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Borders & Southern Petroleum plc

ANNUAL REPORT & ACCOUNTS 2018

Borders & Southern is an independent oil and gas company. Its principal area of activity is in the Falkland Islands, where it holds three Production Licences covering nearly 10,000 square kilometres. The Company was successful with its first exploration well, making a significant gas condensate discovery.

Our Purpose:

To explore for new hydrocarbon resources that can be monetised for the benefit of all our stakeholders. We will do so safely and with due respect for the environment and the communities in which we operate.

Highlights 2018

- Farm-out process active
- Independent un-risked best estimate total recoverable liquids from Darwin East & West: 462 million barrels
- Cash balance at 31 December 2018: $5.6 million

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www.bordersandsouthern.com

CHAIRMAN'S STATEMENT

We began 2018 on a positive note by announcing the results of an independent evaluation of the Darwin discovery. This included a substantial increase in the estimated resource. Un-risked, best estimate, total recoverable liquids (condensate and LPG) for Darwin East and Darwin West was reported as 462 million barrels. Commercial analysis suggested that the break-even oil price for the discovery's potential development was around $35 per barrel. These encouraging metrics provided us with optimism that we would be able to secure partners and funding for the next phase of operations.

Unfortunately, this has not happened as quickly as we had hoped. Whilst the industry has benefited from a relatively stable oil price throughout the year, upstream spending has continued to be restrained. Unconventional shale plays are still attracting a significant proportion of global capital expenditure. However, activity is slowly returning to conventional offshore exploration and development and a few global hot spots are emerging, such as Guyana, Brazil, Gulf of Mexico and eastern Mediterranean.

It is against this backdrop that we have to compete with our project. Many companies have strategies that include a specific geographical focus. Our particular challenge is to convince companies to widen their horizons and consider the Falkland Islands.

We do this in the knowledge that from a sub-surface and commercial perspective, Darwin is a very attractive project and competitive against other global opportunities.

Despite frustrations with our rate of progress, our vision remains clear. The aim is to commercialise Darwin as quickly as possible for the benefit of all stakeholders. The Company was fortunate in making a significant discovery with its first exploration well, but it needs to build on that early success. Our commitment to progressing Darwin through appraisal into development remains undiminished. Financial stability has been maintained. At the end of 2018 cash reserves amounted to $5.6 million, with no debt. The board of Directors believes that the Company has all the necessary resources to achieve its immediate objectives.

Harry Dobson
Non-Executive Chairman
29 March 2019

"The aim is to commercialise Darwin as quickly as possible for the benefit of all stakeholders".

BORDERS & SOUTHERN AT A GLANCE

Our history

Borders & Southern Petroleum plc was founded in 2004 and licensed its acreage in the Falkland Islands later that year. The Company listed on the London Stock Exchange (AIM) in 2005 and immediately commenced its work programme to evaluate the hydrocarbon potential of the offshore area, south of the Falkland Islands. After compiling a comprehensive prospect inventory, the Company drilled two wells in 2012, the first of which resulted in the discovery of a significant gas condensate resource - Darwin.

Our vision

To be a successful explorer through the discovery of commercial hydrocarbon resources and thereby create value for all our stakeholders.

Our strategy

To focus on frontier or emerging basins where substantial volumes of hydrocarbons are yet to be found, where multiple large-scale prospects can be defined, and where discoveries are commercially robust throughout the commodity cycle.

We will apply rigorous technical and commercial discipline across all activities, paying due care to the assessment and management of all risks.

Our values

To act with integrity, honesty and with respect for others. Our drive to succeed will not compromise high standards of business ethics. We will act safely and responsibly at all times.

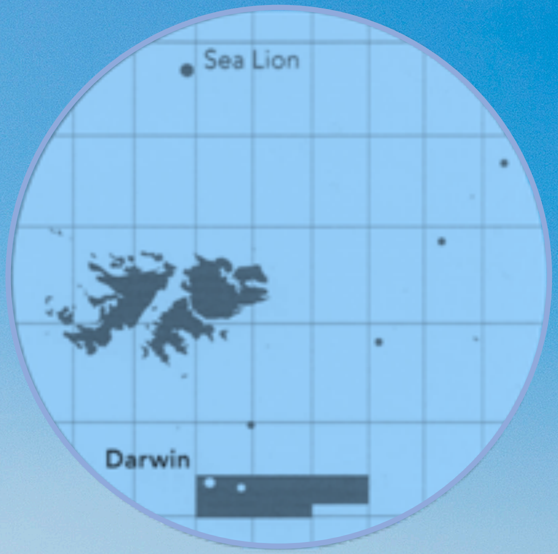
Our success to date

The Darwin discovery is a significant, liquids rich, gas condensate accumulation. It has been independently assessed to contain un-risked contingent and prospective condensate and LPG resources of 462 million barrels.

The reservoir comprises high quality, laterally continuous, Aptian-aged shallow marine sands that are exceptionally imaged on 3D seismic. Our prospect inventory contains attractive follow-up targets within a 15 kilometre radius of the discovery.

WHY INVEST

Borders & Southern holds a 100% equity interest and operatorship in three Production Licences in the Falkland Islands. These licenses provide exclusive rights for surveying, drilling and production within the specified area. The acreage is located approximately 150 kilometres south-east of the Islands. To date, the Company has acquired 2,517km of 3D seismic and drilled two exploration wells.

