borders & southern petroleum plc

ANNUAL REPORT AND ACCOUNTS 2019

WELCOME TO OUR ANNUAL REPORT 2019

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.

CONTENTS

Borders & Southern Petroleum plc (AIM: BOR) is pleased to announce its Annual Report and Accounts 2019. The accounts contained within this report represent the consolidation of Borders & Southern Petroleum plc and its subsidiary Borders & Southern Falkland Islands Limited.

Highlights 2019

$3.7m
Cash balance at 31 December 2019 (2018: $5.6m)

$1.37m
Loss before tax for the year (2018: $1.96m)

$1.45m
Reduced administrative expense for the year (2018: $1.8 million)

- Farm-out process remains active. Progress has been impacted by current industry capital allocation constraints.
- The Company's prospect inventory has been updated to include additional smaller pools close to the Darwin discovery.

Strategic Report

Governance

Financial Statements

Further information:
www.bordersandsouthern.com

CHAIRMAN'S AND CEO'S REVIEW

Committed to progressing Darwin

"

Darwin represents an exciting opportunity for all those involved.

Our principal objective for 2019 was to secure funding for the next phase of operations in the South Falkland Basin.

Unfortunately, the team has been frustrated by the slow progress, largely due to factors outside of its control. The industry has experienced significant constraints on capital availability during the last five years. Smaller companies, such as ours, are finding it particularly challenging to raise risk capital and attract partners for large conventional offshore projects in frontier areas. This issue has recently been exacerbated by the unknown and unpredictable impact of the global Covid-19 pandemic and the simultaneous over-supply of crude caused by lack of agreement on production levels by OPEC+ countries. Oil prices have again fallen below $30 per barrel and the outlook over the next 12 months appears very challenging.

Nevertheless, history suggests oil prices will bounce back and create conditions that will allow us to proceed with Darwin's appraisal and development. Darwin represents an exciting opportunity for all those involved, and we remain hopeful that we can deliver success. Our confidence is based on very strong project fundamentals. Darwin is a liquids-rich, gas condensate that has been independently assessed to contain an un-risked recoverable resource of over 450 million barrels of condensate and LPGs. The reservoir is of high quality, the hydrocarbons have good mobility and low contaminants, which means the development does not require a large number of wells. In the attractive Falkland Islands fiscal regime, project economics are particularly robust, even at lower oil prices. Our current economic model suggests the project break-even oil price is less than $35 per barrel which compares favourably against many other global opportunities.

During this period of slow project headway, we have been particularly conscious of our balance sheet strength. The Company has always maintained strict financial discipline, with a low overhead. But we have targeted a 25% reduction in Sterling expenditures during 2020 (the majority of the Company's current expenditures are in Sterling). Our cash balance at year-end was $3.68 million (2018: $5.6 million). Administrative expense was lower at $1.45 million (2018: $1.8 million), although some of the reduction was due to exchange rate differences. We aim to keep our overhead base cost low in order to ensure the Company is able to continue along its path to monetise Darwin, post these unprecedented times.

As part of our effort to continually enhance the sub-surface technical aspects of the project, we have been assessing the potential small pools of hydrocarbons not previously captured in our assessment of Darwin or the near-field prospects. Detailed mapping and evaluation of the 3D depth migrated seismic volume has revealed a number of interesting amplitude anomalies adjacent to Darwin. Individual leads have un-risked best estimate prospective resource values of up to 17 million barrels. These would not provide stand-alone targets, but might be able to be tied into a development at a later stage. Detailed structural mapping and evaluation of the area to the north of Darwin has highlighted a number of small structural closures with strong amplitude anomalies and small associated flat spots. These have potential un-risked prospective resource volumes of up to 29 million barrels. Again, these structures may not represent economic stand-alone targets, but they offer us confidence that the hydrocarbon system is working across a large area of the Aptian shelf.

Possibly the most interesting lead to emerge from the technical work is the newly defined the Stewart prospect, mapped on the more recently generated 3D seismic inversion volume. Measuring approximately 20 square kilometres, it occurs at the same stratigraphic interval as near-field prospects Sulivan and Stokes. The un-risked prospective resource estimate is 40 million barrels. Whilst this is a relatively small volume, the target interval could be tested by extending a Darwin West well approximately 385 metres below the Darwin reservoir. The outcome would provide important insights into the larger Sulivan (473 million barrels) and Stokes (134 million barrels) prospects.

Harry Dobson
Non-Executive Chairman

Howard Obee
Chief Executive
9 April 2020

BORDERS & SOUTHERN AT A GLANCE

Engaged in exploration

Borders & Southern Petroleum is a London Stock Exchange (AIM) listed company with exploration acreage in the Falkland Islands. It holds a 100% operating interest in three Production Licenses which provide exclusive rights for surveying, drilling and production within the specified area. The acreage is located approximately 150 km south-east of the Islands.

The Company has acquired 2,517km of 3D seismic data and drilled two exploration wells. The first well, Darwin, resulted in a major, liquids rich, gas condensate discovery. The second well, Stebbing, had good hydrocarbon shows, but failed to reach its target depth.

Our vision

To be a successful explorer through the discovery and monetisation of hydrocarbons for the benefit of all our stakeholders.

Our values

To act with integrity and honesty at all times. Our drive to succeed will not compromise high standards of business ethics and we will act safely and responsibly in all activities.

