

Borders & Southern is an independent oil and gas exploration company. Based in London, the Company's principal area of activity is in the Falkland Islands, where it operates three Production Licences covering an area of nearly 10,000 square kilometres.

The Company's first exploration well, drilled in 2012, resulted in a significant, liquids rich, gas condensate discovery - Darwin. Activity is now focused on commercialising the discovery and assessing the near-field prospectivity to provide long term growth for the Company.



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HIGHLIGHTS 2016**\$9.65**mCash balance at 31 December 2016
No debt**\$1.74**mAdministrative expenses 2016
Low Company overhead**\$40** per barrelBreak-even oil price for a phased
FPSO developmentFarm-out process on-going.
Maturation of the prospect inventory

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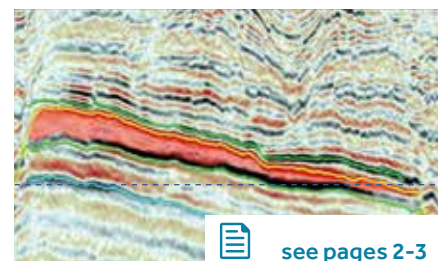
The industry has faced a challenging couple of years due to the fall in oil price. However, a modest recovery has seen renewed interest in growth opportunities. With our Darwin project having a break-even oil price of \$40 per barrel, we are optimistic that we can attract partners to help with its appraisal and development

HARRY DOBSON, NON-EXECUTIVE CHAIRMAN

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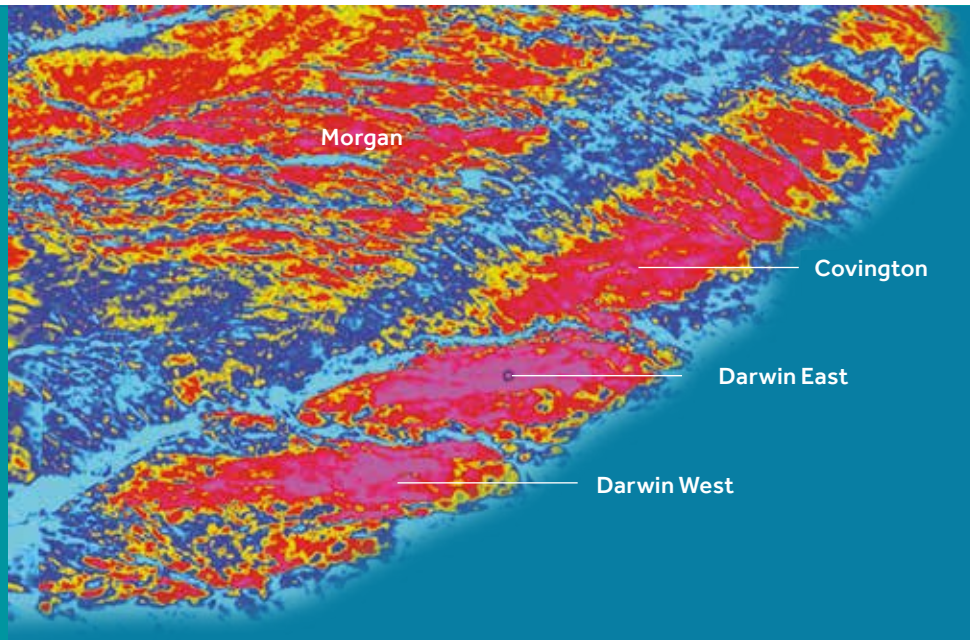
DARWIN

Latest project developments


 see pages 2-3
OUR NEAR-FIELD PROSPECTIVITYFind out about the Company's
high-graded prospects
 see page 2
OUR BUSINESS MODELLearn about the Company's strategy
and outlook
 see pages 6-7
For more information please visit:
www.bordersandsouthern.com

Darwin

Darwin is a significant, liquids rich, gas condensate discovery. The reservoir comprises high quality, laterally continuous shallow marine sands. The trap consists of two tilted fault blocks. The discovery is exceptionally imaged on 3D seismic, where the hydrocarbons are marked by a clear flat spot and amplitude conformance to structure.

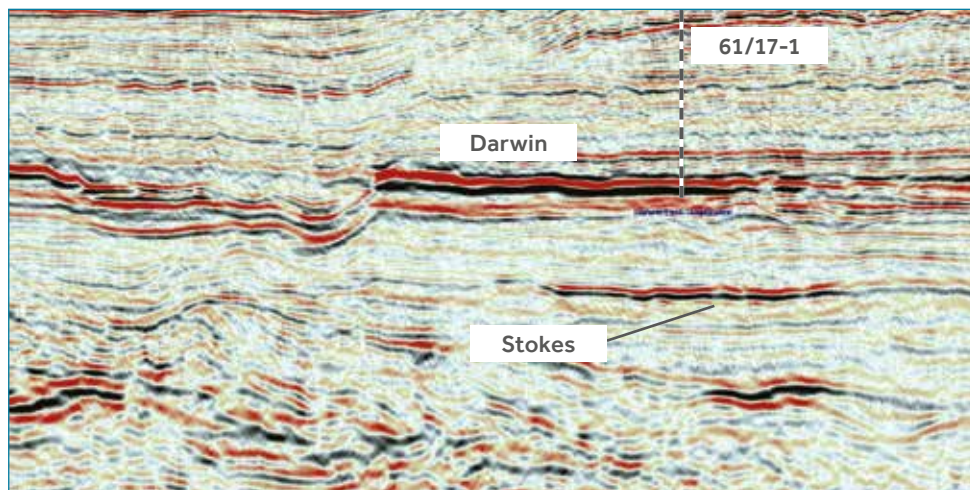


Seismic amplitude map showing Darwin and near-field prospects Covington and Morgan

Near-Field Prospectivity

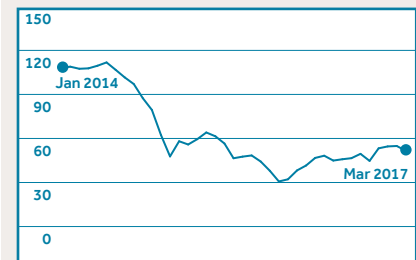
The Company has a strong portfolio of exploration prospects that provides future growth potential. Within a 15km radius of the discovery well, we have identified a number of amplitude supported prospects that have a total un-risked P50 recoverable resource estimate of over a billion barrels.