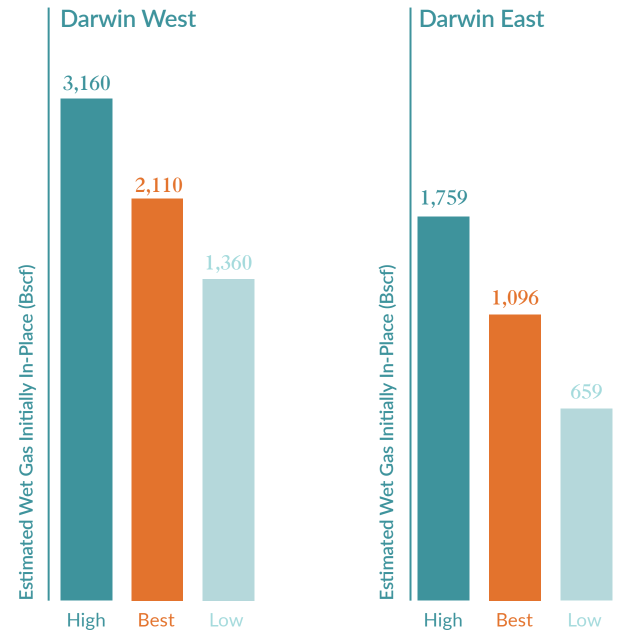


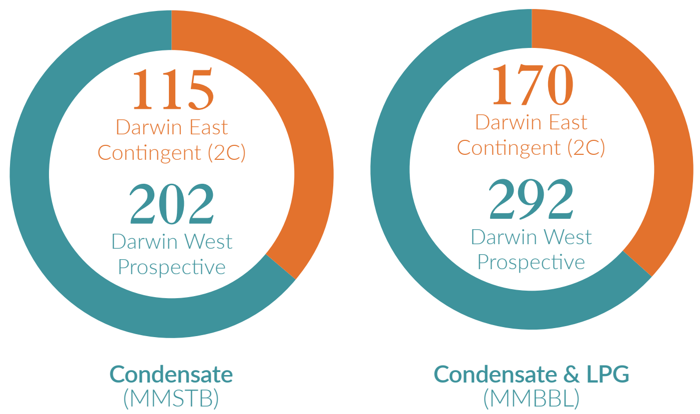
STRATEGIC REPORT GOVERNANCE REPORT FINANCIAL STATEMENTS

Darwin Discovery

Overview

Darwin is a large, liquids rich, gas condensate discovery, located 150 km southeast of the Falkland Islands in 2000m of water. It consists of two simple tilted fault blocks, exceptionally imaged on 3D seismic. The Cretaceous reservoir comprises high quality, laterally continuous, shallow marine sands with average porosity of 22% (up to 30%) and average permeability of 337 mD (up to 1D). The discovery well (6117-1) was drilled on the eastern fault block, encountering a gross interval of 84.5m with net pay of 67.8m. In addition to the 46°-49° API condensate, the wet gas contains a high volume of LPGs. The hydrocarbons are marked by a clear flat spot and amplitude conformance to structure on 3D seismic data. The undrilled western fault block displays similar seismic attributes. Independent reservoir studies estimate the unrisked contingent and prospective resource to be 462 million barrels.





Development

A number of development scenarios have been considered, but the current preferred option is to develop both Darwin East and West together, producing the liquids (condensate and LPG) via a leased FPSO and re-injecting the dry gas back into the reservoir. This would involve six production wells and four gas injection wells. Production rates would peak at over 90,000 barrels of liquids per day. The FPSO would be located either in 2000m of water, close to the discovery, or in 1100m of water, connected by a 14 kilometre sub-sea flow line.

Next steps

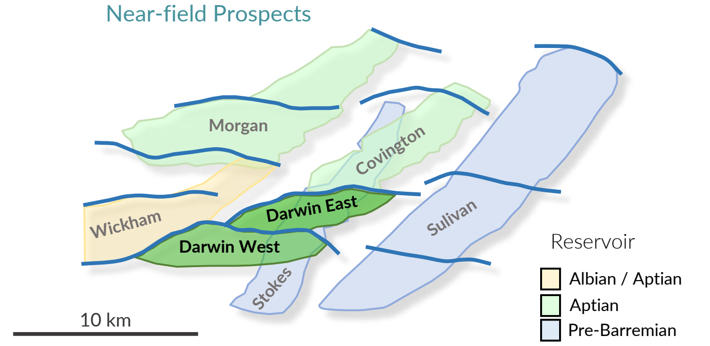
Planning for the next phase of operations includes a vertical well drilled on Darwin West along with a deviated side-track. Key objectives will be to confirm the resource estimates, provide data on reservoir deliverability, confirm the gas/water contact and investigate the possibility of an oil rim. An independent assessment of the geological chance of success of finding hydrocarbons is 0.81.

Growth potential

The Company has a strong portfolio of exploration prospects that can provide future growth. These include relatively low risk, amplitude supported, near-field prospects (within 15km of the discovery) in Aptian and pre-Aptian aged reservoirs. Management's total un-risked resource estimate for these prospects exceeds one billion barrels.

Higher risk, but large-scale, structural and stratigraphic traps have been mapped in other parts of the licenced acreage. However, the next phase of exploration is likely to concentrate on the near-field prospects first.

Near-field Prospects



CEO REVIEW

The year ending 31 December 2018 was a relatively frustrating period for the Company. We started the year on an upbeat note, reporting on an independent evaluation of our 100 per cent owned Darwin gas condensate discovery that highlighted a substantial increase in the estimation of recoverable liquids (a best estimate gross contingent and prospective resource of over 450 million barrels of liquids condensate and LPG). However, our main objective of the year was to secure partners to help fund the next phase of operations in the Falkland Islands.

We worked hard to achieve this, but unfortunately, the farm-out process is taking longer than we had hoped, for reasons outside our control, such as the wider oil and gas industry reduced capital expenditure on offshore projects and on alternative geographical focus areas.

To advise and assist us in the farm-out process, we have taken on a leading independent investment bank. The bank has reached out across the industry and the response has been good. Data-rooms and technical sessions have been facilitated, and these continue. Feedback about the sub-surface geology is always positive, so we are optimistic that we can secure the partners that we need. The farm-out will continue to be our main focus over the coming months.

The Company is in a stable financial position. The year-end cash balance was $5.6 million, and the Company remains debt-free. The loss from operations was $1.96 million. This was a slight increase from last year and reflects adverse movements in the sterling/dollar exchange rate.

Administrative expense was $1.8 million, a small increase on last year, due to marginally higher consultant fees during the period.

In parallel with our commercial activities, we continue to fine tune the technical case, both in the sub-surface evaluation and our planning for the next drilling campaign. Our current plans include the drilling of a vertical well on Darwin West followed by a deviated side-track. Key objectives of the drilling programme will be to confirm resource estimates and reservoir deliverability, confirm the gas-water contact and test for a potential oil rim. Positive results from this programme would allow us to start focusing on development using a conventional FPSO based scheme. As reported previously, the intention would be to strip out the liquids from the wet gas and re-inject the dry gas back in to the reservoir. Reservoir modelling indicates that six production wells could deliver peak production of over 90,000 barrels of condensate and LPG per day.