Our people

Borders & Southern has an experienced and successful technical and commercial team, that has delivered a significant discovery with the Company's first exploration well. Prudent financial management over the long term has enabled the Company to operate through periods of low oil price and conservative industry capital allocation.

Our strategy and business model

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, identifying, assessing and managing the key risks.

Read more on page 05

Our short-term objective

To monetise the Darwin discovery as quickly as possible prior to returning to the exploration drill bit and testing our extensive prospect inventory. The first step is to secure funding/partners for the next phase of operations. Key objectives for the operation programme are to confirm the resource estimates and reservoir deliverability, and thereby advance the project to FID. We aim to complete two cored penetrations of the reservoir section, one well test, confirm the gas water contact and investigate the possibility of an oil rim to the discovery.

Read more about Darwin on page 04

Industry outlook

Brent Crude averaged close to $64 per barrel in 2019. Despite this relatively strong oil price, capital availability for new oil and gas developments continued to be constrained in 2019, as it has been for the last five years. Expenditure on conventional exploration and appraisal is much reduced, with fewer companies drilling fewer exploration and appraisal wells. This trend is anticipated to continue during 2020 following the significant fall in the oil price in March 2020 as well as the unknown extent of the Covid-19 pandemic on the global economy.

WHY INVEST

Future growth potential

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 150km south-east of the Islands. To date, the Company has acquired 2,517km of 3D seismic and drilled two exploration wells.

Darwin Key Facts

Overview

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

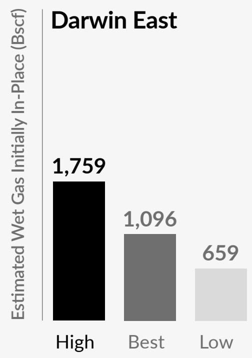
The objective of the next drilling programme will be to confirm resource estimates and reservoir delivery by making two cored penetrations of the reservoir section and undertaking a well test. The well will confirm the gas water contact and test for a potential oil rim.

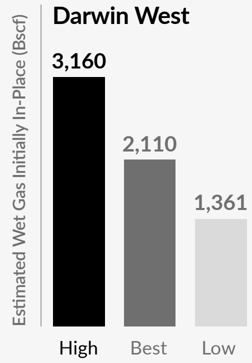
If the discovery is successfully appraised, then the current plans for a development involve the production of the liquids and re-injection of the dry gas back into the reservoir. Engineering studies have shown that the discovery could be commercialised by an FPSO development, utilising six production wells and four gas re-injectors. Initial production could be in excess of 90,000 barrels of liquids per day. Alternative options for the development will be considered post appraisal.

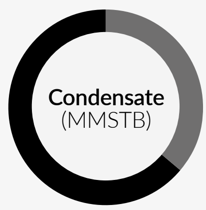
Future exploration programmes are likely to focus on the near-field prospects. The Company has an exciting portfolio of amplitude supported prospects. Management's total un-risked best estimate prospective resource for these prospects exceeds one billion barrels.

An independent un-risked resource assessment concluded:

Licence	PL018
B&S interest	100%
Discovery well number	61/17-1
Discovery date	April 2012
Water Depth	2011 metres
Total depth	4876 metres
Structure	Tilted fault blocks
Area of seismic anomaly	26 square kilometres
Reservoir	Early Cretaceous (Aptian)
Gross reservoir interval	84.5 metres
Net pay	67.8 metres
Average porosity	22% (up to 30%)
Average permeability	337 mD (up to 1D)
Initial condensate yield	148 stb/MMscf
Condensate API	46 to 49 degrees

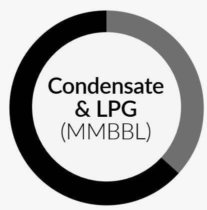






115 Darwin East Contingent (2C)

202 Darwin West Prospective



170 Darwin East Contingent (2C)

292 Darwin West Prospective

Independent un-risked resource assessment

STRATEGY AND BUSINESS MODEL

Focused on exploration

Our aim is to create value through the discovery and monetisation of hydrocarbons, applying our core strengths.

Business Model

Exploration

The Company has an exploration strategy focused on frontier or emerging basins where a significant acreage position can be secured at relatively low cost.

The basins must have the potential to yield substantial yet-to-find resources, large prospect sizes and display good evidence of a working source rock. Comprehensive technical screening prior to access helps mitigate the sub-surface risks along with economic modelling to ensure project rewards justify the investment decision. We carefully deploy our limited financial resources on acquiring the right technical data and ensuring it is of the highest quality in order to apply our rigorous petroleum systems analysis. This allows us to compile a comprehensive prospect inventory, undertake detailed prospect risk analysis and ultimately high-grade drilling targets.

Appraisal

Following the discovery of hydrocarbons, the next stage is an assessment of its commerciality.

Analysis of well results, detailed reservoir modelling, and integration of the new data into existing interpretations allow us to estimate the hydrocarbon volume in-place and the potential volume that might be recoverable. If the project economics look positive, then an appraisal drilling programme will be designed and executed in order to constrain resource estimates and test reservoir deliverability.

Development

If the appraisal drilling programme is successful and the project economics continue to be attractive, the next stage comprises detailed engineering and cost analysis of development concepts prior to design selection and final project sanction. First production and cash flow might be three years after project sanction.

Given the scale of investment required for a major development, partners can be brought into the project at any time during the exploration, appraisal or development phases.