An East-West seismic line through the Darwin discovery well, highlighting untested prospects Sullivan and Stokes. Inset map shows the strong amplitude anomalies associated with these two near-field prospects.



MARKET OVERVIEW

Oil price



The dramatic fall in oil price during 2014 posed significant challenges for the industry. Companies responded by reducing their capital expenditure and strengthening their balance sheets. A major focus has been to reduce the cost of production, leading many companies to restructure their portfolios, exiting high cost projects and building positions in low cost options such as onshore US oil shale plays. Companies are striving to be low on the industry cost curve, thereby gaining resilience against future oil price fluctuations.

During 2016 the oil price rallied a little, underpinned by OPEC's agreed cuts in production. This has encouraged some companies to start looking for growth projects again in order to replace their declining reserves.

DARWIN'S POSITION ON THE INDUSTRY COST CURVE

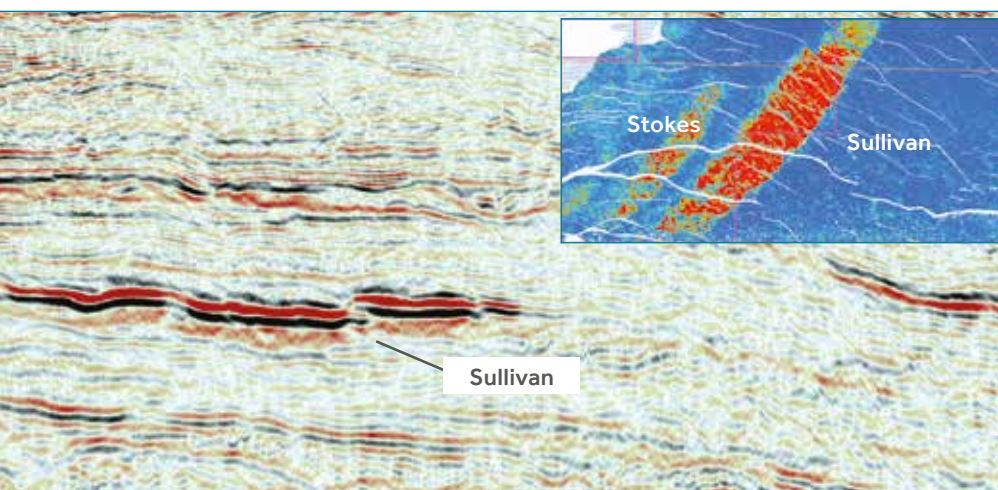
The engineering study completed in 2016 scoped out an FPSO development for the Darwin discovery, providing cost estimates to input into our project economic models. Using these costs we can see that Darwin is positioned low on the global cost curve, with a break-even oil price of \$40 per barrel (this includes a 25% contingency in the capex). This is due to the attractive fiscal terms offered by the Falkland Islands Government and the quality of the Darwin reservoir that requires a low number of development wells to be drilled and therefore minimising capex.

DARWIN COMMERCIALISATION

The scoping engineering study completed in 2016 demonstrated that, if successfully appraised, Darwin could be commercialised by a straightforward FPSO development utilising proven, off-the-shelf technology. The plan would be to produce the liquids and re-inject the dry gas back into the reservoir. An initial development could target 270 million barrels of condensate, requiring just 4 production wells and 3 gas re-injectors. A leased FPSO would be located in either 2000m of water, above the discovery, or in 1100m of water using a 14km subsea flowline. Initial condensate production would be 56,000 bpd. Estimated capex: \$1.36 billion (including 25% contingency).

TECHNICAL SUMMARY

Licence	PL018
B&S Interest	100%
Structure	Tilted Fault Block
Area of seismic anomaly	26 square kilometres
Reservoir	Early Cretaceous (Aptian)
Water depth	2,011m
Total depth	4,876m
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 (P50 un-risked)
Condensate API	46 to 49 degrees
Initial condensate yield	148 stb/MMscf



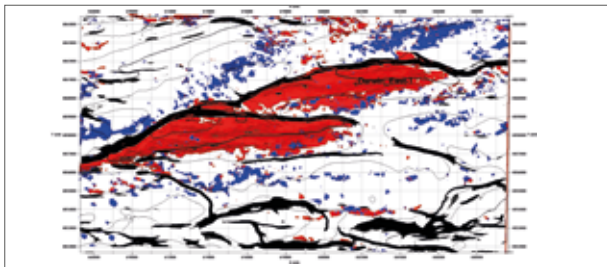
Borders & Southern's aim is to discover hydrocarbons and monetise them for the benefit of all its stakeholders. We can create value through exploration and appraisal success, progressing discoveries through to production.

Our key strengths



Asset quality

Through early opportunity identification and capture, the Company holds a very strong acreage position within the South Falkland Basin. We have a 100% interest in 3 Production licences (10,000 square kilometres) within the optimal part of the basin. The licences contain our Darwin discovery along with a multi-billion barrel prospect inventory.



Technical rigor

We have a small, experienced in-house team, which is supplemented by expert consultants. Great care is taken to acquire the right type of data and highest quality data possible, applying leading-edge technology to address the key technical issues. This technical discipline led to the Company being successful with its first exploration well.



Commercial discipline

The Company has no debt and has maintained a strong balance sheet and a low overhead. Strong financial controls are in place. Every effort is made to spend our limited financial resources wisely, negotiating robust contracts and focusing funds on activities that will help progress our project from discovery through to development.



Risk management

Robust risk management provides a foundation in all that we do. Care is taken to identify, monitor and mitigate against the different types of risk that the business encounters. We have demonstrated that we can operate deep water wells safely and with due respect to the environment. We build strong relationships with all our stakeholders.

