

Borders & Southern is a London based, London Stock Exchange (AIM) listed company, engaged in the exploration and appraisal of oil and gas. The Company's principal asset is a large gas condensate discovery in the Falkland Islands.

In 2012 Borders & Southern drilled two deep water exploration wells in the South Falkland Basin, the first of which resulted in a liquids rich gas condensate discovery. The Company is now focused on commercialising the discovery and testing the attractive near-field prospectivity.

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\$8.25m

Cash balance at 31 December 2017.
No debt.

—
462 MMbbl

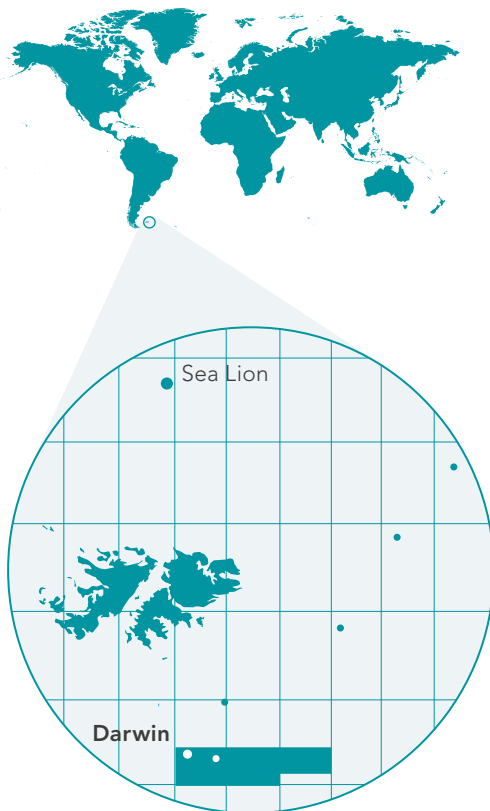
Independent un-risked Best Estimate for total recoverable liquids (condensate and LPG) from Darwin East and West.

—
0.81

Independent assessment of the geological chance of success of finding hydrocarbons in Darwin West.

Falkland Islands

The Company holds three Production Licences, located to the south of the Falkland Islands, covering an area of approximately 10,000 square kilometres.



B&S has acquired 2,517 square kilometres of PSDM 3D seismic data and drilled two exploration wells.



Further information
www.bordersandsouthern.com

Asset Overview

In 2012 the Company drilled its first exploration well in the Falkland Islands. It resulted in a significant, liquids rich, gas condensate discovery: Darwin.

Darwin consists of two adjacent, technically similar, tilted fault blocks, exceptionally imaged on PSDM 3D seismic. They display clear flat spots and amplitude conformance to structure. The discovery well, 61/17-1, was drilled on the eastern fault block (Darwin East). The well encountered a gross reservoir interval of 84.5 metres, with net pay of 67.8 metres. The high quality reservoir has been interpreted to be laterally continuous, shallow marine sands of Aptian age. The western fault block (Darwin West) is untested.

Borders & Southern asked Gaffney, Cline & Associates (GCA) to undertake an independent evaluation of the Darwin East discovery and its adjacent

Estimated Wet Gas Initially In-Place (Bscf)*

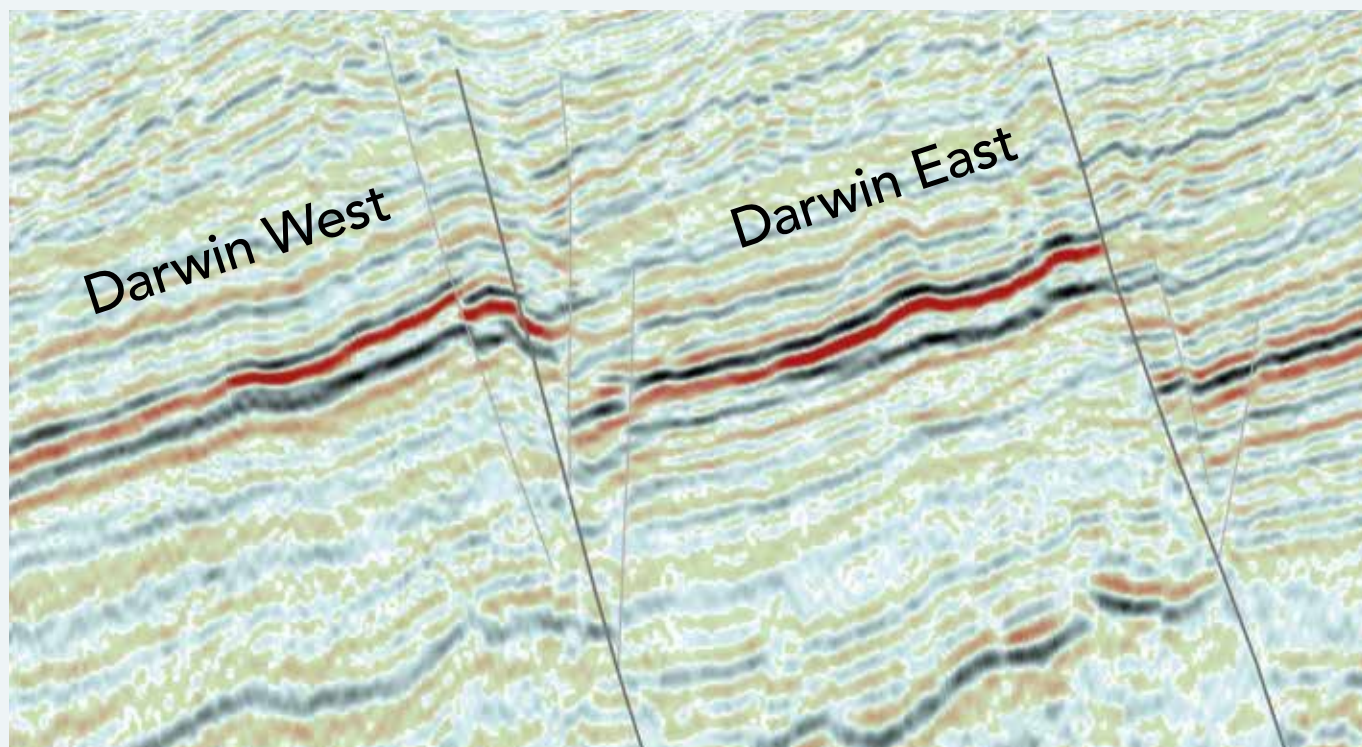
	Low	Best	High
Darwin East	659	1,096	1,759
Darwin West	1,361	2,110	3,160

* Independent un-risked assessment

fault block, Darwin West. They were given full access to the Company's 3D seismic and well data, along with technical studies, interpretations and dynamic models of the reservoir. Their comprehensive analysis confirmed Borders & Southern's geological interpretations and derived their own

estimate for the Wet Gas In-Place along with a Best Estimate for Contingent and Prospective Resources. These are shown above and on the adjacent page.