The Company has been successful in the first stage of the exploration to development cycle. It has found a high quality, liquids rich, gas condensate accumulation in an attractive fiscal regime. The scale of the resource has been independently verified. Additionally, the Company holds a multi-billion barrel follow-up prospect inventory. The Company's strategic priorities are to ensure a stable financial footing for the business, deliver on the Darwin project, and grow the business by adding further discoveries.

Technical rigour

Our experienced in-house team is supported by expert consultants that have worked with the Company over a long period of time. This team has a proven track record of discovery and evaluation.

Commercial discipline

The Company has always maintained a healthy balance sheet with no debt. Robust financial controls are in-place. Our financial resources are effectively directed towards our strategic objectives.

Risk management

All our activities are underpinned by thorough risk identification, monitoring and mitigation. We operate responsibly, displaying care and respect to all our stakeholders.

PRINCIPAL RISKS AND UNCERTAINTIES

Managing risks effectively

As an oil and gas exploration company, Borders & Southern is subject to a variety of risks and uncertainties. Managing risk effectively is fundamental to delivering safe and responsible business plans and strategic objectives. Our approach is to ensure that all significant risks are identified, their potential impact understood, and the likelihood of their occurrence assessed. The Board of Directors review the risk register and ensure management plans are put in place where appropriate.

Risk	Nature of risks	Mitigating factors	Status
Sub-surface	Exploration for oil and gas is inherently a risky business and commercial success cannot be guaranteed. Whilst many of the technical risks can be mitigated, they cannot be eliminated.	The Company has an experienced sub-surface team with a proven track record. Industry experts provide specialist supplementary skills. Current technologies and techniques are used in all evaluations.	Risk Unchanged
Health and Safety	Drilling for oil and gas in a remote, offshore environment presents many risks to personal safety including serious injury or death. More recently the COVID-19 pandemic has created many challenges to all.	The Company employs experienced drilling management teams. Prior to operations, detailed risk assessments and mitigation plans are put in place, along with emergency response exercises, closely following industry best practices. The COVID–19 pandemic is a significant challenge to all businesses including those in the oil industry. For the Company, as we are not yet in operations, the challenges are limited to the office where we are following Government guidelines. In the future we will most likely understand the virus better and be able to operate safely as the industry adapts.	Risk Increase
Environmental	The Falkland Islands are located in a remote area with an abundant range of wildlife and plant life that could be at risk from operational incidents.	Prior to operations, the Company undertakes detailed environmental impact assessments and baseline studies using industry specialists. Mitigation plans are put in place including oil response training for all relevant personnel.	Risk Unchanged
Climate Change	The activities of exploration and production companies could be subject to government legislation in response to global carbon emission reduction targets.	There is no indication that the Falkland Islands Government want to place a moratorium on the production of hydrocarbons as the potential revenues will provide a profound economic benefit to the Islands. During future operations the Company will seek to minimise its emission levels.	Risk Unchanged
Financial (access to capital)	Constraints in the capital markets could impact the Company's ability to carry out the appraisal programme and future development programme.	The Company holds a high-quality asset (Darwin) with a low break-even oil price which is very competitive against other global opportunities. This should help attract funds to the project.	Risk Unchanged
Financial (commodity price)	Volatility in oil and gas prices can have a material impact on project economics and the access to capital.	The Darwin project appears very robust at current levels in oil price. Project modelling suggests it is economic down to at least \$35 per barrel.	Risk Increase

Risk	Nature of risks	Mitigating factors	Status
Licence Renewal	The Company's Production Licences are due for renewal at the end of October 2020. There is an outstanding one well licence obligation, which will not have been completed by this time. There is a risk that the Falkland Islands Government will not grant an extension to the current licence period and these licences would lapse. (The Discovery Area Licence is not due for renewal until the end of January 2022).	In accordance with the timetable for licence renewals, the Company intends to seek an extension to the current licence term. Based on recent licence renewals by other operators in the region, the Directors are confident that a licence extension will be granted.	Risk Unchanged
Political	The sovereignty of the Falkland Islands is challenged by Argentina.	In the 2013 referendum in the Falkland Islands the people voted unequivocally to remain as a British Overseas Territory. The British Government strongly supports the Falkland Islands right to determine their own future and rebuts Argentina's claim to sovereignty.	Risk Unchanged
Key Personnel	To keep a low overhead the Company outsources many non-core roles. It is therefore reliant on a small number of in-house personnel. Potential disruption to business and loss of corporate knowledge could occur if these were to depart the Company.	The Company has service contracts with key employees that provide notice periods that allow sufficient time to source experienced replacements. Additionally, the Company has a wide network of experienced contractors.	Risk Unchanged

Environmental, Social and Governance (ESG)

Borders & Southern's business is to create value through the discovery and monetisation of hydrocarbons. To be successful, we recognise that all our stakeholders should benefit, including shareholders, host governments, the communities in which we operate, employees and partners. Corporate responsibility is therefore central to everything we do. Our aim is to conduct ourselves in an ethical and transparent way. We aim to conduct our operations safely, in line with industry best practice and minimising the potential risk to the environment.

Recently the major oil and gas companies have been developing strategies for carbon reduction, as the global economy transitions to renewable sources of energy, whilst helping to meet the projected increase in energy demand over the next 20 years associated with global population increase. As a small company, we too have to be cognisant of our role. We are not currently in an operational phase, but in the build-up to the next drilling campaign we will develop strategies to reduce and mitigate emissions from operations (in particular respect to Scope 1 and Scope 2 emissions).