Good progress has been achieved during 2016, despite the impact of the low oil price environment.

Delivering our **business**

Licence extension

In the first half of the year we received confirmation from the Falkland Islands Government that our licences had been extended. Production Licences PL018, PL019 and PL020 have been extended by three years without any additional work programme commitment. The expiry date is now October 2020. A further extension could be achieved by committing to additional work, such as drilling more wells. The Discovery Area licence, relating to Darwin East, has been extended by four years so that the expiry date is now January 2022.

Reservoir modelling

We completed a reservoir engineering study that evaluated potential development scenarios, including full-field (Darwin East and Darwin West combined) and phased developments (where either Darwin East or Darwin West would be developed first). The optimum location for appraisal and development wells were assessed and the volume of recovered hydrocarbons and rates of production determined. The output from this work fed into a facilities design project and the economic modelling of the discovery. One of the scenarios considered an initial development of 270 million barrels of condensate using 4 production wells and 3 gas re-injector wells, delivering an initial production rate of 56,000 bpd.

Facilities design

The scoping facilities engineering study demonstrated that, if successfully appraised, Darwin could be commercialised by a straightforward FPSO development, utilising proven, off-the-shelf technology. Cost estimates were received from the various engineering contractors. Two different options were assessed for the FPSO location: in 2,000 metres of water or 1,100 metres of water (using a 14 kilometre subsea flowline). Cost estimates for both options were comparable. The total estimated capex required for the 270 million barrel development is \$1.36 billion (including 25% contingency). This gives a break-even oil price of \$40 per barrel. If the 25% contingency within the capex estimate is not required then the break-even oil price would be appreciably lower.

Farm-out

The fall in oil price has had a significant impact on our ability to secure partners and funding for the next phase of operations. In the last couple of years, deep water projects have received less attention, as the industry has switched towards onshore low cost unconventional plays. However, deep water project costs have been reducing and the attention is now returning. Our break-even oil price is certainly competitive against global pre-sanction projects. Therefore, we are confident that our attractive economics, combined with our outstanding sub-surface case, will attract the necessary investment to progress Darwin through to development. Engagement with interested companies continues.

Our strategy is focused on frontier or emerging basins where substantial volumes of hydrocarbons are yet to be discovered. Our aim is to make significant discoveries and progress them through to development.

How we create value

Access

New opportunities



The first stage is to access new opportunities, either through Licence Rounds or Open Door policies. Early entry into a basin and play fairway is important so as gain a sizeable footprint in the most prospective parts of the basin. Rigorous technical work is critical at this stage in order to mitigate the initially high sub-surface risks.

Borders & Southern gained early entry into the South Falkland Basin, originally licencing 20,000 square kilometres. Our specific aim was to test the large folds and tilted fault blocks located south of the Falkland Islands. We were confident that a regional Jurassic to Early Cretaceous marine source rock would be present and that we would find large structural closures, so the main risk on entry was reservoir presence and quality. After drilling our first well, this risk was removed as all play elements in the basin were proved. We now believe our acreage is located in the optimum part of the basin for hydrocarbon generation and entrapment.

Explore

Test new prospects



The early stages of exploration are all about making the right choices of data acquisition. Given that financial resources are finite for all companies, acquiring the right type of data, amount of data and quality of data is critical for risk mitigation. Rigorous petroleum systems analysis of the acquired data is then important to determine the best plays, high-grade the prospect inventory and ultimately establish the best drilling locations to test the play fairways.

Borders & Southern has acquired 2,541 square kilometres of high quality PSDM 3D seismic data. This has allowed us to evaluate and high-grade all the play fairways. We selected two independent plays for the initial drilling programme. The first well, Darwin, tested Aptian shallow marine sands within a tilted fault block. This resulted in a significant, liquids rich, gas condensate discovery. The second well, Stebbing, tested Tertiary aged reservoirs within a simple four-way dip closed anticline. This well had strong hydrocarbon shows, but failed to reach its main reservoir objective.

How we add value

Appraise

Assess commerciality

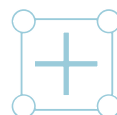


If a discovery displays the potential for commerciality, the next stage will be its appraisal. All the data collected during the exploration drilling programme are evaluated and integrated into the sub-surface interpretations. An appraisal well programme will be designed to constrain the resource estimates and assess the distribution and deliverability of the reservoir. Typically, coring and flow testing of the reservoir will be undertaken. The appraisal programme provides the basic data required for development planning.

The data collected during our 2012 drilling campaign has been fully integrated into our sub-surface analysis. Darwin is an exceptionally imaged hydrocarbon accumulation. This clear definition on 3D seismic will help in its appraisal. Options for appraisal well locations have been determined and well designs completed. As soon as partners and funding have been secured, the appraisal programme will be able to proceed.

Develop

Start production



If the appraisal drilling confirms the commerciality of the discovery, the next stage will focus on the engineering aspects of the project. Design concepts for a development will be evaluated and selected and detailed cost analysis completed. Pre-FEED and FEED studies will be undertaken prior to a final investment decision. This leads to the execution of the development and ultimately the start of production.

As part of our assessment of Darwin's commerciality, we have already completed two scoping development studies. These indicate that the discovery could be commercialised by a straightforward FPSO development, utilising proven, off-the-shelf technology. The liquids will be produced and exported to market whilst the dry gas re-injected back into the reservoir. Several development scenarios have been considered and contractor cost estimates received. The completed scoping studies will provide a good foundation for future detailed engineering work.

Repeatable Growth



Once a working petroleum system has been established by the discovery of hydrocarbons, the objective is to add value through follow-up discoveries. Using the knowledge gained through the exploration and appraisal phases, the prospect inventory can be high-graded and drilled up.

Borders & Southern has a very strong prospect inventory. Management's total un-risked P50 recoverable resource estimate for near-field prospects (those within 15 kilometres of the discovery) is over a billion barrels. Many of these are amplitude supported. Substantial upside occurs outside of the near-field prospect inventory. The Company intends to test additional exploration prospects as soon as possible, but its priority is to progress its discovery through to development.

