deposit	**15,539**	21,438
Total	**16,079**	23,290

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

17 RELATED PARTY TRANSACTIONS

COMPANY

During the year Borders & Southern Petroleum plc paid expenses of $3,017,706 (2013 – $29,939,128) on behalf of Borders & Southern Falkland Islands Limited. At the year end $290,145,043 (2013 – $287,125,720) was due from the subsidiary.

The employees and Directors of the Group and the Company are considered to be the key management personnel. There were no transactions between the Group, the Company and the key management personnel during the year. The remuneration paid to the key management personnel is disclosed in note 6.

18 COMMITMENTS

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

	Land and Buildings	
	2014 $000	2013 $000
Not later than one year	**329**	80

The Group licence commitment is to drill one exploration well before 1 November 2017.

19 EVENTS AFTER THE REPORTING PERIOD

There were no reportable events post reporting date.

20 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 to be a risk due to the sufficient cash funds readily available by 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 the note.

PRINCIPAL FINANCIAL INSTRUMENTS

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

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

The fair values of the Group's financial assets and liabilities at 31 December 2014 and as at 31 December 2013 are materially equivalent to the carrying value as disclosed in the statement of financial position and related notes.

20 FINANCIAL INSTRUMENTS CONTINUED

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 considerations below and the figures quoted are the same for both Group and Company.

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 2014 the Group held cash at bank and in deposits under its control of $16,078,547 (2013 – $23,289,453) which forms the majority of the Group's working capital. Of the cash at bank and in deposit, $539,971 (2013 – $1,851,458) 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 $15,538,576 (2013 – $21,468,731) with a weighted average fixed interest rate of 0.2% (2013 – 0.2%) for three months. If there was 1% change in interest rates the impact on the statement of comprehensive income would be $160,785 (2013 – $232,895).

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$. Foreign exchange risk arises because the Group's services and treasury function is UK£, which results in gains or losses on retranslation into US$. To minimise this foreign currency risk cash balances are held in both UK£ and US$.

The foreign currency profile of financial assets and liabilities of the Group and the Company are as follows:

	Group		Company	
Current financial assets	**Other receivables measured at amortised cost 2014 $000**	Other receivables measured at amortised cost 2013 $000	**Other receivables measured at amortised cost 2014 $000**	Other receivables measured at amortised cost 2013 $000
Held in UK£:				
Other receivables	**329**	992	**329**	992
Cash and cash equivalents	**16,030**	22,888	**16,030**	22,888
Total current financial assets held in UK£	**16,359**	23,880	**16,359**	23,880
Held in US$:				
Trade and other receivables	**–**	25	**290,143**	287,151
Cash and cash equivalents	**49**	401	**49**	401
Total financial assets	**16,408**	24,306	**306,551**	311,432

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 $1,632,900 (2013: $2,288,796) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2014 $000	Financial liabilities measured at amortised cost 2013 $000	**Financial liabilities measured at amortised cost 2014 $000**	Financial liabilities measured at amortised cost 2013 $000
Held in UK£:				
Trade and other payables	**250**	1,307	**250**	1,307
Total financial liabilities	**250**	1,307	**250**	1,307

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 $25,000 (2013 – $130,689) for the Group and Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2014

20 FINANCIAL INSTRUMENTS CONTINUED

C) CREDIT RISK

Neither the Group nor the Company have customers so formal credit procedures are in the process of being established. During drilling operations, the Group incurred 100% of costs that were shared with other companies and these were invoiced to these companies with all amounts due for these shared costs paid to the Group during the year. 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 on an ongoing basis is cash held at bank and the maximum credit risk exposure for the Group and Company is detailed in the table below:

	2014		2013	
	Carrying Value $000	**Maximum exposure $000**	Carrying Value $000	Maximum exposure $000
Cash and cash equivalents	**16,079**	**16,079**	23,290	23,290
Maximum credit risk exposure	**16,079**	**16,079**	23,290	23,290

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.

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Peter Fleming
Stephen Posford
Nigel Hurst-Brown

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William Slack

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