Directors' Duties

The Directors act in accordance with a set of duties detailed in section 172 of the Companies Act which are summarised as follows:

- A director of a company must act in the way they consider, in good faith, would be the most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, have regard to:
  - The likely consequences of any decisions in the long term;
  - The interests of the Company's employees;
  - The need to foster the Company's business relationships with suppliers, customers and others;
  - The impact of the Company's operations on the community and environment;
  - The desirability of the Company maintaining a reputation for high standards of business conduct; and
  - The need to act fairly between shareholders of the Company.

In addition to that outlined in the Chairman's and CEO's Review (page 2) the ESG section above and in the Director's Report (pages 12-13), the Directors fulfilled their duties during the year as follows:

Section 172 Statement

Throughout the year the Company has engaged with its key stakeholders and has incorporated their feedback into the Board's main strategic decisions. The two principal areas of strategic focus have been the pursuit of funding/partners for the next phase of operations and the advancement of the sub-surface technical work.

As a company active in the Falkland Islands we ensure we represent the interests of the Falkland Islands community, the Falkland Islands Government, Department of Minerals and environmental groups. As a member of FIPLA (Falkland Islands Petroleum Licensee's Association), not only do we foster relationships with other Falkland Islands operating companies, but also engage with the government on petroleum policy development and matters impacting our business. We also provide support to environmental groups for base-line studies with the objective of minimising our impact on the natural environment. Through our monthly reporting to the Falkland Islands Department of Minerals we communicate developments in our sub-surface work and listen to any feedback offered by their advisors at the British Geological Survey.

In our technical work, we have developed wider relationships with the academic community. For many years we have made our data available to certain British universities and mentored students. This year we provided data and part mentored an MSc. student at Imperial College and provided data for Falkland Islands academic research at Heriot Watt University. In previous years we have offered similar support to Oxford University and Royal Holloway College, London University.

The Company's strategies, results and ongoing developments are communicated to shareholders and other stakeholders through the Company's website, incorporating Stock Exchange public releases and presentation material. The Board of Directors are made aware of shareholder comments and feedback. Shareholders are encouraged, where possible, to attend the annual AGM to offer direct feedback to all the Company's Directors.

As a relatively small company with a business structure that has a limited number of in-house roles supported by expert out-sourced functions, we are able to ensure a high level of communication with all employees. This cultivates a good appreciation of business risks and objectives and provides employees with direct access to all Board members and input into critical decision making.

The Strategic Report was approved by the Directors on 9 April 2020 and signed on its behalf by:

Harry Dobson
Non-executive Chairman

INTRODUCTION TO GOVERNANCE

Adopting the QCA Code

As the code evolves, we will, of course, make adjustments to internal controls, for example, to ensure we continue to be fully compliant.

We operate with
- Respect;
- Transparency; and
- Leadership.

Applying the principles of the QCA Corporate Governance Code

Leadership
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.

Effectiveness
The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

Transparency
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.

Respect
Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others).

Remuneration
The Company remunerates fairly and responsibly and ensure that the level and composition of remuneration for all employees is competitive.

Find out more about how we support the QCA Code on our website:
www.bordersandsouthern.com

Principles of corporate governance

I am, along with the rest of the Directors, 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. One of the critical roles of the Board is to make decisions that are in the best interests of the Company and that follow the six key factors in S172(1) of the Companies Act 2006. 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 Code

The Company follows the QCA Corporate Governance Code which was chosen as the most appropriate for the time being. The Company remains compliant with the principles of the Code and further details can be found on its website under investor relations/corporate governance.

My role as Chairman

I have been Chairman of the Company since its inception and 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 Board meeting agendas.

Role of the Non-executive Director

Nigel Hurst-Brown brings considerable 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 2019 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; and
- oversight and communication with the auditors

Internal Controls

The Board is responsible for approving all major projects, external reports and budgets. The Company has robust internal controls and risk management procedures.

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
9 April 2020

BOARD OF DIRECTORS

Developing our strategy

Our board develops strategy and leads Borders & 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
- Over 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 operational experience

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
- Former managing director of Merrill Lynch Investment Managers
- Current external chief executive of Hotchkis and Wiley (UK) Limited and its US parent company
- Current Non-executive director of Central Asia Metals plc

Number of Board meetings during 2019

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

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 2019 was as follows:

	Basic salary		Share-based payment		**Total 2019**		Total 2018	
	£	$	£	$	**£**	**$**	£	$
Harry Dobson	–	–	–	–	**–**	**–**	–	–
Howard Obee	250,000	337,840	–	–	**250,000**	**337,840**	250,000	318,430
Nigel Hurst-Brown	–	–	1,819	2,458	**1,819**	**2,458**	1,819	2,316
Peter Fleming	200,000	270,270	–	–	**200,000**	**270,270**	200,000	254,745
	450,000	608,110	1,819	2,458	**451,819**	**610,568**	451,819	575,491

During 2020 the Company commenced several initiatives to reduce overheads by approx. 25% including a 35% reduction in salaries for the Executive Directors. It is envisaged that during 2020 the Company will issue share options to partially compensate those employees affected by these cuts. The Company paid £56,784 ($76,735) (2018: £56,784 ($71,000)) in National Insurance for its Directors during the year. The Group operates a pension scheme for some of its employees.

Harry Dobson
Chairman of the Remuneration Committee
9 April 2020

DIRECTORS' REPORT

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2019 and at 31 December 2018 were as follows:

	At 31 December 2019 Number	At 31 December 2018 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 indemnity insurance from a third party.