The discovery of Darwin has provided a solid foundation for the Company. An attractive portfolio of additional prospects will provide growth options. However, the board of Directors recognise that the prime objective must be to appraise, develop and monetise the discovery as quickly as possible and to achieve that, we need to continue to focus on securing a partner and therefore development funding. We will continue to investigate all options to accelerate the achievement of that objective.

Howard Obee
Chief Executive Officer
29 March 2019

> "The discovery of Darwin has laid a solid foundation for the Company. An attractive portfolio of prospects will provide future growth options".

STRATEGY AND BUSINESS MODEL

Explore

The Company is a focused explorer, targeting frontier or emerging basins that have the potential to yield significant yet-to-find resources. Early opportunity identification is critical. Prior to access we must be confident of a working petroleum system and that the area is capable of generating multiple, large-scale prospects.

In order to minimise the sub-surface risk and with the constraint of limited financial resources, it is important that we make the right data acquisition choices, ensuring it is of high quality. This allows us to perform a rigorous petroleum systems analysis and the compilation of an attractive prospect inventory.

The Company's acreage in the Falkland Islands was acquired outside of a competitive license round. Our entry idea was to test the large structural traps in the South Falkland Basin, confident in the presence of a high-quality Late Jurassic to Early Cretaceous marine source rock. The acquisition of exceptional 3D seismic confirmed our predictions and led us to drill Darwin as the Company's first exploration well.

Appraise

Once a discovery has been made, the next stage is to assess its commerciality. Analysis of the well and seismic data, along with detailed reservoir modelling, provides an early estimate of the hydrocarbon volume in-place and the potential volume that might be recovered. Depending on fiscal terms and oil price assumptions, a view on the discovery's commerciality can be gained. If positive, then an appraisal work programme can be defined.

In the case of Darwin, we believe that our estimated volume of gas condensate could support commercial development. But in order to be confident we need further well penetrations of the reservoir, together with a flow-test This can be achieved through a vertical well and deviated side-track, both of which would be cored.

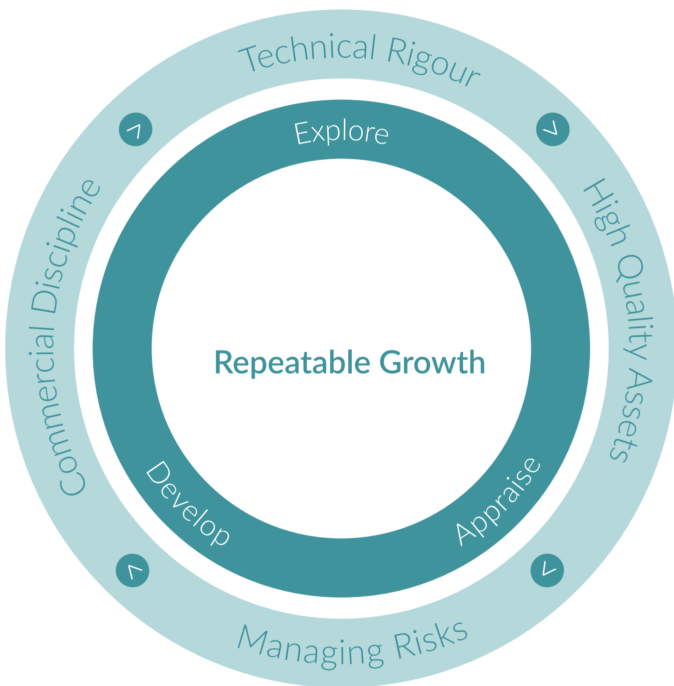
Key objectives of the appraisal campaign will be to confirm resource estimates and reservoir deliverability, confirm the gas / water contact and investigate the potential for an oil rim. We are currently working on funding solutions to deliver this programme.

Develop

If an appraisal programme is successful, the next stage involves detailed engineering and cost analysis of the development infrastructure. Design concepts, cost estimates and the project commerciality will be evaluated during front end engineering design (FEED), prior to final investment decision (FID and project sanction.

Based on our current understanding of the recoverable resource from the Darwin reservoir, the Company has undertaken a scoping development study with basic cost analysis. The study concluded that if the appraisal programme does confirm our current views on discovery size and deliverability, then hydrocarbons could be commercialised via an FPSO vessel, utilising existing, proven technology.

Darwin East and West could be developed together, with a total of six production wells and four injection wells. The condensate and LPGs would be stripped out or the wet gas and the dry gas re-injected into the reservoir. Peak production would reach over 90,000 barrels per day The condensate and LPGs would be shipped to market via shuffle tankers.



Our strengths

Technical Rigour:
Our experienced in-house team is supported by expert consultants, producing a high standard of technical work, acquiring and interpreting high quality data and ensuring the maximum information can be extracted from it. This meticulous technical rigour helped the Company make a significant discovery with its first exploration well.