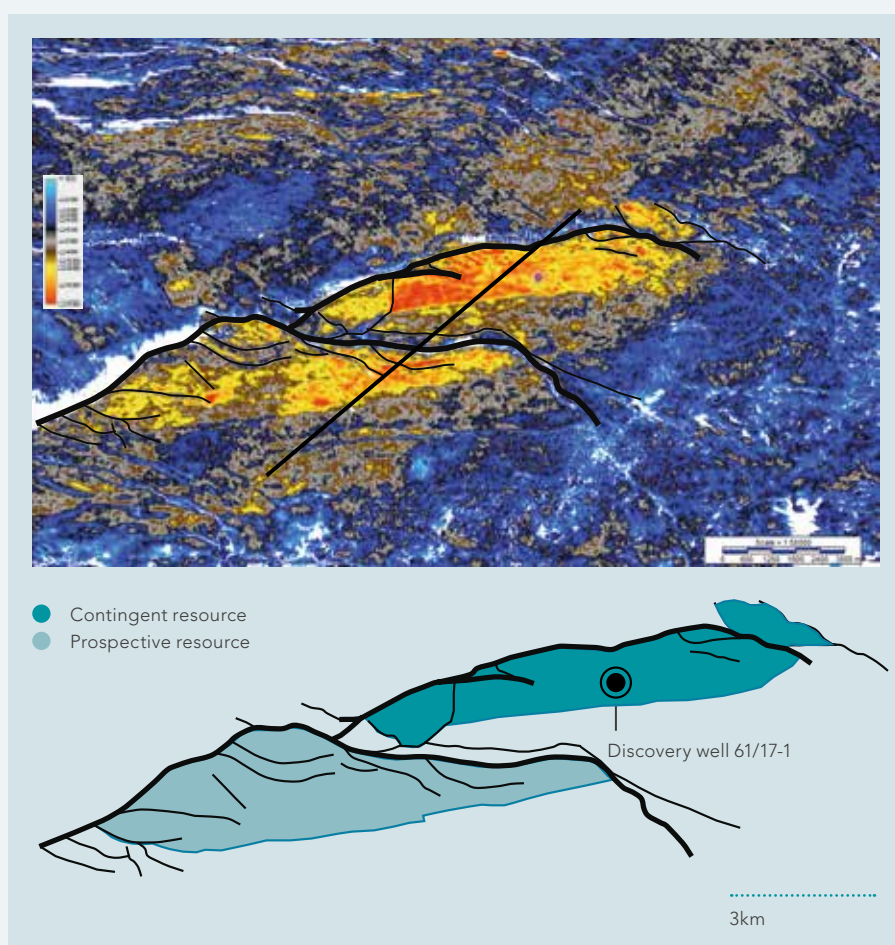
A Northeast-Southwest orientated seismic line across the Darwin East and Darwin West fault blocks. The location of the line is illustrated on the seismic amplitude map shown on the adjacent page.



Borders & Southern has previously discussed development concepts which focused on the production of liquid condensate, with the re-injection of "dry" gas back into the reservoir. Composition analysis of hydrocarbon samples collected from the discovery well demonstrate that the gas is a very rich, sweet gas capable of producing liquid condensate and LPG.

GCA's work investigated the potential to produce the LPGs (Propane and Butane) in addition to the condensate. They prepared a revised Equation of State model of the rich gas and updated the dynamic reservoir model for Darwin East and Darwin West, utilising six vertical production wells and four vertical injector wells (five wells on each fault block). A combined development of both fault blocks into a single FPSO was modelled to produce 480 MMscfd of gas. Total recovered liquids from a 25-year period is 462 MMbbl. Combined liquids production of condensate and LPG peaks at 91,100 bbl/day.

An independent assessment of the Geological Chance of Success of finding hydrocarbons in a well drilled on Darwin West is 0.81. This low risk is supported by the fact that Darwin West displays very similar seismic characteristics and attributes to the Darwin East fault block.



Best Estimate Gross Contingent and Prospective Resources*

	Condensate (MMstb)	Condensate & LPG (MMbbl)
Darwin East Contingent resources (2C)	115	170
Darwin West Prospective resources	202	292

* Independent un-risked assessment

Our Business Model and Strategy

Borders & Southern's aim is to discover hydrocarbons and monetise them for the benefit of all its stakeholders. We create value through exploration success, then realise that value through subsequent appraisal and development.

Explore



For a company such as Borders & Southern, the critical first stages of exploration involve the early identification and access to quality opportunities. Once acreage has been acquired, it is important to make the right data choices. Financial resources are finite, therefore acquiring the right type, quantity and quality of data is essential to help mitigate the sub-surface risks. Rigorous petroleum systems analysis of the data allows play fairways to be high-graded and a prospect inventory assembled.

Borders & Southern gained early access to the South Falkland Basin. Importantly, we managed to licence what we believed to be the most prospective part of the basin. After acquiring seismic data and undertaking a full basin and prospect evaluation, the Company high-graded two prospects for drilling. The first well, Darwin, tested Aptian aged shallow marine sands within a tilted fault block trap. It resulted in a substantial liquids rich, gas condensate discovery. The second well, Stebbing, tested Tertiary aged reservoirs within a thrust cored anticline. The well encountered strong hydrocarbon shows in a poor quality, secondary target reservoir, but failed to reach its primary objective.