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	1,000,000	24 pence	51 pence	three years
Peter Fleming	1,250,000	1,000,000	24 pence	51 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 2019, 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	29,223,632	6.04%
Stephen Posford	27,500,000	5.68%
Zila Corporation	26,670,000	5.51%
Hargreaves Lansdowne Asset Management	22,695,252	4.68%
LGT Vestra	22,510,258	4.65%
HDSL	19,749,575	4.07%
Killik	5,844,038	3.27%

Domicile

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

Results and dividends

The Group Statement of Comprehensive Income is set out on page 17 and shows the result for the year. The Directors do not recommend the payment of a dividend (2018: $nil).

Review of business and future developments

A review of the operations of the Group is contained in the CEO's Review on page 2 onwards.

Post reporting date events

There are no Company or Group specific events that have occurred since the year end which require reporting. Please see note 19 for the Company's response to the COVID-19 virus.

Charitable and political donations

There were no political or charitable contributions made by the Company or the Group during the year (2018: $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.

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
9 April 2020

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 subsidiary ("the Group") for the year ended 31 December 2019 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 (IFRSs) 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 2019 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 and the materiality of this balance we consider this to be a significant audit risk.

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. We also performed our own assessment of the impairment indicators noted in the relevant accounting standard. The key point noted related to the short time period remaining on the Production Licences before they are due for renewal.

We obtained and read third party documents relating to the licence status and commitments. We assessed management's conclusion on their ability to renew the Production Licences and checked their assessment against publicly available information, the Falkland Islands regime for renewal of oil and gas licences and noted the Company's previous ability to renew its licences.

We considered whether there was evidence in the Group's cash flow that funding was available to maintain and continue development of the E&E assets.

We 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 considered the expert's independence, competence and objectivity.

Key observations:

Our audit procedures did not identify any material misstatements in the carrying value of exploration and evaluation assets or in the disclosure as required by IFRS 6.

Our application of 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.

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Group's status as an exploration and evaluation entity and therefore consider this to be an appropriate basis for materiality. Materiality was set at 1.4% of total assets, being $4.2m (2018: 1.4% of total assets being $4.2m).

A specific materiality was set at 10% of loss before taxation being $137,000 (2018: $196,000) in order to ensure sufficient testing was performed on the Group income statement.

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% (2018: 75%) of the above materiality levels.

We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of $83,000 (2018: $83,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

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

An overview of the scope of our audit

In approaching the audit, we considered how the Group is organised and managed. We assessed the business as being principally a single project Group comprising of the exploration activities in the Falkland Islands.

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. Whilst materiality for the financial statements as a whole was $4.2m, each component of the Group was audited to a lower level of performance materiality of between $3m and $3.2m. All of the components were subject to full scope audit procedures and all were audited by BDO LLP.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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
9 April 2020

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 $000	2018 $000
Administrative expenses		**(1,447)**	(1,802)
Loss from operations	2	**(1,447)**	(1,802)
Finance income	8	**88**	29
Finance expense	8	**(11)**	(193)
Loss before tax		**(1,370)**	(1,966)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to equity owners of the parent		**(1,370)**	(1,966)
Basic and diluted loss per share (see note 3)		**(0.28) cents**	(0.41) cents

The notes on pages 24 to 37 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

		2019		2018	
	Note	$000	$000	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		**118**		15
Intangible assets	11		**291,765**		291,367
Total non-current assets			**291,883**		291,382
Current assets					
Other receivables	13	**233**		260	
Cash and cash equivalents	16	**3,682**		5,626	
Total current assets			**3,915**		5,886
Total assets			**295,798**		297,268
Liabilities					
Current liabilities					
Trade and other payables	14		**(235)**		(337)
Total net assets			**295,563**		296,931
Equity attributable to the equity owners of the Parent Company					
Share capital	15		**8,530**		8,530
Share premium			**308,602**		308,602
Other reserves			**1,777**		1,775
Retained deficit			**(23,330)**		(21,960)
Foreign currency reserve			**(16)**		(16)
Total equity			**295,563**		296,931

The notes on pages 24 to 37 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2020.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital $000	Share premium $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2018	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
Loss and total comprehensive loss for the year	–	–	–	(1,370)	–	(1,370)
Recognition of share-based payments	–	–	2	–	–	2
Balance at 31 December 2019	**8,530**	**308,602**	**1,777**	**(23,330)**	**(16)**	**295,563**

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 24 to 37 form part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2019

		2019		2018	
	Note	**$000**	**$000**	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		**118**		15
Investments	12		**–**		–
Inter-company loan	13		**291,944**		291,546
Total non-current assets			**292,062**		291,561
Current assets					
Other receivables	13	**233**		260	
Cash and cash equivalents	16	**3,682**		5,626	
Total current assets			**3,915**		5,886
Total assets			**295,977**		299,447
Liabilities					
Current liabilities					
Trade and other payables	14		**(235)**		(337)
Total net assets			**295,742**		297,110
Equity attributable to owners of the Parent Company					
Share capital	15		**8,530**		8,530
Share premium			**308,602**		308,602
Other reserves			**1,777**		1,775
Retained deficit			**(23,149)**		(21,779)
Foreign currency reserve			**(18)**		(18)
Total equity			**295,742**		297,110

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 2019 was $1,370,000 (2018: $1,966,000). The notes on pages 24 to 37 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2020.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