MONETISE

CEO'S STATEMENT



HOWARD OBEE
CHIEF EXECUTIVE

Throughout 2016 we maintained a disciplined budget, whilst strengthening our technical and commercial case and continuing with our efforts to farm-out the Company's Falkland Islands project.

The year-end cash balance of \$9.65 million (31 December 2015: \$14 million) was impacted by significant changes in the US Dollar-Sterling exchange rate. Most of the Company's funds are held in Sterling to reflect its ongoing expenditures. The drop in the value of the pound, resulted in a nearly \$2 million reduction in the reported cash balance and increased the loss by the same amount. The 2016 Administrative expense of \$1.74 million, comparing favourably against the previous year (\$1.97 million in 2015), partially reflects the impact of the exchange rate.

Borders & Southern's objective is to be a successful explorer, finding hydrocarbons and monetising them for the benefit of all its shareholders and stakeholders. The first stage was realised in 2012 when we announced a significant, liquids rich, gas condensate discovery (Darwin). Subsequent technical analysis proved the scale of the discovery. Management's current un-risked P50 Best Estimate resource is 3.5 tcf of wet gas in place with 360 million barrels of recoverable condensate.

The second stage, of monetising the discovery, has been slower in achievement as competent partners are sought to help fund Darwin's appraisal and development.

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The robust economics and compelling sub-surface case give us a real sense of optimism for progressing Darwin through to a successful development

HOWARD OBEE, CHIEF EXECUTIVE

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Our ability to deliver on this has been impacted by the 2014 fall in oil price and the dramatic reduction in capital expenditure by the industry in the subsequent period. During the last year, the oil price has made a modest recovery, underpinned by OPEC's agreed cuts in production. As a response, many of the large and mid-sized companies, who have spent the last couple of years reducing their costs and strengthening their balance sheets, are now considering growth objectives again. This gives us grounds for optimism that we can complete a successful farm-out and get back to an operational phase and the appraisal drilling.

We believe that the Darwin discovery and its surrounding exploration portfolio compares very favourably against other global opportunities. Our technical and commercial work during 2016 was directed to test our project's commercial competitiveness. Through facilities engineering studies and reservoir modelling we demonstrated that the break-even oil price for an initial 270 million barrel FPSO phased Darwin development would be \$40 per barrel. If the 25% contingency included within the estimated \$1.36 billion capex is reduced, through more detailed engineering work, the break-even oil price would be appreciably lower. The attractive economics are largely influenced by the Falkland Islands Government's fiscal terms and the requirement for only a limited number of development wells due to the laterally continuous, high quality reservoir and extremely mobile hydrocarbon phase.

Over the last few years global exploration success rates have decreased significantly. Discovery volumes have been skewed towards dry gas, with new large liquids finds being relatively scarce. In this context, the Darwin condensate is an important resource. Through meticulous technical and commercial work, we have continued to take risk out of the project, to enhance its attractiveness to third parties. At the same time, we have matured the Company's exciting prospect inventory, which provides significant scope to add to the discovered volumes. As previously reported, management's un-risked P50 Best Estimate recoverable resource for near-field prospects (not including Darwin), those located within a 15km radius of the discovery well, exceed 1 billion barrels. Many of these prospects are supported by seismic amplitude anomalies and are considered by management to be relatively low risk.

The largest prospect within the near-field inventory and the current most likely candidate for an exploration well, following Darwin appraisal, is Sullivan. Stratigraphically older than the Darwin reservoir, in a section not yet penetrated by a well, the prospect is defined by a strong seismic amplitude anomaly measuring 120 square kilometres. The AVO response is very similar to that associated with the Darwin discovery. If this anomaly does represent another gas condensate accumulation, then Management's un-risked P50 Best Estimate volumes comprise 5.6 tcf of gas in place with 473 million barrels of recoverable condensate.




In addition to the near-field prospects, significant exploration potential exists in the rest of the Company's acreage in a range of structural and stratigraphic prospects. The scale and quality of the prospect inventory will provide considerable growth options for the Company in years to come. But in the near term, we will maintain our capital discipline during this extended period of low oil price and continue to refine and advance our technical understanding of the sub-surface. However, the principal focus remains the farm-out and attracting funds for the appraisal of Darwin.







HOWARD OBEE
CHIEF EXECUTIVE
18 May 2017

PRINCIPAL RISKS AND UNCERTAINTIES

RISK STATUS KEY

(*RS refers to Risk Status)

-  Risk increase
-  Risk unchanged
-  Risk decrease

Risk	Nature of Risk	RS	Mitigation
SUB-SURFACE	Exploration for oil and gas is inherently risky and whilst many of these risks can be mitigated, they cannot be eliminated.		The Company has demonstrated that it takes a disciplined approach to exploration using latest technologies and industry experts to undertake the necessary technical work.
HEALTH SAFETY AND ENVIRONMENT	Conducting operations in a remote, environmentally sensitive location present many challenges.		Prior to operations, detailed risk assessments and mitigation plans are put in place. Policies, plans and actions closely follow industry's best practice.
FUNDING	The Company continues to have a strong balance sheet with sufficient funds for overheads in the foreseeable future. The challenge is to secure funds for the Darwin appraisal programme		The recent engineering study demonstrated that Darwin's is one of the lowest cost projects in terms of break even oil price. Therefore we are confident of securing funding.
OIL PRICE	Rapid changes in commodity prices have a material impact on the industry in terms of economics and capital spending		The oil price appears to have settled in a \$50-\$55/bbl range and costs across the industry have reduced to reflect this. Darwin is a very attractive investment proposition at these oil prices.
KEY PERSONNEL	As a small company, it is reliant upon a small number of experienced personnel.		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 experienced contractors.
SUPPLY CHAIN	The geographical location and political backdrop provide logistical challenges.		Several drilling campaigns have now been undertaken over the last decade so the supply chain has been well tested.
POLITICAL	Argentina continue to challenge the sovereignty of the Falkland Islands.		The British Government consistently provides strong support for the Falkland Islanders' right to determine their own future. Recent discussions between the UK and Argentinian governments have been more supportive.