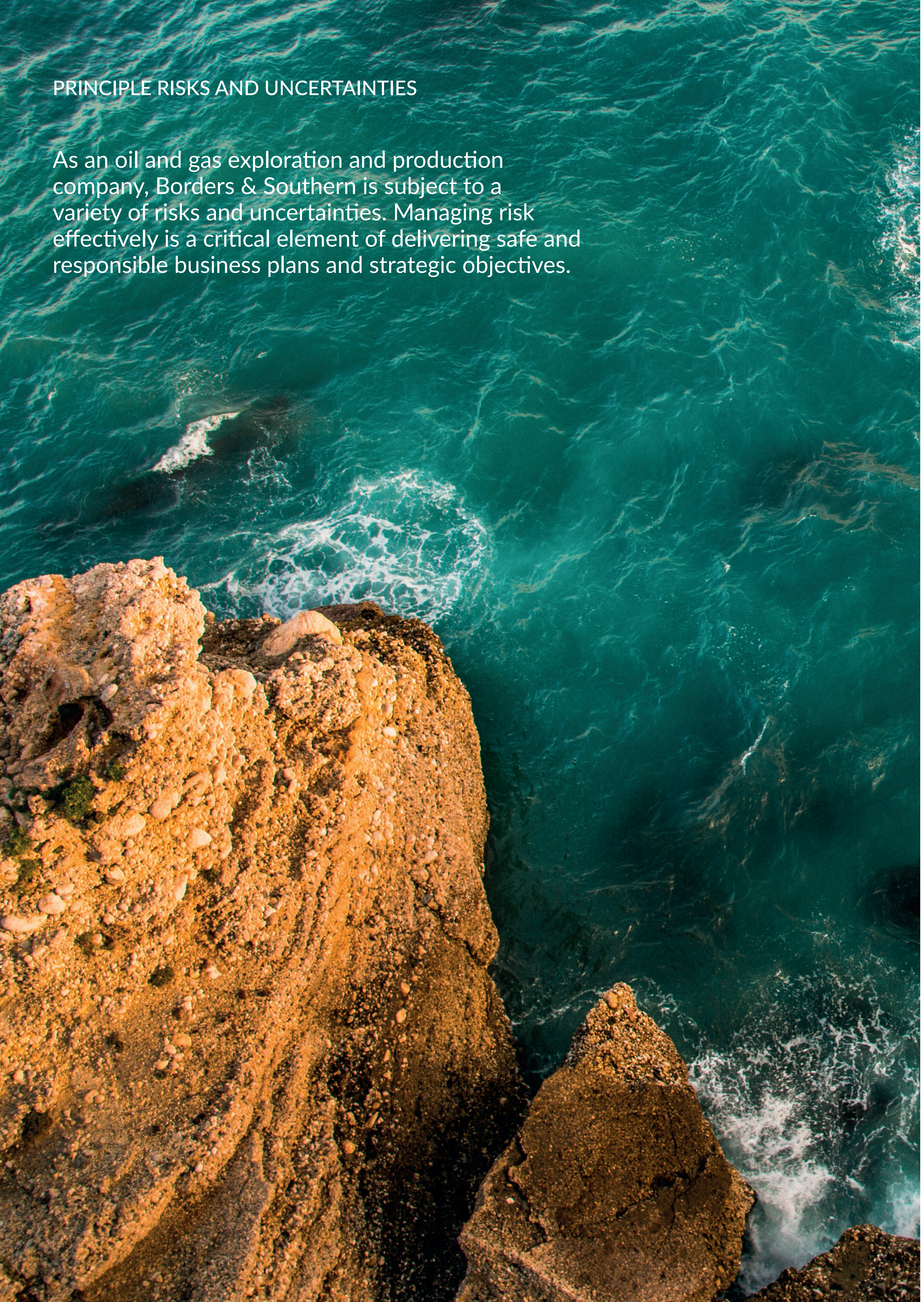
Commercial Discipline:
The Company has a strong balance sheet and no debt. Robust financial controls are in-place. Our financial resources are used effectively, ensuring expenditures are directed towards the Company's goal of monetising our discovery and then adding to it.

Risk Management:
We operate carefully and respectfully, aiming to develop strong relationships with all our stakeholders. Our activities are underpinned by thorough risk identification, monitoring and mitigation across the business.

Asset Quality:
The Company holds a high-quality discovery: a liquids rich, gas condensate accumulation in an attractive fiscal regime. The scale of resource has been independently verified. Additionally, the Company holds a multi-billion barrel prospect inventory.

PRINCIPLE RISKS AND UNCERTAINTIES

As an oil and gas exploration and production company, Borders & Southern is subject to a variety of risks and uncertainties. Managing risk effectively is a critical element of delivering safe and responsible business plans and strategic objectives.



Risk	Nature of risks	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. There is one well commitment on the licences that is effectively contingent on funding	»	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, we are 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.

RS – Risk Status ︾ Risk Decrease » Risk Unchanged ︽ Risk Increase

The Strategic Report was approved by the directors on 29 March 2019 and signed on its behalf by

Harry Dobson
Non-Executive Chairman

INTRODUCTION TO GOVERNANCE

Respect

Transparency

Leadership

"We have decided to adopt the QCA Corporate Governance Code".

Principles of corporate governance
I, along with the rest of the board, are responsible for corporate governance. 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. 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.

QCA Corporate Governance
During 2018 the company adopted the QCA corporate governance code. This code was chosen as it was the most appropriate for a company of our size and stage of development. A review was undertaken to ascertain the level of compliance with the QCA code and it was clear that the company was fully compliant with the code. As the code evolves, we will, of course, make adjustments to internal controls, for example, to ensure we continue to be fully compliant.

My role as Chairman
I have been Chairman of the Company since 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.

Audit Committee
The Audit Committee comprises two Non-executive Directors. The members of the Audit Committee and their attendance at meetings of the Audit Committee during 2018 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;
- 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 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.

Harry Dobson
Non-Executive Chairman
29 March 2019

BOARD OF DIRECTORS

Our board develops strategy and leads Borders and Southern to achieve long term success.

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

(A) (R)

Harry Dobson
Non-executive Chairman

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

Experience
- Former investment banker and senior partner of Yorkton Securities plc
- Former Chairman of American Pacific Mining Company Inc, Lytton Minerals Limited, Kirkland Lake Gold Inc and Rambler Metals and Mining plc
- Former director of Copper Bay Limited, Glenmore Highlands Inc., Belvedere Resources Ltd and Concordia Resource Corp.

(E)

Howard Obee
Chief Executive Officer

Committee Memberships
–

Experience
- 30 years experience in the oil industry, with BP and BHP Billiton
- Trained as an exploration geologist
- Numerous technical and commercial roles with strategic planning and business development
- Seismic and drilling experiences in frontier basins, including those in deep water.

(E)

Peter Fleming
Finance Director

Committee Memberships
–

Experience
- Over 25 years of upstream oil and gas experience, at BHP Billiton.
- Held senior positions in exploration and business development, investment evaluation, acquisitions and disposals and strategic planning.
- Masters degrees in business administration and finance.

(A) (R)

Nigel Hurst-Brown
Non-executive Director

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

Experience
- Qualified chartered accountant and chairman of Lloyd's Investment Managers.
- Former director of Mercury Asset Management
- Managing director of Merrill Lynch Investment Managers.
- Current external chief executive of Hotchkis and Wiley (UK) Limited and its US parent company
- Non-executive Chairman of Central Asia Metals plc.

QCA PRINCIPLES

As an AIM-listed company, Borders & Southern intends to adopt as far as possible the principles of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The QCA Code identifies ten principles to be followed in order for companies to deliver growth in long term shareholder value, encompassing and efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust.

The sections below set out the ways in which the company applies the ten principles of the QCA Code in support of the Company's medium to long-term success.