With two wells to calibrate our seismic data, the Company now has a greater understanding of the regional prospectivity. Our current prospect inventory contains a number of relatively low risk, near-field prospects with total un-risked best estimate resources of over a billion barrels. In addition, the inventory contains numerous, higher risk, structural and stratigraphic prospects with multi-billion barrel potential.

Appraise



Following the discovery of hydrocarbons, the next phase, appraisal, is all about assessing the commerciality of the find. Well data, collected during the exploration phase, is integrated into existing technical interpretations. These are then used to design an appraisal campaign to answer questions about reservoir distribution and performance and to give a tighter distribution of the estimated resource.

Darwin comprises two adjacent fault blocks, East and West, exceptionally imaged on 3D seismic. The discovery well was drilled on the Eastern fault block and was extensively sampled. The western fault block is untested. As both fault blocks show similar seismic characteristics and attributes, we have a high degree of confidence that hydrocarbons will be encountered in the western fault block. An independent assessment of the geological chance of success of finding hydrocarbons is 0.81.

Our current plan is to drill the next well on Darwin West. The location will be selected to test additional reservoir intervals not present in the discovery well. The well may be side-tracked to gain a second reservoir penetration and to define the gas-water contact. The well will also be designed to test whether there is an oil rim to the accumulation.

Potential well locations have been defined ready for drilling. In the next operations phase, we aim to take cores and flow test the reservoir. This data will allow us to assess the commerciality of the discovery and, in the positive case, plan for development.

Our values



Conducting business in a responsible and sustainable way.



Focusing on limiting and mitigating the environmental impact.



Using local suppliers and service providers where possible.



Ensuring health and safety practices follow best practice.

Develop

Repeat



Following successful delineation of the discovery and confirmation of commerciality, the next stage focuses on the engineering and planning for a development. Design concepts will be evaluated and selected and cost analyses completed. Detailed FEED studies will be undertaken prior to a final investment decision.

Borders & Southern has already undertaken some scoping development studies, based on our current understanding of the reservoir and scale of the resource. These studies indicate that the hydrocarbons could be commercialised by an FPSO development, utilising proven technology. A leased FPSO would be located in either 2,000 metres of water, above the discovery, or in 1,100 metres of water, using a 14-kilometre sub-sea flow line. The current plan is to produce the liquids (condensate and LPGs) and re-inject the dry gas back into the reservoir. If both Darwin East and West are developed together, a total of six production wells and four injection will be required. This would result in peak combined liquids production of over 90,000 blpd.

Whilst these scoping studies have delivered significant insights into a potential development, our ideas are likely to evolve as we acquire more well information and refine our reservoir models.

Our strengths



We hold high quality assets

The Company has made a significant, liquids rich, gas condensate discovery in an attractive fiscal regime, the Falkland Islands. An independent assessment has confirmed the scale of the recoverable resource. In addition, the Company holds a multi-billion barrel prospect inventory.



We apply meticulous technical rigour

Our experienced in-house team is supported by expert consultants. We acquire the right data and ensure it is of the highest quality, then we extract the maximum information from that data. Our technical rigour helped the Company make a discovery with its first exploration well.



We maintain strong commercial discipline

The Company continues to have a strong balance sheet and no debt. Robust financial controls are in place. Our financial resources are used carefully, ensuring that expenditures are focused on achieving our aim of monetising our discovery and adding to it.



We ensure comprehensive risk management

We operate safely and respectfully, aiming to build strong relationships with all our stakeholders. Our activities are underpinned by thorough risk identification, monitoring and mitigation across the business.

Market Overview

The Darwin discovery comprises a very rich, sweet gas capable of producing both condensate and LPG.

Oil price

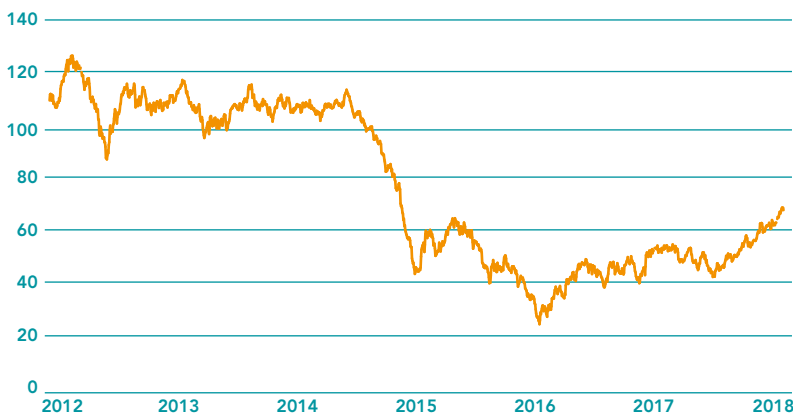
Liquids recovered from Darwin will include condensate and liquid petroleum gas (LPG); the prices for both are based on either Brent or WTI.

Darwin was discovered in 2012. Since that time the oil price has experienced dramatic changes. From a background level of over \$100/bbl in 2012, a significant crash in 2014 led to a low of under \$30/bbl in 2016. But since that time there has been a progressive recovery, so that by the end of 2017 the oil price was \$66/bbl, a material increase from the start of January 2017 when it was around \$55/bbl. WTI has recently been selling at a discount to Brent with this discount usually around \$4/bbl to \$5/bbl during 2017.

Oil prices have continued this higher trend so far in 2018 and this has been reflected in the financial performance of the industry.

Brent Oil

\$ Price per barrel



What is condensate?

Condensate is a mixture of hydrocarbons that exist in the gaseous phase at the original temperature and pressure conditions of the reservoir, but when produced are in the liquid phase at surface pressure and temperature.

What is LPG?

Liquid Petroleum Gas (LPG), comprising Propane and Butanes, is a portion of the Natural Gas Liquids that can be recovered from Natural Gas in separators, field facilities or gas processing plants. It is stored and transported as liquid under pressure.

Markets for the Darwin liquids

The Darwin condensate (46°-49° API) is similar to a very light, sweet crude oil. In comparison to normal crude oil, condensate usually needs to undergo fewer refining processes. It is typically used to produce products like petrol, aviation fuel, diesel, heating fuel or as a feedstock to petrochemicals. It can also be used to blend with heavier oils. LPG is typically used as a fuel for homes, businesses, motor vehicles or in refrigeration. LPG prices differ according to which region it is sold in.