The Strategic Report on pages 1 to 9 is issued and signed on behalf of the Board by:

HOWARD OBEE
CHIEF EXECUTIVE
18 May 2017

CHAIRMAN'S STATEMENT



HARRY DOBSON
NON-EXECUTIVE CHAIRMAN



Borders & Southern is committed to acting responsibly in all of its business activities

HARRY DOBSON
NON-EXECUTIVE CHAIRMAN



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.

The Board currently comprises the Chairman, two Executive Directors and one Non-Executive Director. 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.

All Directors retire by rotation.

I regularly review the composition and structure of the Board to ensure it both meets industry good practice and is fit for purpose given where the Company is in terms of its development and scale.

MY ROLE AS CHAIRMAN

I was appointed Chairman of the Company at its inception. As Chairman, I am 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, I also set and run the agenda for Board meetings.

ROLES OF THE NON-EXECUTIVE DIRECTOR

Nigel Hurst-Brown brings a wealth of business experience to the Board and its Committees. He provides independent views on the Company's performance, operations and strategy.

REMUNERATION COMMITTEE

The Board has a Remuneration Committee comprising two Non-Executive Directors. The members of the Remuneration Committee and their attendance at

meetings of the Remuneration Committee during 2016 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 its remuneration with comparable companies.

AUDIT COMMITTEE

The Board has an Audit Committee comprising two Non-Executive Directors. The members of the Audit Committee and their attendance at meetings of the Audit Committee during 2016 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.

KEY PERFORMANCE INDICATORS

At this stage in its development, the Company is focusing on the development of its existing Darwin discovery. As and when the Company moves into production, financial, operational, health and safety and environmental KPIs will become relevant and will be reported and measured as appropriate.

The Directors do, however, closely monitor certain financial information, in particular overheads and cash balances, as set out in the CEO's statement.

HARRY DOBSON
NON-EXECUTIVE CHAIRMAN

CORPORATE GOVERNANCE – BOARD OF DIRECTORS



HARRY DOBSON
NON-EXECUTIVE CHAIRMAN

(A) (R)

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 OBEЕ
CHIEF EXECUTIVE

(E)

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 over 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

(E)

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.



NIGEL HURST-BROWN
NON-EXECUTIVE DIRECTOR

(A) (R)

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.

(A) Audit Committee

(R) Remuneration Committee

(E) Executive Director

CORPORATE RESPONSIBILITY

Throughout its history, the Company has demonstrated that it conducts its activities in a responsible and sustainable way in line with industry best practices.



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



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 10.

The remuneration of the Directors for the year ended 31 December 2016 was as follows:

	Basic salary \$	Share-based payment \$	Total 2016 \$	Total 2015 \$
Harry Dobson	–	–	–	–
Howard Obee	344,486	–	344,486	383,821
Nigel Hurst-Brown	–	582	582	–
Peter Fleming	275,589	–	275,589	307,057
	620,075	–	620,657	690,878

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.

DIRECTORS' REPORT

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 2016, were as follows:

	At 31 December 2016 Number	At 31 December 2015 Number
Harry Dobson	26,670,000	26,670,000
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 holds an interest is held by the Zila Corporation, a Company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary.

The Group has provided the Directors with qualifying third party indemnity insurance.

Share options

	Number of options held at the beginning 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	three years
Peter Fleming	1,300,000	1,300,000	24–30 pence	48–58 pence	three years
Nigel Hurst-Brown	250,000	1,250,000	0.5–32 pence	1.8–58 pence	three years

Substantial shareholders

At 27 January 2017 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
Lansdowne Partners Limited Partnership	67,613,605	13.97%
Allianz Global Investors	33,921,782	7.01%
TD Direct Investing	20,186,701	5.94%
Stephen Posford	27,500,000	5.68%
Zila Corporation	26,670,000	5.51%
Standard Life Investments	23,549,230	4.86%
Barclays Wealth	18,747,389	3.87%
Hargreaves Lansdowne Asset Management	16,612,664	3.43%
Vestra Wealth	15,698,622	3.24%
Halifax Share Dealing	14,834,036	3.06%

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 17 and shows the result for the year.

The Directors do not recommend the payment of a dividend (2015: \$nil).

Review of business and future developments

A review on the operations of the Group is contained in the CEO's statement on page 8.

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 (2015: \$nil).

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. 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 2016

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	3	1	2
Howard Obee	3	–	–
Peter Fleming	3	–	–
Nigel Hurst-Brown	3	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
18 May 2017

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 2016 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 2016 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, based on the work undertaken in the course of the audit:

- 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.
- The Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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's 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
18 May 2017

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 2016

	Note	2016 \$000	2015 \$000
Administrative expenses		(1,744)	(1,968)
Loss from operations	2	(1,744)	(1,968)
Finance income	8	30	47
Finance expense	8	(1,890)	(679)
Loss before tax		(3,604)	(2,600)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to owners of the parent		(3,604)	(2,600)
Basic and diluted loss per share (see note 3)		(0.74) cents	(0.54) cents

The notes on pages 24 to 34 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015	
		\$000	\$000	\$000	\$000
Assets					
Non-current assets					
Property, plant and equipment	10		12		10
Intangible assets	11		290,381		289,590
Total non-current assets			290,393		289,600
Current assets					
Other receivables	13	1,167		297	
Cash and cash equivalents		9,645		14,011	
Total current assets			10,812		14,308
Total assets			301,205		303,908
Liabilities					
Current liabilities					
Tax payables	9		–		–
Trade and other payables	14		(1,136)		(283)
Total net assets			300,069		303,625
Equity					
Share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			2,418		2,370
Retained deficit			(19,465)		(15,861)
Foreign currency reserve			(16)		(16)
Total equity			300,069		303,625

The notes on pages 24 to 34 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 18 May 2017.