We will provide annual updates on our compliance with the QCA Code.

QCA Code Principle	Application (as set out by the QCA)	What we do and why
1. Establish a strategy and business model which promote long-term value for shareholders	The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.	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: Darwin. The company's business model and strategy are detailed in this Annual Report. The key challenges to the business and how these are mitigated is detailed on page 08 of this Report.
2. Seek to understand and meet shareholder needs and expectations	Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base. The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.	The company's main shareholders (those that hold greater than 3%) own 49% of the issued capital. Regular contact is made with these shareholders by the CEO who ensures that their views are communicated fully to the board. Many of these main shareholders have been so since the Company listed on AIM in 2005. The company provides updates to all shareholders as required principally through its public announcements and its website and the CEO makes a presentation at the AGM each year. The board recognizes the AGM as an important opportunity to meet private shareholders. The Directors are also available to listen to the views of shareholders informally immediately following the AGM. Where voting decisions are not in line with the company's expectations the board will engage with those shareholders to understand and address any issues.
3. Take into account wider stakeholder and social responsibilities and their implications for long term success	Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations. Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model. Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.	The company operates safely and respectfully, aiming to build strong relationships with all its stakeholders. Many of the non-critical areas of the company are outsourced to reduce costs and most of these relationships are long standing with reputable companies largely based in the UK. The company regularly reviews these relationships and makes changes where necessary. In The Falkland Islands during operations the company used local suppliers and contractors where possible. Outside of operations, the company maintains regular contact with local Falkland Island suppliers to maintain these relationships. Equally, regular contact is made with the relevant departments within The Falkland Islands Government giving, amongst other things, updates on the company's activities.

QCA Code Principle	Application (as set out by the QCA)	What we do and why
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer. Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).	The company's activities are underpinned by thorough risk identification, monitoring and mitigation across the business. The key challenges to the business and how these are mitigated are detailed on page 08 of this Report. The board considers risk to the business at every board meeting (usually at least two meetings are held each year). The company formally reviews and documents the principal risks to the business at least annually. The board are responsible for reviewing and evaluating risk and the Executive Directors meet regularly to review ongoing trading performance, discuss budgets and forecasts and new risks associated with ongoing operations and activities. The board's risk management policy and internal controls are considered appropriate for a company of its size and business activities.
5. Maintain the board as a well-functioning, balanced team led by the chair	The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board. The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight. The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non- executive directors. Independence is a board judgement. The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively. Directors must commit the time necessary to fulfil their roles.	The number of board meetings each year is set out in the Annual Report. The number during 2018 is on page 17 of this report. In addition to formal board meetings there is regular contact between board members on all matters concerning the company's activities. The company circulates an annual budget and reports to the board against the budget during the year. The company believes that it has an appropriate balance between executive and non-executive directors for a company of its size. The company does not have two independent non-executive directors but this is regularly reviewed by the Chairman and, at an appropriate time, it is expected that further directors will be appointed including independent non-executives.
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition. The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board. As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.	The directors backgrounds and experience are outlined on page 11 of this report. The Chairman considers that the board composition is appropriate at this time. The current board have external business interests that keep them up to date with the best industry practise.

QCA PRINCIPLES (CONTINUED)

QCA Code Principle	Application (as set out by the QCA)	What we do and why
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors. The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team. It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.	The Chairman is responsible for reviewing the performance of the board and the individual members of the board. Reviews to date have been internal and at least annual. Any new or existing board members are evaluated using the following criteria: • The have a sound understanding of, and the competencies to deal with, the current and emerging issues in the Company's business; • Able to exercise independent judgement; and • Can effectively review and challenge management's performance. The Chairman considers that the current board composition is appropriate and it is performing in line with sound industry practice. The company has a succession policy for its key executives and recognizes that as the company evolves additional non-executive directors will need to be added to the board when appropriate. Whilst the board has not materially changed since inception, it is acknowledged by the Chairman that as the company develops, the board will need to also change.
8. Promote a corporate culture that is based on ethical values and behaviours	The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage. The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company. The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company. The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.	The key executives in the company have had many years experience and training within large oil companies across the world. The oil and gas industry has well established transparent processes to ensure that industry best practice procedures and processes are followed before, during and after operations.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	The company should maintain governance structures and processes in line with its corporate culture and appropriate to its: • Size and complexity; and • Capacity, appetite and tolerance for risk. The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.	The roles of the various board committees are in this report detailed on page 10. The executive directors have discretion to approve expenditures up to a certain amount with board approval required for costs above that. The Chairman considers the board composition and skills to be appropriate for the company as its current stage of development
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company. In particular, an appropriate communication and reporting structure should exist between the board and all constituent parts of its shareholder base. This will assist: • the communication of shareholders' views to the board; and • the shareholders' understanding of the unique circumstances and constraints faced by the company. It should be clear where these communication practices are described (annual report or website).	The company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the AGM and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all company announcements and presentations) is also available to shareholders, investors and the public on the company's corporate website. Information on the work of the various board Committees and other relevant information are included on page 10. After each AGM, the company informs the London Stock Exchange the outcome of the resolutions. Suitable explanations of any actions undertaken as a result of any significant votes against resolutions shall also be disclosed on the Company's website. During the 2018 AGM all resolutions were passed unanimously.

REMUNERATION COMMITTEE REPORT

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

The board has a Remuneration Committee comprising myself and one non-executive Director. The members of the Remuneration Committee are detailed in the Directors' Report.

The purpose of the Remuneration Committee is to independently ensure the company remunerates fairly and responsibly and ensure that the level and composition of remuneration for all employees is competitive. Both short and long term performance-based components are reviewed. The Company benchmarks its remuneration and overheads with comparable peer group companies.

The remuneration of the Directors for the year ended 31 December 2018 was as follows:

	Basic salary		Share-based payment		Total 2018		Total 2017	
	£	$	£	$	£	$	£	$
Harry Dobson	–	–	–	–	–	–	–	–
Howard Obee	250,000	318,430	–	–	250,000	318,430	250,000	320,674
Nigel Hurst-Brown	–	–	1,819	2,316	1,819	2,316	1,819	2,342
Peter Fleming	200,000	254,745	–	–	200,000	254,745	200,000	256,539
	450,000	573,175	1,819	2,316	451,819	575,491	451,819	579,555

The company paid £56,784 ($71,000) – 2017 £62,088 ($80,700) in National Insurance for its Directors during the year.