A sample of the Darwin condensate recovered from the discovery well



Principal Risks and Uncertainties

Risk status key

(*RS refers to Risk Status)

-  Risk increase
-  Risk unchanged
-  Risk decrease

Risk	Nature of risk	RS	Mitigating factors
Sub-surface	Exploration for oil and gas is inherently risky and whilst many of these risks can be mitigated, they cannot be eliminated.		The independent resource assessment during 2017 increased the size of the Darwin discovery and stated that the probability of funding hydrocarbons in a Darwin West exploration well was 81%.
Health, safety and environment	Conducting operations in a remote, environmentally sensitive location presents 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.		Our economic modelling of Darwin shows that it 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 combination of higher oil prices and lower costs has improved investment conditions in the oil industry. Darwin is a very attractive investment proposition at current 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 continues 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 enhanced relations.



Our outlook for 2018 is optimistic. The independent evaluation has reaffirmed our confidence in the quality of the Darwin discovery.

Howard Obee
Chief Executive



We entered 2018 with a strong balance sheet and no debt. Our cash balance at the end of 2017 was \$8.25 million. The majority of our funds are held in sterling, so we have benefited from the pound's recovery during the year. Capital discipline has been maintained, reflected in a slightly lower administrative expenditure than the previous year, \$1.7 million. As the Company is still not generating revenue, the loss on operations for the year was \$1.2 million.

Our prime focus throughout the year has been to secure partners and funding to progress the Darwin project. Achieving this goal continues to be challenging. Despite the progressive increase in oil price from mid-2017, the industry has not returned to significant investment in conventional oil and gas projects. Furthermore, analysts have predicted that global spending on exploration and appraisal will decrease in 2018, as it has done for the last few years. Notwithstanding the challenges posed by the industry's investment climate, we have still been actively talking to companies about our project.

To enhance our efforts, we commissioned an independent evaluation of the Darwin East and West structures. As reported earlier this year, Gaffney, Cline and Associates (GCA) provided an independent resource assessment of the two fault blocks. Their un-risked best

estimate for total recoverable liquids (condensate and LPGs) is 462 million barrels, produced into a single FPSO over 25 years. The peak combined liquids production was modelled at 91,100 bbl/day.

The production profile has a significant impact on the project economics, particularly the production rate. Our previous economic models have been based on peak condensate production of 56,000 bpd. The impact of producing more condensate, along with additional LPG, sooner, is to lower the break-even oil price. Assuming the combined development of Darwin East and West, using six production wells and four gas injection wells, a leased FPSO and capex of \$1.8 billion (including 25% contingency), the break-even oil price is mid-30's dollars per barrel. Based on a \$65 per barrel oil price, the project pay back would be within two/three years. As mentioned on other occasions, the positive economics are grounded in the attractive fiscal terms offered by the Falkland Islands Government and the high quality reservoir which does not require a large number of development wells.

The commercial attractiveness of the project is compelling, but we still require further drilling to prove up the resource estimates and confirm the deliverability of the reservoir. Our current plan is to drill a well on Darwin West with a possible

side-track. This would provide two penetrations of the main reservoir and would test additional reservoir intervals, fluid contacts and investigate the possibility of an oil rim. Darwin West has very similar seismic characteristics and attributes as Darwin East. The independent assessment of the geological chance of success of finding hydrocarbons in Darwin West is 0.81. We consider that a well drilled on Darwin west would be very low risk.

Our outlook for 2018 is optimistic. The independent evaluation has reaffirmed our confidence in the quality of the Darwin discovery. Globally, there have been very few large conventional liquid discoveries made in recent years. We believe that on a commercial basis, Darwin stands out. We will maintain our focus on securing partners and funding for the next phase of operations. If the oil price remains at the current level, then the chance of success will be enhanced. Additionally, we will continue with technical work to increase our understanding of the sub-surface and further improve the attractiveness of the project.

Howard Obee
Chief Executive

Board of Directors



Harry Dobson
(Non-executive Chairman)

(A) (R)

Committee Memberships
Chairman of the Remuneration Committee and member of the Audit Committee

Background and relevant experience

Former investment banker and senior partner of Yorkton Securities. Former 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.

Howard Obee
(Chief Executive)

(E)

Committee Memberships
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Background and relevant experience

PhD in structural geology from Imperial College and 30 years in the oil industry, initially with BP (1985–1992) and subsequently with BHP Billiton (1992–2004). 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)

Committee Memberships
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Background and relevant experience

Over 25 years of upstream oil and gas experience, the majority of which was gained at BHP Billiton, both in London and Melbourne. Held senior positions in exploration and business development, investment evaluation, acquisitions and disposals and strategic planning. Masters degrees in business administration and finance.

Nigel Hurst-Brown
(Non-executive Director)

(A) (R)

Committee Memberships
Chairman of the Audit Committee and member of the Remuneration Committee

Background and relevant experience

Qualified Chartered Accountant and from 1986 to 1990 Chairman of Lloyd's Investment Managers. Former Director of Mercury Asset Management and Managing Director of Merrill Lynch Investment Managers.

Current external appointments

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. Non-executive Chairman of Central Asia Metals plc.

- (A) Audit Committee
- (R) Remuneration Committee
- (E) Executive Director

Chairman's Statement



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My role is to ensure that the Company's governance is appropriate for a company of its size and stage of development.

Harry Dobson
(Non-executive Chairman)

The Company 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. Whilst it is not required to apply the main and supporting principles of good governance set out in the UK Corporate Governance Code in 2016 by the Financial Reporting Council (The Code) the Company has policies and practices that are consistent with the spirit of The Code.

Accordingly, the Company has structured its Board so that it has a proper understanding of, and competencies to deal with, the current and emerging issues in the Company's business. It exercises independent judgement and effectively reviews and challenges the management's performance.

The Board currently comprises the Chairman, two Executive Directors and one Non-executive Director. The roles of the Chairman and CEO are separate and clearly defined. 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. The Board considers that the current balance of Executive and Non-executive Directors is appropriate for the Company, taking into account its size and status.