Howard Obee
Director

Peter Fleming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital \$000	Share premium \$000	Other reserves \$000	Retained deficit \$000	Foreign currency reserve \$000	Total \$000
Balance at 1 January 2015	8,530	308,602	2,280	(13,261)	(16)	306,135
Comprehensive income for the year						
Loss and total comprehensive loss for the year	–	–	–	(2,600)	–	(2,600)
Total comprehensive Income for the year	–	–	–	(2,600)	–	(2,600)
Contributions by and distributions to owners						
Share-based expense	–	–	90	–	–	90
Total contributions by and distributions to owners	–	–	90	–	–	90
Balance at 31 December 2015	8,530	308,602	2,370	(15,861)	(16)	303,625
Comprehensive income for the year						
Loss and total comprehensive loss for the year	–	–	–	(3,604)	–	(3,604)
Total comprehensive Income for the year	–	–	–	(3,604)	–	(3,604)
Contributions by and distributions to owners						
Share-based expense	–	–	48	–	–	48
Total contributions by and distributions to owners	–	–	48	–	–	48
Balance at 31 December 2016	8,530	308,602	2,418	(19,465)	(16)	300,069

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

Reserve

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	Comprises the cumulative charge recognised under IFRS 2 in respect of share-based payment awards.
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 24 to 34 form part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016		2015	
		\$000	\$000	\$000	\$000
Assets					
Non-current assets					
Property, plant and equipment	10	12		10	
Investments	12	–		–	
Other receivables	13	290,560		289,769	
Total non-current assets			290,572		289,779
Current assets					
Other receivables	13	1,166		297	
Cash and cash equivalents		9,645		14,011	
Total current assets			10,811		14,308
Total assets			301,383		304,087
Liabilities					
Current liabilities					
Trade and other payables	14		(1,135)		(283)
Total net assets			300,248		303,804
Equity					
Called up share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			2,418		2,370
Retained deficit			(19,284)		(15,680)
Foreign currency reserve			(18)		(18)
Total equity			300,248		303,804

The Parent Company has taken advantage of the exemption from the requirement to publish its own income statement. The Parent Company's loss for the year ended 31 December 2016 was £3,604,000 (2015: £2,598,000).

The notes on pages 24 to 34 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 18 May 2017.

Howard Obee
Director

Peter Fleming
Director

Company number: 5147938

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital \$000	Share premium reserve \$000	Other reserves \$000	Retained deficit \$000	Foreign currency reserve \$000	Total \$000
Balance at 1 January 2015	8,530	308,602	2,280	(13,082)	(18)	306,312
Comprehensive income for the year						
Loss and total comprehensive loss for the year	–	–	–	(2,598)	–	(2,598)
Total comprehensive Income for the year	–	–	–	(2,598)	–	(2,598)
Contributions by and distributions to owners						
Share-based expense	–	–	90	–	–	90
Total contributions by and distributions to owners	–	–	90	–	–	90
Balance at 31 December 2015	8,530	308,602	2,370	(15,680)	(18)	303,804
Comprehensive income for the year						
Loss and total comprehensive loss for the year	–	–	–	(3,604)	–	(3,604)
Total comprehensive Income for the year	–	–	–	(3,604)	–	(3,604)
Contributions by and distributions to owners						
Share-based expense	–	–	48	–	–	48
Total contributions by and distributions to owners	–	–	48	–	–	48
Balance at 31 December 2016	8,530	308,602	2,418	(19,284)	(18)	300,248

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	Comprises the cumulative charge recognised under IFRS 2 in respect of share-based payment awards.
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 page 24 to 34 form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015	
		\$000	\$000	\$000	\$000
Cash flow from operating activities					
Loss before tax			(3,604)		(2,600)
Adjustments for:					
Depreciation			1		1
Share-based payment			48		90
Net finance costs			1,860		632
Realised foreign exchange gains			25		(8)
Cash flows from operating activities before changes in working capital					
			(1,670)		(1,885)
(Increase)/decrease in other receivables			(476)		32
Increase in trade and other payables			29		33
Net cash outflow from operating activities					
			(2,117)		(1,820)
Cash flows used in investing activities					
Interest received		30		47	
Purchase of intangible assets		(849)		(773)	
Proceed from disposal intangible assets		430		1,149	
Net cash used in investing activities					
			(389)		(423)
Cash flows from financing					
Cash flows from financing activities					
Net decrease in cash and cash equivalents			(2,506)		(1,397)
Cash and cash equivalents at the beginning of the year	16		14,011		16,079
Exchange loss on cash and cash equivalents			(1,860)		(671)
Cash and cash equivalents and cash held in escrow at the end of the year					
			9,645		14,011

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015	
		\$000	\$000	\$000	\$000
Cash flow from operating activities					
Loss before tax			(3,604)		(2,598)
Adjustments for:					
Depreciation			1		1
Share-based payment expense			48		90
Net finance costs			1,860		632
Realised foreign exchange gains			25		(8)
Cash flows from operating activities before changes in working capital			(1,670)		(1,883)
(Increase)/decrease in other receivables			(869)		32
Increase in trade and other payables			852		33
Net cash outflow from operating activities			(1,687)		(1,818)
Cash flows from investing activities					
Interest received			30		47
(Increase)/decrease in amounts due from Group undertaking			(849)		374
Net cash used in/(from) investing activities			(819)		421
Net decrease in cash and cash equivalents			(2,506)		(1,397)
Cash and cash equivalents at the beginning of the year	16		14,011		16,079
Exchange loss on cash and cash equivalents			(1,860)		(671)
Cash and cash equivalents and cash held in escrow at the end of the year			9,645		14,011

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 year end

There were no new standards issued in respect of the year ended 31 December 2016 that were relevant for adoption by the Group.