COMPANY STATEMENT OF CHANGES IN EQUITY
At 31 December 2019

	Share capital $000	Share premium reserve $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2018	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
Loss and total comprehensive loss for the year	–	–	–	(1,370)	–	(1,370)
Recognition of share-based payments	–	–	2	–	–	2
Balance at 31 December 2019	**8,530**	**308,602**	**1,777**	**(23,149)**	**(18)**	**295,742**

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 24 to 37 form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

		2019		2018	
	Note	**$000**	**$000**	$000	$000
Cash flow from operating activities					
Loss before tax			**(1,370)**		(1,966)
Adjustments for: Depreciation	10		**92**		1
Share-based payment	7		**2**		2
Finance costs	8		**11**		193
Finance income	8		**(88)**		(29)
Realised foreign exchange gains	8		**27**		21
Cash flows used in operating activities before changes in working capital			**(1,326)**		(1,778)
Decrease in other receivables			**29**		180
Decrease in trade and other payables			**(176)**		(296)
Net cash outflow from operating activities			**(1,473)**		(1,894)
Cash flows used in investing activities					
Interest received	8	**27**		29	
Purchase of intangible assets	11	**(398)**		(541)	
Purchase of tangible fixed assets	10	**(11)**		(5)	
Net cash used in investing activities			**(382)**		(517)
Cash flows from financing					
Cash flows from financing activities					
Lease interest	8	**(11)**		–	
Lease payments		**(112)**		–	
			(123)		–
Net decrease in cash and cash equivalents			**(1,978)**		(2,411)
Cash and cash equivalents at the beginning of the year	16		**5,626**		8,251
Exchange gain/(losses) on cash and cash equivalents			**34**		(214)
Cash and cash equivalents at the end of the year			**3,682**		5,626

The notes on pages 24 to 37 form part of the financial statements.

COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

		2019		2018	
	Note	**$000**	**$000**	$000	$000
Cash flow from operating activities					
Loss before tax			**(1,370)**		(1,966)
Adjustments for:					
Depreciation	10		**92**		1
Share-based payment	7		**2**		2
Finance costs	8		**11**		193
Finance income	8		**(88)**		(29)
Realised foreign exchange gains			**27**		21
Cash flows used in operating activities before changes in working capital			**(1,326)**		(1,778)
Decrease in other receivables			**27**		180
Increase in trade and other payables			**(176)**		(296)
Net cash outflow from operating activities			**(1,475)**		(1,894)
Cash flows from investing activities					
Interest received		**27**		29	
Increase in amounts due from Group undertaking		**(396)**		(541)	
Purchase of tangible fixed assets	10	**(11)**		(5)	
Net cash used in investing activities			**(380)**		(517)
Cash flows from financing					
Cash flows from financing activities					
Lease interest		**(11)**		–	
Lease payments		**(112)**		–	
			(123)		–
Net decrease in cash and cash equivalents			**(1,978)**		(2,411)
Cash and cash equivalents at the beginning of the year	16		**5,626**		8,251
Exchange gain/(loss) on cash and cash equivalents			**34**		(214)
Cash and cash equivalents at the end of the year			**3,682**		5,626

The notes on pages 24 to 37 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

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
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 from 1 January 2019. These include:

	Effective period commencing on or after
Annual improvements to IFRSs (2015-2017 Cycle)*	1 Jan 2019
IFRS 16: Leases*	1 Jan 2019
IFRIC 23*	1 Jan 2019

* Endorsed by the EU

Details of the impact IFRS 16 has had are given below.

Standards effective in future periods
A number of new and amended accounting standards and interpretations have been published that are not mandatory for the Group's accounts ended 31 December 2019, nor have they been early adopted. These standards and interpretations are not expected to have a material impact on the Group's Consolidated Financial Statements:

- Amendments to References to Conceptual Framework in IFRS Standards (effective from 1 January 2020);
- Amendments to IFRS 3 'Definition of a Business' (effective from 1 January 2020); and
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet confirmed).

Adoption of IFRS 16 'Leases'
The new IFRS standard on leases came into effect on 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 is not restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Group elected to record right-of-use assets based on the corresponding lease liability. A right-of-use asset and lease obligations of $0.19m relating to the office lease were recorded as of 1 January 2019, with no net impact on retained earnings. Management have made judgements as to any increase in current lease costs that may occur during 2020 that are allowable under the lease contract.

The right-of-use asset for the lease of the Group's head office was measured on a retrospective basis.

	At 31 December 2018 $'000	Adjustment on adoption of IFRS 16 $'000	At 1 January 2019 $'000
Other fixed assets	11	184	195
Lease liabilities – current		(112)	(112)
Lease liabilities – non-current		(72)	(72)
Net assets/total equity	11	–	11

1 Accounting policies continued

Adoption of IFRS 16 'Leases' continued

A reconciliation of the operating lease commitments disclosed at 31 December 2018 to the total lease liabilities recognised upon initial application of IFRS 16 is presented below:

	$ Million
Operating lease commitments at 1 January 2019	$0.194
Effect of discounting (5%)	($0.010)
Lease liabilities recognised on adoption of IFRS 16	$0.184

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). This is an ongoing recognition exemption. The Group has elected to use a single discount rate across the lease identified.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments.

Straight-line operating lease expense recognition in cost of sales is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities (included in finance charges). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

For classification within the cash flow statement, previously operating lease payments were presented as operating cash flows. These lease payments are now disclosed in financing activities with the interest portion included within financing cash flows.