The Group operates a pension scheme for its 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 2018 and at 31 December 2017, were as follows:

	At 31 December 2018 Number	At 31 December 2017 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

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.

Substantial shareholders

At 31 December 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	26,921,455	5.56%
Stephen Posford	27,500,000	5.68%
Zila Corporation	26,670,000	5.51%
LGT Vestra	21,861,246	4.52%
Hargreaves Lansdowne Asset Management	20,976,240	4.33%
Barclays Wealth	14,891,639	3.08%

Domicile

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

Results and dividends

The Group Statement of Comprehensive Income is set out on page 21 and shows the result for the year.
The Directors do not recommend the payment of a dividend (2017 – $nil).

Review of business and future developments

A review on the operations of the Group is contained in the CEO Review on page 06.

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 (2017 – $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. 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 Group and Company 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 2018

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	3	–	2
Howard Obee	3	–	–
Peter Fleming	3	–	–
Nigel Hurst-Brown	3	–	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
29 March 2019

INDEPENDENT AUDITOR'S REPORT
to the members of Borders & Southern Petroleum Plc

Opinion
We have audited the financial statements of Borders & Southern Petroleum Plc ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 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 of the 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 2018 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.

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 (E&E) assets associated with the Darwin and Stebbing licence areas in the Falkland Islands represent the key assets on the Group's statement of financial position. See note 11.

Management are required to perform an assessment of potential impairment indicators at the year end. If impairment indicators are identified Management are required to perform an assessment of the recoverable value of the E&E assets under the provisions of the relevant accounting standard. Management did not identify any potential impairment indicators.

Given the inherent judgement involved in the assessment of the existence of potential impairment indicators we consider this to be a significant audit risk.

STRATEGIC REPORT GOVERNANCE REPORT FINANCIAL STATEMENTS

Our response:
We assessed Management's impairment indicator review to establish whether it was performed in accordance with the requirements of the relevant accounting standard.

In doing so we obtained and read third party documents relating to the licence status and commitments.

We considered whether there was evidence in the Group's cashflow that funding was available to maintain and continue to spend on the E&E assets.

We have reviewed the economic models prepared by third party management experts. Our work in this regard was completed in order to assess whether there was any evidence in the models of further potential triggers for impairment which had not been previously identified.

As we reviewed the reports prepared by the third party management experts, we have considered the expert's independence, competence and objectivity.

Our application of materiality

	Group Materiality	Basis for materiality
FY 2018	$4.2m	Materiality has been based on 1.4% of Group assets
FY 2017	$4.5m	Materiality was based on 1.5% of Group assets.

Total Assets was determined as an appropriate basis for materiality as the principal focus of the Group, remains fundamentally on the development of its E&E assets.

A specific materiality was set at 10% of loss before taxation being $196,000 (2017: $140,000) in order to ensure sufficient testing was performed on the Group income statement.

Materiality for the Parent Company was set at $3.2m (2017: $4.0m). Parent Company materiality was also based on a 1.4% of net assets but was been restricted to 75% of the Group materiality figure (2017: based on 1.5% of net assets, restricted to 90% of Group materiality).

We apply the concept of materiality both in planning and performing our audit, and in evaluation of 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% (2017: 75%).

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 $83,000 (2017: $225,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Whilst materiality for the financial statements as a whole was $4.2m the significant components of the Group were audited to a lower level of materiality ranging from $3.0m to $3.2m which were used to determine the financial statement areas that were included within the scope of the Component audits and the extent of sample sizes used during the audits.

An overview of the scope of our audit
In approaching the audit, we considered how the Group is organised and managed. Our audit strategy 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. All of the components were subject to full scope audit procedures and all were audited by BDO LLP.

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 17, 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.

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.

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
29 March 2019

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

STRATEGIC REPORT GOVERNANCE REPORT FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	2018 $000	2017 $000
Administrative expenses		(1,802)	(1,734)
Loss from operations	2	(1,802)	(1,734)
Finance income	8	29	542
Finance expense	8	(193)	–
Loss before tax		(1,966)	(1,192)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to equity owners of the parent		(1,966)	(1,192)
Basic and diluted loss per share (see note 3)		(0.41) cents	(0.25) cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Note	2018 $000	2018 $000	2017 $000	2017 $000
Assets					
Non-current assets					
Property, plant and equipment	10		15		11
Intangible assets	11		291,367		290,826
Total non-current assets			291,382		290,837
Current assets					
Other receivables	13	260		440	
Cash and cash equivalents	16	5,626		8,251	
Total current assets			5,886		8,691
Total assets			297,268		299,528
Liabilities					
Current liabilities					
Trade and other payables	14		(337)		(633)
Total net assets			296,931		298,895
Equity					
Share capital	15		8,530		8,530
Share premium			308,602		308,602
Other reserves			1,775		1,773
Retained deficit			(21,960)		(19,994)
Foreign currency reserve			(16)		(16)
Total equity			296,931		298,895

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

The financial statements were approved by the board of Directors and authorised for issue on 29 March 2019.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

STRATEGIC REPORT GOVERNANCE REPORT FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital $000	Share premium $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2017	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
Loss and total comprehensive loss for the year	–	–	–	(1,966)	–	(1,966)
Recognition of share-based payments	–	–	2	–	–	2
Balance at 31 December 2018	8,530	308,602	1,775	(21,960)	(16)	296,931

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, less transfers to retained deficit on expiry.
Retained deficit	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.
Foreign currency reserves	Differences arising on change of presentation and functional currency to US dollars.