New and revised standards issued but not effective for 31 December 2016 year end

At the date of authorisation of this report the following standards and interpretations, which have not been applied in this report, were in issue but not yet effective:

- IFRS 9 Financial Instruments (effective date for annual periods beginning on or after 1 January 2018);
- IFRS 15 Revenue from Contracts with customers (effective date for annual periods beginning on or after 1 January 2018);
- IFRS 16 Leases (effective date for annual periods beginning on or after 1 January 2019);
- IAS 12 (amended) Recognition of Deferred Tax Asset for Unrealised Losses;
- IAS 7 Disclosure Initiative; and
- IFRS 2 (amended) Classification and Measurement of Share-based Present Transactions.

The Group considers that the only Standard that may have any impact is IFRS 9. The new Standard will replace existing accounting Standards. It is applicable to financial assets and liabilities and will introduce changes to existing accounting concerning classification, measurement and impairment (introducing an expected loss method). The Group considers that whilst IFRS 16 may impact on the Group, the effect will not be significant as the operating leases held by the Group are of low value.

The Group is not revenue generating thus there is no impact of IFRS 15 as there are no revenue contracts in place.

The Group will adopt the above Standards at the time stipulated by that Standard. The Group does not at this time anticipate voluntary early adoption of any of the Standards.

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.

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.

1 Accounting policies continued

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 33.33%

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

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. The Group has determined that their operating licences are recognised in one CGU. A CGU is not 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, performs 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 of disposal. The Group has identified one cash-generating unit. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies continued

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.

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

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.

1 Accounting policies continued

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.

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.

With regards to the Parent Company financial statements – impairment of financial assets:

Investment in subsidiaries

The Company has an investment in a subsidiary. Investments are valued at cost, less allowance for impairment. Impairment reviews are performed annually. The assessment of recoverability involves judgement.

2 Loss from operations

	2016 \$000	2015 \$000
Staff costs (note 5)	984	1,090
Share-based payment- equity settled	48	90
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	51	70
Fees payable to the Company's auditor and its associates for other services:		
Tax advisory	6	6
Consultancy		
Depreciation of office equipment	1	1
Operating lease expenses-property	317	321
Foreign exchange loss	1,890	679

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 \$3,604,000 (2015 – loss \$2,599,393) and the weighted average number of shares in issue for the year was 484,098,484 (2015 – 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 7,050,000 (2015: 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, office equipment is based in the UK and all other non-current assets are located in the Falkland Islands.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

5 Staff costs

Company and Group:

Staff costs (including Directors) comprise:

	2016 \$ 000	2015 \$ 000
Wages and salaries	868	964
Employers' national insurance contribution	115	126
Employers' pension contribution	1	–
Share-based payment-equity settled	984	1,090
	48	90
	1,032	1,180

The average number of employees (including Directors) employed during the year by the Company was five (2015 – six) and for the Group was five (2015 – six). All employees and Directors of the Group and the Company are considered to be the key management personnel.

Of the \$48,000 (2015 – \$90,000) share-based payment charge included in the consolidated statement of comprehensive income, \$48,000 (2015 – \$90,000) has been charged in respect of share options granted to staff (including Directors) in the current and prior years.

6 Directors' emoluments

The Directors' emoluments for the year are as follows:

	2016 \$ 000	2015 \$ 000
Directors' fees	620	691
Share-based payments – equity settled	1	–
	621	691

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 \$344,486 (2015- \$383,281).

In 2013, the Group granted 600,000 share options to an employee of the Group with a total fair value of \$84,203. Of this amount, \$16,687 has been expensed during the year. The options vest after three years and expire after 10 years.

In 2014, the Group granted 1,400,000 share options to an employee of the Group with a total fair value of \$49,071. Of this amount, \$30,225 has been expensed during the year. The options vest after three years and expire after 10 years. During 2014, 1,400,000 that had been issued to the same employee were cancelled.

In 2016, the Group granted 1,000,000 share options to a Director of the Group with a total fair value of \$6,714. Of this amount, \$582 has been expensed during the year. 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 options granted (see note 7).

7 Share-based payment

	2016 Weighted average exercise price	2016 Number	2015 Weighted average exercise price	2015 Number
Outstanding at the beginning of the year	39p	6,150,000	39p	6,150,000
Granted during the year	1.8p	1,000,000		–
Expired during the year	48p	100,000		–
Outstanding at the end of the year	33p	7,050,000	39p	6,150,000
Exercisable at the end of the year	30p	4,650,000	50p	4,150,000

The weighted average contractual life of the options outstanding at the year end was five years (2015 – six years).

The range of exercise prices of share options outstanding at the end of the year is 1.8-74p (2015 – 11.25p-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.

	2016
Equity-settled scheme	Black-Scholes
Option pricing model used	
Weighted average share price at grant date	1.8p
Exercise price	1.8p
Weighted average contractual life (days)	1,460
Expected volatility	60%
Risk-free interest rate	1.0%
Fair value of options	0.5p
Option life	4 years

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

	2016 \$000	2015 \$000
Bank interest received	30	47
	30	47

Finance expense

	2016 \$000	2015 \$000
Foreign exchange loss	1,890	679
	1,890	679

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

9 Tax expense

Current tax expense

There is no current tax expense for the year (2015: \$nil).

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:

	2016 \$000	2015 \$000
Loss before and after taxation	(3,604)	(2,600)
Standard rate corporation tax charge at 20.00% (2015 – 20.25%)	(721)	(527)
Expenses not deductible for tax purposes	268	296
Adjust closing deferred tax to average rate of 20.00%	9	84
Adjust opening deferred tax to average rate of 20.00%	(13)	(6)
Movement in unrecognised deferred tax for the year	457	153
Total current and deferred tax for the year	–	–

Factors that may affect future tax charges

The Group has a deferred tax asset of approximately \$1,022,473 (2015 – \$671,128) in respect of unrelieved tax losses of approximately \$6,014,546 at 31 December 2016 (2015 – \$3,728,488). The rate of tax used in the calculation of the deferred tax asset is 17% (2015 – 18%). The deferred tax asset has not been recognised in the financial statements as the timing of the economic benefit is uncertain.