All Directors retire by rotation.

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.

Role 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 2017 are detailed in the Directors' Report.

The strategy of the Remuneration Committee is to ensure the Company remunerates fairly and responsibly, so that the level and composition of remuneration for all employees is competitive and reasonable. Both short and long term performance-based components are included. The Company benchmarks its remuneration with comparable peer group 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 2017 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, qualified and its performance is monitored; and
- compliance with legal and regulatory requirements.

Internal controls

The Company objective is to maximise shareholder value. In doing so, the Directors recognise that creating value is the reward for taking and accepting risk. The Board's risk management policy and internal controls are considered appropriate for a Company of its size and business activities.

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 focused on the development of the Darwin discovery. When the Company commences production, KPIs will be developed and reported as appropriate.

The Directors do, however, closely monitor certain financial information, in particular overheads and cash balances.

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 2017 was as follows:

	Basic salary		Share-based payment		Total 2017		Total 2016	
	£	\$	£	\$	£	\$	£	\$
Harry Dobson	-	-	-	-	-	-	-	-
Howard Obee	250,000	320,674	-	-	250,000	320,674	250,000	344,486
Nigel Hurst-Brown	-	-	1,819	2,342	1,819	2,342	448	582
Peter Fleming	200,000	256,539	-	-	200,000	256,539	200,000	275,589
	450,000	577,213	1,819	2,342	451,819	579,555	450,448	620,657

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 Company paid £62,088 (\$80,700) – 2016 £62,100 (\$87,000) in National Insurance for its Directors during the year.

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 31 December 2016 and at 31 December 2017, were as follows:

	At 31 December 2017 Number	At 31 December 2016 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 is interested are held by the Zila Corporation, a company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary.

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

Share options

	Number of options held at the beginning of the year	Number of options held at the end of the year	Fair value of options	Exercise price	Vesting period
Howard Obee	1,250,000	1,250,000	24-30 pence	51-58 pence	three years
Peter Fleming	1,250,000	1,250,000	24-30 pence	51-58 pence	three years
Nigel Hurst-Brown	1,250,000	1,250,000	0.5-32 pence	1.8-58 pence	three years

Substantial shareholders

At 28 February 2018, 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%
Interactive Investor	28,167,603	5.82%
Stephen Posford	27,500,000	5.68%
Zila Corporation	26,670,000	5.51%
Hargreaves Lansdowne Asset Management	19,931,333	4.12%
LGT Vestra	16,986,061	3.51%
Halifax Share Dealing	15,150,303	3.13%
Barclays Wealth	14,985,415	3.10%

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 (2016 – \$nil).

Review of business and future developments

A review on the operations of the Group is contained in the CEO Review 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 (2016 – \$nil).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings 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;
- 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 2017

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	–	1	2
Howard Obee	–	–	–
Peter Fleming	–	–	–
Nigel Hurst-Brown	–	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
April 3 2018

Independent Auditor's Report

to the members of Borders & Southern Petroleum Plc

Opinion

We have audited the financial statements of Borders and Southern Petroleum Plc ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2017 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 to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation Group and Parent Company financial statements is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union, and as regards the Parent Company financial statements, as applied in accordance with the Companies Act 2006.

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 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS 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 properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Parent Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters ("KAMs")

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified

Carrying value of exploration and evaluation assets

The Group's exploration and evaluation assets associated with the Darwin and Stebbing license areas in the Falkland Islands represent the key assets on the Group's statement of financial position. As at 31 December 2017, the Group's exploration and evaluation assets totalled \$290.8m (2016 – \$290.4m).

Management performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration assets and whether impairment was appropriate, noting that the Group holds title to all licences until January 2020. Following this assessment, the Board concluded that no impairment was required, as set out in Notes 1 and 11.

The impairment indicator review, impairment models and sensitivity analysis prepared by Management indicated that no impairment charges were required and that each cash generating unit had significant headroom.

Given the inherent judgement involved in the assessment of the carrying value of the exploration and evaluation assets, we considered the carrying value of exploration and evaluation assets to be a significant risk for the audit.

How we addressed the matter:

We assessed Management's impairment indicator review. In doing so we reviewed and critically challenged: the licence status and expiry dates, any required work programmes including associated commitments and obligations and external feasibility studies. In relying upon the assessments made by such experts, we evaluated the competence and objectivity of the experts.

We have reviewed the licence documentation to ensure that the licenses remain valid, as well as to confirm dates of expiry and any obligations and commitments.

We reviewed Management's economic model and associated future discounted cash flows relating to the Darwin prospect based external feasibility studies. We reviewed the structure of the model and challenged the inputs to the model such as the discount rate and oil price.

Key observations:

We found Management's assessment that there were no indicators of impairment at the reporting date to be reasonable.

We found the disclosures in the financial statements as set out in Notes 1 and 11 to be relevant and informative.

Our application of materiality

	Group Materiality	Basis for materiality
FY 2017	\$4.5m	Materiality has been based on 1.5% of Group assets
FY 2016	\$6.0m	Materiality has been based on 2% of Group assets.

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Group's status as a natural resources development and appraisal entity and therefore consider this to be an appropriate basis for materiality. We had previously used a slightly higher percentage of total assets but having considered market trends the materiality benchmark was revised downwards. Materiality in respect of the audit of the Parent Company has been set at \$4m using a benchmark of 1.5% of total assets, limited to 90% of group materiality (2016: materiality has been set at \$5.7m, based on 2% of total assets, limited to 95% of group materiality).

A specific materiality was set at 10% of gross income statement expenditure being \$140,000 (2016 – \$700,000) in order to ensure sufficient testing was performed on profit and loss items for the Group.

We apply the concept of materiality both in planning and performing our audit, and in evaluation the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as whole.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2016 – 75%) of the above materiality levels.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$225,000 (2016 – \$300,000), and in excess of \$7,000 (2016 – \$35,000) in relation to items impacting the income statement. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Borders & Southern Petroleum Plc is a Company registered in the UK and listed on the Alternative Investment Market Exchange. In approaching the audit, we considered how the Group is organised and managed. We assessed the business as being principally a single project Group comprising of the exploration licence in the Falkland Islands.