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

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Note	2018 $000	2018 $000	2017 $000	2017 $000
Assets					
Non-current assets					
Property, plant and equipment	10		15		11
Investments	12		–		–
Inter-company loan	13		291,546		291,005
Total non-current assets			291,561		291,016
Current assets					
Other receivables	13	260		440	
Cash and cash equivalents	16	5,626		8,251	
Total current assets			5,886		8,691
Total assets			297,447		299,707
Liabilities					
Current liabilities					
Trade and other payables	14		(337)		(633)
Total net assets			297,110		299,074
Equity					
Called up share capital	15		8,530		8,530
Share capital			308,602		308,602
Other reserves			1,775		1,773
Retained deficit			(21,779)		(19,813)
Foreign currency reserve			(18)		(18)
Total equity			297,110		299,074

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 2018 was $1,966,000 (2017: $1,192,000). The notes on pages 28 to 38 form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 29 March 2019.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

COMPANY STATEMENT OF CHANGES IN EQUITY
At 31 December 2018

	Share capital $000	Share premium reserve $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2017	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
Loss and total comprehensive loss for the year	–	–	–	(1,966)	–	(1,966)
Recognition of share-based payments	–	–	2	–	–	2
Balance at 31 December 2018	8,530	308,602	1,775	(21,779)	(18)	297,110

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, less transfers to retained deficit on expiry.
Retained deficit	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.
Foreign currency reserve	Differences arising on change of presentation and functional currency to US dollars.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	2018 $000	2018 $000	2017 $000	2017 $000
Cash flow from operating activities					
Loss before tax			(1,966)		(1,192)
Adjustments for:					
Depreciation			1		1
Share-based payment			2		18
Net finance costs			164		–
Net finance income			–		(542)
Realised foreign exchange gains/(losses)			21		(17)
Cash flows used in operating activities before changes in working capital			(1,778)		(1,732)
Decrease in other receivables			180		728
Increase in trade and other payables			(296)		(503)
Net cash outflow from operating activities			(1,894)		(1,507)
Cash flows used in investing activities					
Interest received		29		11	
Purchase of intangible assets		(541)		(445)	
Purchase of tangible fixed assets		(5)		–	
Net cash used in investing activities			(517)		(434)
Cash flows from financing					
Cash flows from financing activities			–		–
Net decrease in cash and cash equivalents			(2,411)		(1,941)
Cash and cash equivalents at the beginning of the year	16		8,251		9,645
Exchange (loss)/gain on cash and cash equivalents			(214)		547
Cash and cash equivalents at the end of the year			5,626		8,251

STRATEGIC REPORT GOVERNANCE REPORT FINANCIAL STATEMENTS

COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	2018 $000	2018 $000	2017 $000	2017 $000
Cash flow from operating activities					
Loss before tax			(1,966)		(1,192)
Adjustments for:					
Depreciation			1		1
Share-based payment			2		18
Net finance costs			164		–
Net finance income			–		(542)
Realised foreign exchange gains/(losses)			21		(18)
Cash flows used in operating activities before changes in working capital			(1,778)		(1,732)
Decrease in other receivables			180		728
Increase in trade and other payables			(296)		(503)
Net cash outflow from operating activities			(1,894)		(1,507)
Cash flows from investing activities					
Interest received		29		11	
Increase in amounts due from group undertaking		(541)		(445)	
Purchase of tangible fixed assets		(5)		–	
Net cash used in investing activities			(517)		(434)
Net decrease in cash and cash equivalents			(2,411)		(1,941)
Cash and cash equivalents at the beginning of the year	16		8,251		9,645
Exchange (loss) /gain on cash and cash equivalents			(214)		547
Cash and cash equivalents at the end of the year			5,626		8,251

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

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 Group and Company have 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
IFRS 9: Financial Instruments	1 Jan 2018
IFRS 15: Revenue from contracts with customers	1 Jan 2018
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

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 2019 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after
Annual improvements to IFRSs (2015-2017 Cycle)*	1 Jan 2019
IFRS 16: Leases*	1 Jan 2019

* Endorsed by the EU

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 will 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 this to have a material impact on the 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.

1 Accounting policies continued

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 2019 and for a period of not less than twelve months from the date of approval of the financial statements.

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 $1,966,000, (2017 – loss after tax of $1,192,000) 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 $33^1/_3$%

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 does 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. Whilst the short term focus is on developing Darwin, Stebbing remains a viable prospect for growth beyond Darwin.

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

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

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

In accordance with IFRS 6, the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:
- whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- whether exploration for and evaluation of hydrocarbons in a specific area have not led to the discovery of commercially viable quantities of hydrocarbons and the Group has decided to discontinue such activities in the specific area; and
- whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances, the aggregate carrying value of the exploration and evaluations assets is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell. The Group has identified two cash-generating units, a Darwin CGU and a Stebbing CGU. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Group's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

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For the year ended 31 December 2018

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:
- Other receivables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest, net of expected credit losses.
- 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.
- Inter-company receivables are held in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. These receivables are initially recognised at fair value and are subsequently carried at amortised cost.

IFRS 9: Impairment of financial assets
IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. 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 provided a loan to its 100% owned subsidiary that is the license holder in The Falkland Islands. Management have completed a scenario based assessment of the expected credit loss in accordance with IFRS 9 and concluded that this loss is immaterial.

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 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 as both resources are contained within the same license and are close proximity. Expenditure is capitalised as an intangible asset by reference to the 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 2018 and the strengthening of the oil price, management have concluded that there are no indicators of impairment at year end.

2 Loss from operations

	2018 $000	2017 $000
Staff costs (note 5)	959	915
Share-based payment – equity-settled	2	18
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	44	51
Fees payable to the Company's auditor and its associates for other services:		
Tax services	6	6
Depreciation of office equipment	1	1
Operating lease expenses – property	324	299
Foreign exchange loss/(gain)	193	(530)

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 $1,966,000 (2017 – loss $1,192,000) and the weighted average number of shares in issue for the year was 484,098,484 (2017 – 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 (2017: 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.

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2018

5 Staff costs

Company and Group:
Staff costs (including Directors) comprise:

	2018 $000	2017 $000
Wages and salaries	846	808
Employers' national insurance contributions	108	104
Employers' pension contributions	5	3
	959	915
Share-based payment – equity-settled	2	18
	961	933

The average number of employees (including Directors) employed during the year by the Company was five (2017 – five) and for the Group was five (2017 – five). All employees and Directors of the Group and the Company are considered to be the key management personnel.

Of the $2,000 (2017 – $18,000) share-based payment charge included in the Consolidated Statement of Comprehensive Income, $2,000 (2017 – $18,000) 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:

	2018 $000	2017 $000
Directors' fees	605	577
Share-based payments – equity-settled	2	2
	607	579

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 $335,883 (2017 – $322,077).

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, $2,316 has been expensed during the year. The options vest after three years and expire after ten years.