The Group has also applied other new accounting standards, amendments and interpretations for the first time, but their adoption has not had any material impact on the disclosures or on the amounts reported in this financial information, nor are they expected to significantly affect future periods:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Annual Improvements to IFRS 2015-2017 Cycle;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

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.

Going concern

The Directors are of the opinion that the Group has adequate financial resources for a period of no less than twelve months from the date of approval of the financial statements to continue to apply the going concern basis of preparation. The Group does have a licence obligation on its Production licences which it does not have funds to be able to complete however, the Directors note that they are confident that the commitment will be extended by the Falkland Island Government as part of a licence extension the Company intends to apply for. Based on recent licence renewals by other operators in the region, the Directors are confident that a licence extension will be granted.

The Directors have also considered the impact of the current Covid-19 pandemic on the Group's going concern assessment and note that as there is no committed overhead spend, other than wages and salaries and a reverse stress test on the cash flow forecast has been prepared and evidences sufficient head room for the Group and Company to continue in existence for a period which is in excess of the twelve month period required to be considered. Based on current cash burn rates the Group could continue to operate for a period of at least 20 months. With the additional cost savings which have already been implemented in 2020 this period can be extended still further. On this basis the Group continue to prepare the financial statements on a going concern basis.

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 $1,370,000 (2018: loss after tax of $1,966,000) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2019

1 Accounting policies continued

Segment reporting

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

Property, plant and equipment

Office equipment is initially recorded at cost. Depreciation is provided on office equipment so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Office equipment $33^1/_3$%
Right-of-use assets – Property – over term of lease

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 does 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 its assessment of whether the Group's exploration and evaluation assets may be impaired:

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

If any such facts or circumstances are noted, the Group, as a next step, performs an impairment test in accordance with the provisions of IAS 36.

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

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1 Accounting policies continued

Foreign currencies

Transactions in foreign currencies are translated into US dollars at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the closing rates at the reporting date and the exchange differences are included in the Statement of Comprehensive Income. The functional and presentational currency of the Parent and all Group companies is the US dollar.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low-value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see section "Adoption of new and revised International Financial Reporting Standards" above. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- Right-of-use assets which are initially measured at the amount of the lease liability incentives received, and increased for lease payments made at or before commencement of the lease; and
- initial direct costs incurred

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

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.

1 Accounting policies continued

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 profit or loss include current and deferred tax.

Current tax is based upon the profit or loss for the year adjusted for items that are non-assessable or disallowed and is calculated using tax rates that have been enacted, or substantively enacted, by the reporting date.

Tax is charged or credited to the Statement of Comprehensive Income, except where the tax relates to items credited or charged directly to equity, in which case the tax is also dealt within equity.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when deferred tax liabilities and assets are settled or recovered.

Critical accounting estimates and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives will be reclassified from the previously reported results to take into account presentational changes.

Critical judgements in applying the Group's accounting policies

Management has made the following judgements which have the most significant effects on the amounts recognised in the financial statements:

Recoverability of exploration and evaluation costs

Management has made the judgement to group two CGUs together for impairment purposes as both resources are contained within the same license and are close in 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 there are any circumstances which are considered to be an indicator of impairment. As noted management and the Directors are confident that the Production Licences associated with the CGUs will be renewed. The Directors note that if the Production Licence period is not extended, then the Production Licenses will lapse. The Discovery Area Licence would continue to remain active. Other licences associated with the CGUs are not due for renewal until 2021. When taken alongside the positive resource report communicated in 2018 and the expected cash flows from the development of Darwin, management have concluded that there is no impairment of the CGUs at the year end.

Recoverability of inter-group receivable balances (Company only)

Management are required to apply their judgement in the assessment of whether the inter-group receivable balances held by the Company are subject to any potential expected credit loss. Management have assessed the recoverability of the balances by reference to chances of success of finding first liquids attributed to the specific assets, probabilities around funding and the overall indicative value of the assets derived from third party reports.

1 Accounting policies continued

Right-of-use assets and lease obligations

The measurement of right-of-use assets and the corresponding obligations are subject to management's judgement of the applicable incremental borrowing rate and the expected lease term. The net book value of the ROU assets, lease obligations, and interest and depreciation expense may differ due to changes in the expected lease terms. Where the discount rate determined by reference to the rate inherent in the lease (as is typically the case) is not readily determinable, the Group's incremental borrowing rate on commencement of lease is used as the discount rate. The weighted average cost of capital is used as an input when determining the incremental borrowing rate.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

2 Loss from operations

	2019 $000	2018 $000
Staff costs (note 5)	**916**	959
Share-based payment – equity-settled	**2**	2
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	**52**	44
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**3**	6
Depreciation of office equipment	**92**	1
Operating lease expenses – property	**–**	324
Foreign exchange (gain)/loss	**(61)**	193

During 2020 the Executive Directors agreed to a 35% reduction in salaries as part of a 25% reduction in total overheads.