Our Group audit focused on the Group's significant components which comprised Borders & Southern Petroleum Plc and Borders & Southern Falkland Islands Ltd, which represented all of the Group companies. Whilst materiality for the financial statements as a whole was \$4.5m, each component of the Group was audited to a lower level of performance materiality of between \$3.0m and \$3.3m. All of the components were audited by BDO LLP.

We set out above the risks that had the greatest impact on our audit strategy and scope.

Independent Auditor's Report continued to the members of Borders & Southern Petroleum Plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the 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 the 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scott Knight

For and on behalf of BDO LLP, Chartered Accountants and Recognised Auditor

London

United Kingdom

April 3 2018

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 2017

	Note	2017 \$000	2016 \$000
Administrative expenses		(1,734)	(1,744)
Loss from operations	2	(1,734)	(1,744)
Finance income	8	542	30
Finance expense	8	–	(1,890)
Loss before tax		(1,192)	(3,604)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to owners of the parent		(1,192)	(3,604)
Basic and diluted loss per share (see note 3)		(0.25) cents	(0.74) cents

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

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017		2016	
		\$000	\$000	\$000	\$000
Assets					
Non-current assets					
Property, plant and equipment			11		12
Intangible assets	11		290,826		290,381
Total non-current assets			290,837		290,393
Current assets					
Other receivables	13	440		1,167	
Cash and cash equivalents	16	8,251		9,645	
Total current assets			8,691		10,812
Total assets			299,528		301,205
Liabilities					
Current liabilities					
Trade and other payables	14		(633)		(1,136)
Total net assets			298,895		300,069
Equity					
Share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			1,773		2,418
Retained deficit			(19,994)		(19,465)
Foreign currency reserve			(16)		(16)
Total equity			298,895		300,069

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 April 3 2018.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017

	Share capital \$000	Share premium \$000	Other reserves \$000	Retained deficit \$000	Foreign currency reserve \$000	Total \$000
Balance at 1 January 2016	8,530	308,602	2,370	(15,861)	(16)	303,625
Loss and total comprehensive loss for the year	-	-	-	(3,604)	-	(3,604)
Recognition of share-based payments	-	-	48	-	-	48
Balance at 31 December 2016	8,530	308,602	2,418	(19,465)	(16)	300,069
Loss and total comprehensive loss for the year	-	-	-	(1,192)	-	(1,192)
Expiry of share options	-	-	(663)	663	-	-
Recognition of share-based payments	-	-	18	-	-	18
Balance at 31 December 2017	8,530	308,602	1,773	(19,994)	(16)	298,895

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 24 to 34 form part of the financial statements.

Company Statement of Financial Position

At 31 December 2017

	Note	2017		2016	
		\$000	\$000	\$000	\$000
Assets					
Non-current assets					
Property, plant and equipment			11		12
Investments	12		–		–
Other receivables	13		291,005		290,560
Total non-current assets			291,016		290,572
Current assets					
Other receivables	13	440		1,166	
Cash and cash equivalents	16	8,251		9,645	
Total current assets			8,691		10,811
Total assets			299,707		301,383
Liabilities					
Current liabilities					
Trade and other payables	14		(633)		(1,135)
Total net assets			299,074		300,248
Equity					
Called up share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			1,773		2,418
Retained deficit			(19,813)		(19,284)
Foreign currency reserve			(18)		(18)
Total equity			299,074		300,248

The Parent Company has taken advantage of the exemption from the requirement to publish its own income statement. The Parent Company loss for the year ended 31 December 2017 was \$1,192,000 (2016 – \$3,604,000). 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 April 3 2018.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

Company Statement of Changes in Equity

At 31 December 2017

	Share capital \$000	Share premium reserve \$000	Other reserves \$000	Retained deficit \$000	Foreign currency reserve \$000	Total \$000
Balance at 1 January 2016	8,530	308,602	2,370	(15,680)	(18)	303,804
Loss and total comprehensive loss for the year	–	–	–	(3,604)	–	(3,604)
Recognition of share-based payments	–	–	48	–	–	48
Balance at 31 December 2016	8,530	308,602	2,418	(19,284)	(18)	300,248
Loss and total comprehensive loss for the year	–	–	–	(1,192)	–	(1,192)
Expiry of share options	–	–	(663)	663	–	–
Recognition of share-based payments	–	–	18	–	–	18
Balance at 31 December 2017	8,530	308,602	1,773	(19,813)	(18)	299,074

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 24 to 34 form part of the financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2017

	Note	2017		2016	
		\$000	\$000	\$000	\$000
Cash flow from operating activities					
Loss before tax			(1,192)		(3,604)
Adjustments for:					
Depreciation			1		1
Share-based payment			18		48
Net finance costs			–		1,860
Net finance income			(542)		–
Realised foreign exchange gains			(17)		25
Cash flows from operating activities before changes in working capital			(1,732)		(1,670)
Decrease/(increase) in other receivables			728		(476)
Decrease/(increase) in trade and other payables			(503)		29
Tax paid			–		–
Net cash outflow from operating activities			(1,507)		(2,117)
Cash flows used in investing activities					
Interest received		11		30	
Purchase of intangible assets		(445)		(849)	
Proceed from disposal intangible assets		–		430	
Net cash used in investing activities			(434)		(389)
Cash flows from financing					
Proceeds from issue of shares		–		–	
Cash flows from financing activities			–		–
Net decrease in cash and cash equivalents			(1,941)		(2,506)
Cash and cash equivalents at the beginning of the year	16		9,645		14,011
Exchange gain/(loss) on cash and cash equivalents			547		(1,860)
Cash and cash equivalents at the end of the year			8,251		9,645

Company Statement of Cash Flows

for the Year Ended 31 December 2017

	Note	2017		2016	
		\$000	\$000	\$000	\$000
Cash flow from operating activities					
Loss before tax			(1,192)		(3,604)
Adjustments for:					
Depreciation			1		1
Share-based payment			18		48
Net finance costs			–		1,860
Net finance income			(542)		–
Realised foreign exchange (losses)/gains			(18)		25
Cash flows from operating activities before changes in working capital					
			(1,732)		(1,670)
Decrease/(increase) in other receivables			728		(869)
Increase/(decrease) in trade and other payables			(503)		852
Net cash outflow from operating activities					
			(1,507)		(1,687)
Cash flows from investing activities					
Interest received		11		30	
Increase in amounts due from group undertaking		(445)		(849)	
Net cash used in investing activities					
			(434)		(819)
Net decrease in cash and cash equivalents					
			(1,941)		(2,506)
Cash and cash equivalents at the beginning of the year	16		9,645		14,011
Exchange gain/(loss) on cash and cash equivalents			547		(1,860)
Cash and cash equivalents at the end of the year					
			8,251		9,645

Notes to the Financial Statements

for the Year Ended 31 December 2017

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.