Due to 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

	2018 Weighted average exercise price	2018 Number	2017 Weighted average exercise price	2017 Number
Outstanding at the beginning of the year	39p	7,050,000	39p	7,050,000
Granted during the year		–		–
Outstanding at the end of the year	33p	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 (2017 – five years).

The range of exercise prices of share options outstanding at the end of the year is 1.8-74p (2017 – 1.8p-74p).

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7 Share-based payment continued

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	2018 $000	2017 $000
Bank interest received	29	12
Foreign exchange gain	–	530
	29	542

Finance expense	2018 $000	2017 $000
Foreign exchange loss	193	–
	193	–

9 Tax expense

Current tax expense	2018 $000	2017 $000
UK corporation tax on loss for the year at 19.00% (2017 – 19.25%)	–	–
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:

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2018

9 Tax expense continued

	2018 $000	2017 $000
Loss before taxation	-1,966	-1,192
Standard corporation tax charge at 19.00% (2017 – 19.25%)	-334	-229
Expenses not deductible for tax purposes	205	201
Prior year amendments	-40	64
Effect of change in tax rates	17	3
Movement in unrecognised deferred tax for the year	152	-39
Total current and deferred tax for the year	–	–

Factors that may affect future tax charges
The Group has a deferred tax asset of approximately $1,173,294 (2017 – $987,766) in respect of unrelieved tax losses of approximately $6,901,727 at 31 December 2018 (2017 – $5,810,392). The rate of tax used in the calculation of the deferred tax asset is 17% (2017 – 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 2017	115
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 01 January 2017	12
As at 31 December 2017	11

	Office equipment $000
Cost	
As at 1 January 2018	115
Additions	5
As at 31 December 2018	120
Depreciation	
As at 1 January 2018	104
Charge for the year	1
As at 31 December 2018	105
Net book value	
As at 01 January 2018	11
As at 31 December 2018	15

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11 Intangible assets

Group	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 01 January 2017	290,381
As at 31 December 2017	290,826

Group	Exploration and evaluation costs $000
Cost	
As at 1 January 2018	290,826
Additions	541
As at 31 December 2018	291,367
Net book value	
As at 01 January 2018	290,826
As at 31 December 2018	291,367

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 was extended until 31 October 2020. On the same day the Company also received notice that the expiry date of Darwin East Discovery Area was extended until 31 January 2022.

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 to assess whether there were any issues that would trigger an impairment assessment and based on these third party reports, it was concluded that there were no triggers so no impairments were made.

12 Investments in subsidiary

Company	2018 $	2017 $
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. Company's registered office is in One Fleet Place, London EC4M 9AF.

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2018

13 Other receivables

	Group		Company	
	2018 $000	2017 $000	2018 $000	2017 $000
Inter-company loan	–	–	291,546	291,005
Other receivables	113	290	113	290
Prepayments and accrued income	147	150	147	150
	260	440	291,806	291,445

All amounts owed by or to entities outside the group shown as other receivables and prepayments and accrued income fall due for payment within one year. Management have completed a scenario based assessment of the expected credit loss in accordance with IFRS 9 and concluded that this loss is immaterial. The inter-company loan is on demand and expected to be repaid from the revenues of the Darwin field production. Management consider the inter-company loan to be in stage 3. All the technical and economic studies undertaken to date have confirmed Darwin to be economic. Management have also completed a scenario based assessment based on their judgments of the expected credit loss in accordance with IFRS 9 and concluded that any loss is immaterial.

All of the company's bank deposits are with Lloyds Bank plc. It has a P-1 credit rating with Moodys, F! with Fitch and A-1 with Standard & Poors.

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

14 Trade and other payables

	Group		Company	
	2018 $000	2017 $000	2018 $000	2017 $000
Trade payables	46	355	46	355
Other taxes and social security costs	37	38	37	38
Accruals and deferred income	254	240	254	240
	337	633	337	633

15 Share capital

	2018 $000	2017 $000
Authorised		
750,000,000 ordinary shares of 1 pence each (2017 – 750,000,000)	14,926	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2017 – 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	2018 $000	2017 $0000
Cash available on demand	256	540
Cash on deposit	5,370	7,711
Total	5,626	8,251

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 $541,828 (2017 – $819,873) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end $291,546,000 (2017 – $291,005,000) 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	
	2018 $000	2017 $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. The Group monitors risk on a regular basis and takes appropriate measures to ensure risks are managed in a controlled manner.

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 to the Group at the year end.

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

Amortised Cost	2018 $000	2017 $000
Other receivables	173	362
Cash and cash equivalents	5,626	8,251
Trade and other payables	300	595

The fair values of the Group's financial assets and liabilities at 31 December 2017 and as at 31 December 2018 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 2018 the Group held cash at bank and in deposits under its control of $5,626,124 (2017 – $8,250,678), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, $256,265 (2017 – $540,892) 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 $5,369,859 (2017 – $7,709,786) with a weighted average fixed interest rate of 0.2% (2017 – 0.2%) for three months. If there was 1% change in interest rates the impact on the Statement of Comprehensive Income would be $53,698 (2017 – $77,098).

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For the year ended 31 December 2018

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 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	
Current financial assets	Other receivables measured at amortised cost 2018 $000	Other receivables measured at amortised cost 2017 $000	Other receivables measured at amortised cost 2018 $000	Other receivables measured at amortised cost 2017 $000
Held in UK£:				
Other receivables	260	362	260	1,166
Cash and cash equivalents	5,599	7,711	5,599	8,892
Total current financial assets held in UK£	5,859	8,151	5,859	10,058
Held in US$:				
Trade and other receivables	–	–	291,546	288,230
Cash and cash equivalents	27	540	27	752
Total financial assets	5,886	8,691	297,432	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 $604,500 (2017: $815,100) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2018 $000	Financial liabilities measured at amortised cost 2017 $000	Financial liabilities measured at amortised cost 2018 $000	Financial liabilities measured at amortised cost 2017 $000
Held in UK£:				
Trade and other payables	300	595	300	595
Total financial liabilities	300	595	300	595

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 $53,100 (2017 – $63,200) 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:

	2018		2017	
	Carrying Value $000	Maximum exposure $000	Carrying Value $000	Maximum exposure $000
Cash and cash equivalents	5,626	8,251	5,626	8,251
Maximum credit risk exposure	5,626	8,251	5,626	8,251

Capital

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

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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	Strand Hanson 26 Mount Row London W1K 3SQ
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