10 Property, plant and equipment

Group and Company

	Office equipment \$000
Cost	
As at 1 January 2015	113
Additions	–
As at 31 December 2015	113
Depreciation	
As at 1 January 2015	102
Charge for the year	1
As at 31 December 2015	103
Net book value	
As at 31 December 2015	10

	Office equipment \$000
Cost	
As at 1 January 2016	113
Additions	2
As at 31 December 2016	115
Depreciation	
As at 1 January 2016	102
Charge for the year	1
As at 31 December 2016	103
Net book value	
As at 31 December 2016	12

11 Intangible assets

Group

	Exploration and evaluation costs \$000
Cost	
As at 1 January 2015	289,966
Additions	773
Disposals	(1,149)
As at 31 December 2015	289,590
Net book value	
As at 31 December 2015	289,590

Group

	Exploration and evaluation costs \$000
Cost	
As at 1 January 2016	289,590
Additions	1,613
Disposals	(822)
As at 31 December 2016	290,381
Net book value	
As at 31 December 2016	290,381

On 31 May 2016 the Company received notice from The Falkland Islands Government that the Company's application to extend the expiry date of the Second Term for Production Licenses PL018, PL019 and part of PL020 has been extended until 31 October 2020. On the same day the Company also received notice that the expiry date of Darwin East Discovery Area has been extended until 31 January 2022.

12 Investments in subsidiary

Company

	2016 \$000	2015 \$000
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 has its registered office at One Fleet Place, London EC4M 7WS and its principal activity is oil and gas exploration.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

13 Other receivables

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Amounts owed by Group undertakings	–	–	290,560	289,769
Other receivables	1,069	165	1,068	165
Prepayments and accrued income	98	132	98	132
	1,167	297	291,726	290,066

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. The Directors have considered the classification of the amounts owed by Group undertakings and consider that the intention is not to pay the amounts within the next year and as such have reclassified these amounts as non current. The comparative has also been reclassified.

14 Trade and other payables

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trade payables	84	81	85	81
Other taxes and social security costs	99	42	99	42
Accruals and deferred income	953	160	951	160
	1,136	283	1,135	283

15 Share capital

	2016 \$000	2015 \$000
Authorised		
750,000,000 ordinary shares of 1 pence each (2015 – 750,000,000)	14,926	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2015 – 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

16 Cash and cash equivalents and restricted use cash

Group and Company

	2016 \$000	2015 \$0000
Cash available on demand	374	13,011
Cash on deposit	9,271	1,000
Total	9,645	14,011

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 \$1,161,551 (2015 – \$774,513) on behalf of Borders & Southern Falkland Islands Limited. At the year end \$288,230,000 (2015 – \$289,769,373) 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	
	2016 \$000	2015 \$000
Not later than one year	80	321

The Group licence commitment is to drill one exploration well before 1 November 2020.

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; and
- trade and other payables.

The fair values of the Group's financial assets and liabilities at 31 December 2016 and as at 31 December 2015 are materially equivalent to the carrying value as disclosed in the statement of financial position 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 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 2016 the Group held cash at bank and in deposits under its control of \$9,644,090 (2015 – \$14,011,005) which forms the majority of the Group's working capital. Of the cash at bank and in deposit \$372,613 (2015 – \$13,011,005) 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 \$9,271,477 (2015 – \$1,000,000) with a weighted average fixed interest rate of 0.2% (2015-0.2%) for three months. If there was 1% change in interest rates the impact on the statement of comprehensive income would be \$92,714 (2015 – \$10,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

20 Financial instruments continued

b) Foreign currency translation risk

The operational currency of the oil and gas exploration and evaluation activities of the exploration subsidiary is the US\$. The consolidated financial statements are presented in US\$ as this best reflects the economic environment of the oil exploration sector in which the Group operates. 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\$.

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

	Group		Company	
	Other receivables measured at amortised cost 2016 \$000	Other receivables measured at amortised cost 2015 \$000	Other receivables measured at amortised cost 2016 \$000	Other receivables measured at amortised cost 2015 \$000
Current financial assets				
Held in UK£:				
Other receivables	1,167	297	1,166	297
Cash and cash equivalents	8,892	12,826	8,892	12,826
Total current financial assets held in UK£	10,059	13,123	10,058	13,123
Held in US\$:				
Trade and other receivables	–	–	288,230	289,769
Cash and cash equivalents	752	1,185	752	1,185
Total financial assets	10,811	14,308	299,040	304,077

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 \$1,005,800 (2015: \$1,312,325) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2016 \$000	Financial liabilities measured at amortised cost 2015 \$000	Financial liabilities measured at amortised cost 2016 \$000	Financial liabilities measured at amortised cost 2015 \$000
Held in UK£:				
Trade and other payables	1,136	283	1,135	283
Total financial liabilities	1,136	283	1,135	283

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 \$113,500 (2015 – \$28,300) for the Group and Company.

c) Credit risk

Neither the Group nor the Company have sales customers so formal credit procedures are not usually relevant. Recently the Company sold some its inventory held in The Falkland Islands and monies due from this were outstanding at year end. These balances were partially offset by monies owed by the Company to the same entity. 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:

	2016		2015	
	Carrying Value \$000	Maximum exposure \$000	Carrying Value \$000	Maximum exposure \$000
Cash and cash equivalents	9,645	9,645	14,011	14,011
Maximum credit risk exposure	9,645	9,645	14,011	14,011

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

Directors	Harry Dobson Howard Obee Peter Fleming Nigel Hurst-Brown	Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Secretary	William Slack	Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Registered office	One Fleet Place London EC4M 7WS	Bankers	Lloyds TSB Bank plc 19-21 The Quadrant Richmond Surrey TW9 1BP
Business address	33 St James's Square London SW1Y 4JS	Independent auditors	BDO LLP 55 Baker Street London W1U 7EU
Nominated advisor and joint broker	Panmure Gordon & Co Moorgate Hall 155 Moorgate London EC2M 6XB		
Joint broker	Mirabaud Securities LLP 5th Floor The Verde Building 10 Bressenden Place London SW1E 5DH		

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