Adoption of new and revised International Financial Reporting Standards

The Company has adopted the following standards, amendments to standards and interpretations which are effective for the first time this year. None of the new amendments have had a material impact on the financial statements of the Company.

	Effective period commencing on or after
IAS 12: Amendments – Recognition of deferred tax assets for unrealised losses	1 Jan 2017
IAS 7: Amendments – Disclosure initiative	1 Jan 2017
Annual improvements to IFRSs (2014 – 2016 cycle)	1 Jan 2017

Standards effective in future periods

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Company's activities and are mandatory for the Company's accounting periods beginning after 1 January 2018 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after
IFRS 9: Financial Instruments	1 Jan 2018
IFRS 15: Revenue from contracts with customers	1 Jan 2018
IFRS 16: Leases	1 Jan 2019
IFRS 15: Clarifications to IFRS 15 revenue from contracts with customers	1 Jan 2018
IFRIC 22: Foreign currency transactions and advance consideration	1 Jan 2018
IFRS 2: Amendments – Classification and measurement of share-based payment transactions	1 Jan 2018
Annual improvements to IFRSs (2015-2017 Cycle)	1 Jan 2019

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'. Management do not anticipate any impact as the Company are not currently generating any revenue.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. The Company expects to adopt IFRS 16 on 1 January 2019. The requirements of IFRS 16 will extend to the Company's operating leases for buildings and as such the Company does not expect a material impact with these leases being recognised on balance sheet.

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 2018.

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 \$1,192,000, (2016 – loss after tax of \$3,604,000) 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 $\frac{1}{3}$ %

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 (CGUs), 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.

Notes to the Financial Statements continued

for the Year Ended 31 December 2017

1 Accounting policies continued

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.

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.

IFRS 9: Impairment of financial assets

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses or losses on loans. The standard requires entities to use an expected credit loss model for impairment of financial assets. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12 month expected credit losses or lifetime expected credit losses if there has been a significant increase in credit risk of the financial instrument.

The Company has a loan to the 100% owned subsidiary that is the license holder in The Falkland Islands. Management are still undertaking a full assessment but do not expect there to be any impact as in line with the work the Company completed to test whether the intangible assets should be impaired, it has determined that there currently no reason to expect a loss from this loan.

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 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.

Critical judgements in applying the Group's accounting policies

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

Management has made the judgement to group two CGU's together for impairment purposes. 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 whether these circumstances are considered to be an indicator of impairment but due to the positive resource report communicated in early 2018 and the strengthening of the oil price, management have concluded that there are no indicators of impairment at year end.

Notes to the Financial Statements continued

for the Year Ended 31 December 2017

2 Loss from operations

	2017 \$000	2016 \$000
Staff costs (note 5)	915	984
Share-based payment – equity-settled	18	48
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	51	51
Fees payable to the Company's auditor and its associates for other services:		
Tax services	6	6
Consultancy	–	–
Depreciation of office equipment	1	1
Operating lease expenses – property	299	317
Foreign exchange (gain)/loss	(530)	1,890

3 Basic and dilutive (loss)/earnings 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 \$1,192,000 (2016 – loss \$3,604,000) and the weighted average number of shares in issue for the year was 484,098,484 (2016 – 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 (2016 – 7,050,000) 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:

	2017 \$000	2016 \$000
Wages and salaries	808	868
Employers, national insurance contribution	104	115
Employers, pension contribution	3	1
	915	984
Share-based payment – equity-settled	18	48
	933	1,032

The average number of employees (including Directors) employed during the year by the Company was five (2016 – five) and for the Group was five (2016 – five). All employees and Directors of the Group and the Company are considered to be the key management personnel.

Of the \$18,000 (2016 – \$48,000) share-based payment charge included in the Consolidated Statement of Comprehensive Income, \$18,000 (2016 – \$48,000) 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:

	2017 \$000	2016 \$000
Directors' fees	577	620
Share-based payments – equity-settled	2	1
	579	621

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 \$322,077 (2016 – \$344,486).

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, \$2,342 (2016 – \$582) has been expensed during the year. The options vest after three years and expire after ten 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

	2017 Weighted average exercise price	2017 Number	2016 Weighted average exercise price	2016 Number
Outstanding at the beginning of the year	39p	7,050,000	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	30p	7,050,000	33p	7,050,000
Exercisable at the end of the year	30p	4,650,000	30p	4,650,000

The weighted average contractual life of the options outstanding at the year end was three years (2016 – five years).

The range of exercise prices of share options outstanding at the end of the year is 1.8-74p (2016 – 1.8p-74p).

The following information is relevant in the determination of the fair value of the options granted during 2016 under the scheme operated by the Company.

	2016
Equity-settled scheme	
Option pricing model used	Black-Scholes
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 is based on the standard deviation of the Company's monthly close share prices since inception.

8 Finance income and expense

Finance income	2017 \$000	2016 \$000
Bank interest received	12	30
Foreign exchange gain	530	–
	542	30
Finance expense	2017 \$000	2016 \$000
Foreign exchange loss	–	1,890
	–	1,890

Notes to the Financial Statements continued

for the Year Ended 31 December 2017

9 Tax expense

	2017 \$000	2016 \$000
Current tax expense		
UK corporation tax on loss for the year at 19.25% (2016 – 20.00%)	–	–
Adjustments recognised in the current year in relation to the current tax of prior years	–	–
Total current and deferred tax for the year	–	–

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:

	2017 \$000	2016 \$000
Loss before and after taxation	(1,192)	(3,604)
Standard rate corporation tax charge at 19.25% (2016 – 20.00%)	(229)	(721)
Expenses not deductible for tax purposes	201	268
Prior year adjustment	64	–
Adjust closing deferred tax to average rate of 19.25%	131	9
Adjust opening deferred tax to average rate of 19.25%	(128)	(13)
Movement in unrecognised deferred tax for the year	(39)	457
Total current and deferred tax for the year	–	–

Factors that may affect future tax charges

The Group has a deferred tax asset of approximately \$987,766 (2016 – \$1,022,473) in respect of unrelieved tax losses of approximately \$5,810,392 at 31 December 2017 (2016 – \$6,014,546). The rate of tax used in the calculation of the deferred tax asset is 17% (2016 – 17%). 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 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
	Office equipment \$000
Cost	
As at 1 January 2017	115
Additions	–
As at 31 December 2017	115
Depreciation	
As at 1 January 2017	103
Charge for the year	1
As at 31 December 2017	104
Net book value	
As at 31 December 2017	11

11 Intangible assets

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
	Exploration and evaluation costs \$000
Cost	
As at 1 January 2017	290,381
Additions	445
As at 31 December 2017	290,826
Net book value	
As at 31 December 2017	290,826

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 Licensees 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.

During 2016, the Company sold the remainder of its drilling inventory (casing, chemicals etc.) left over from the 2012 exploration programme and stored in the Falkland Islands. This was sold as it was unlikely to be used for the next operation as it deteriorates in condition over time.

In considering the carrying value of intangible assets, the Company used external independent estimates of resource volume, production rates and operating and capital costs to compare the carrying value with net present value.

Notes to the Financial Statements continued

for the Year Ended 31 December 2017

12 Investments in subsidiary

Company	2017 \$	2016 \$
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 & Southern Falkland Islands Limited. The Company was registered in England and its principal activity is oil and gas exploration.

13 Other receivables

	Group		Company	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Amounts owed by Group undertakings	–	–	291,005	290,560
Other receivables	290	1,068	290	1,068
Prepayments and accrued income	150	98	150	98
	440	1,166	291,445	291,726

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.

14 Trade and other payables

	Group		Company	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Trade payables	355	84	355	85
Other taxes and social security costs	38	99	38	99
Accruals and deferred income	240	953	240	951
	633	1,136	633	1,135

15 Share capital

	2017 \$000	2016 \$000
Authorised		
750,000,000 ordinary shares of 1 pence each (2016 – 750,000,000)	14,926	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2016 – 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

There are no restrictions on the share capital

16 Cash and cash equivalents and restricted use cash

Group and Company	2017 \$000	2016 \$000
Cash available on demand	540	374
Cash on deposit	7,711	9,271
Total	8,251	9,645

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 \$819,873 (2016 – \$1,161,551) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end \$291,005,000 (2016 – \$288,230,000) was due from the subsidiary.

Borders & Southern Falkland Islands Limited's registered office is One Fleet Place, London EC4M 7WS.

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	
	2017 \$000	2016 \$000
Not later than one year	80	80

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 in terms of deposits held with banks and the loan to the 100% owned subsidiary. The Group monitors risk on a regular basis and takes appropriate measures to ensure risks are managed in a controlled manner. The Company considers the loan to the 100% owned subsidiary to be very low risk as it is supported by the value of the assets held by the subsidiary.

The Group's deposits are held with Lloyds on short term deposits. Whilst there is a risk of Lloyds' ability to repay these deposits, the Group considers this risk to be low.

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 2016 and as at 31 December 2017 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 2017 the Group held cash at bank and in deposits under its control of \$8,250,678 (2016 – \$9,644,090), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, \$540,892 (2016 – \$372,613) 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 \$7,709,786 (2016 – \$9,271,477) with a weighted average fixed interest rate of 0.2% (2016 – 0.2%) for three months. If there was 1% change in interest rates the impact on the Statement of Comprehensive Income would be \$77,098 (2016 – \$92,714).

Notes to the Financial Statements continued

for the Year Ended 31 December 2017

20 Financial instruments continued

b) Foreign currency translation risk

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

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	Other receivables measured at amortised cost	Other receivables measured at amortised cost	Other receivables measured at amortised cost
	2017	2016	2017	2016
	\$000	\$000	\$000	\$000
Current financial assets				
Held in UK£:				
Other receivables	440	1,167	440	1,166
Cash and cash equivalents	7,711	8,892	7,711	8,892
Total current financial assets held in UK£	8,151	10,059	8,151	10,058
Held in US\$:				
Trade and other receivables	–	–	291,005	288,230
Cash and cash equivalents	540	752	540	752
Total financial assets	8,691	10,811	299,696	299,040

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 \$815,100 (2016 – \$1,005,800) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost
	2017	2016	2017	2016
	\$000	\$000	\$000	\$000
Held in UK£:				
Trade and other payables	633	1,136	633	1,136
Total financial liabilities	633	1,136	633	1,136

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 \$63,200 (2016 – \$113,500) for the Group and Company.

c) Credit risk

Neither the Group nor the Company have customers, so formal credit procedures are in the process of being established. Credit risk on cash balances is managed by only banking with reputable financial institutions with a high credit rating. The only significant concentration of credit risk 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:

	2017		2016	
	Carrying Value \$000	Maximum exposure \$000	Carrying Value \$000	Maximum exposure \$000
Cash and cash equivalents	8,251	8,251	9,645	9,645
Maximum credit risk exposure	8,251	8,251	9,645	9,645

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
Secretary	William Slack
Registered office	One Fleet Place London EC4M 7WS
Business address	33 St James's Square London SW1Y 4JS
Nominated advisor and joint broker	Panmure Gordon & Co One New Change London EC4M 9AF
Joint broker	Mirabaud Securities LLP 5th Floor The Verde Building 10 Bressenden Place London SW1E 5DH
Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham BR3 4TU
Bankers	Lloyds TSB Bank plc 19-21 The Quadrant Richmond Surrey TW9 1BP
Independent Auditors	BDO LLP 55 Baker Street London W1U 7EU
Investor Relations	Tavistock 1 Cornhill London EC3V 3ND

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