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 $1,370,000 (2018: loss $1,966,000) and the weighted average number of shares in issue for the year was 484,098,484 (2018: 484,098,484). During the year the potential ordinary shares are anti-dilutive and therefore diluted loss per share has not been calculated. At the Statement of Financial Position date, there were 6,100,000 (2018: 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, 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 2019

5 Staff costs

Company and Group:

Staff costs (including Directors) comprise:

	2019 $000	2018 $000
Wages and salaries	**806**	848
Employers' national insurance contributions	**103**	104
Employers' pension contributions	**7**	5
	916	959
Share-based payment – equity-settled	**2**	2
	918	961

The average number of employees (including Directors) employed during the year by the Company was five (2018: five) and for the Group was five (2018: five). All employees and Directors of the Group and the Company are considered to be the key management personnel. The National Insurance payments made during the year are detailed in the Remuneration Committee Report.

Of the $1,718 (2018: $2,000) share-based payment charge included in the Consolidated Statement of Comprehensive Income, $2,000 (2018: $2,000) 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:

	2019 $000	2018 $000
Directors' fees	**575**	605
Share-based payments – equity-settled	**2**	2
	577	607

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 $337,840 (2018: $335,883).

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, $1,718 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

	2019 Weighted average exercise price	2019 Number	2018 Weighted average exercise price	2018 Number
Outstanding at the beginning of the year	**30p**	**7,050,000**	39p	7,050,000
Granted during the year		**–**		–
Outstanding at the end of the year	**29p**	**6,100,000**	33p	7,050,000
Exercisable at the end of the year	**29p**	**6,100,000**	30p	4,650,000

The Company operates a share option scheme. The options are issued at market price at the time of issue, vest after three years and have a life of ten years. When exercised they are equity-settled. The weighted average contractual life of the options outstanding at the year end was five years (2018: three years). The range of exercise prices of share options outstanding at the end of the year is 1.8-74p (2018: 1.8p-74p).

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	10 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 price since inception.

8 Finance income and expense

Finance income	2019 $000	2018 $000
Bank interest received	**27**	29
Foreign exchange gain	**61**	–
	88	29

Finance expense	2019 $000	2018 $000
Foreign exchange loss	**–**	193
Lease interest	**11**	–
	11	193

9 Tax expense

Current tax expense	2019 $000	2018 $000
UK corporation tax on loss for the year at 19.00% (2018: 19.00%)	**–**	–
Adjustments recognised in the current year in relation to the current tax of prior years	**–**	–
Total current and deferred tax for the year	**–**	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2019

9 Tax expense continued

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:

	2019 $000	2018 $000
Loss before taxation	(1,368)	(1,966)
Standard corporation tax charge at 19% (2018 -19%)	(260)	(334)
Expenses not deductible for tax purposes	–	205
Prior year adjustment	(183)	(40)
Adjust closing deferred tax rate to average rate 19% (2018: 19%)	187	138
Adjust opening deferred tax rate to average rate 19% (2018: 19%)	(160)	(120)
Movement in unrecognised deferred tax for the year	413	151
Fixed asset differences	1	–
IFRS 16 adjustment	2	–
Total current and deferred tax for the year	–	–

The prior year adjustment relates to expenses that were allowed in the final submitted tax return. This expense was originally disallowed at the time of provisioning for FY18 as it was assumed to have been incurred on behalf of the subsidiaries not wholly and exclusively related to the trade of Borders & Southern Petroleum plc. However, at finalisation, this was confirmed to be wholly and exclusively related to the trade of the Company creating a prior year adjustment.

Factors that may affect future tax charges

The Group has a deferred tax asset of approximately $1,590,057 (2018: $1,173,294) in respect of unrelieved tax losses of approximately $9,456,602 at 2019 (2018: $6,901,727). The tax rate of tax used in the calculation for the deferred tax asset is 19% (2018: 19%). 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 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 1 January 2018	11
As at 31 December 2018	15

10 Property, plant and equipment continued

	Right-of-use assets $'000	Office equipment $'000	Office equipment and right-of-use assets $'000
Cost			
As at 1 January 2019	–	120	120
Recognition due to adoption of IFRS 16	184	11	195
As at 31 December 2019	184	131	315
Depreciation			
As at 1 January 2019	–	105	105
Charge for the year	89	3	92
As at 31 December 2019	89	108	197
As at 1 January 2019	–	11	11
As at 31 December 2019	95	23	118

11 Intangible assets

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 1 January 2018	290,826
As at 31 December 2018	291,367

Group	Exploration and evaluation costs $000
Cost	
As at 1 January 2019	291,367
Additions	398
As at 31 December 2019	291,765
Net book value	
As at 1 January 2019	291,367
As at 31 December 2019	291,765

On 31 May 2016 the Company received notice from The Falkland Islands Government that the Company's application to extend the expiry date of the Second Term for Production Licenses PL018, PL019 and part of PL020 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. As noted the Company has a one exploration well commitment on its production licences but it has plans to enter into discussions with the relevant authorities to extend the Production Licenses during 2020. Given renewals have been granted to other companies in the region, in similar circumstances, and the open dialogue the Company has with the authorities the Directors are confident the renewal will be granted. The Directors note that if the Production Licence period is not extended, then the Production Licenses will lapse. The Discovery Area Licence would continue to remain active.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2019

12 Investments in subsidiary

Company	2019 $	2018 $
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. The Company's registered office is One Fleet Place, London EC4M 9AF.

13 Other receivables

	Group		Company	
	2019 $000	2018 $000	**2019 $000**	2018 $000
Inter-company loan	**–**	–	**291,944**	291,546
Other receivables	**90**	113	**90**	113
Prepayments	**143**	147	**143**	147
	233	260	**292,177**	291,806

All amounts owed by or to entities outside the Group shown as other receivables and prepayments fall due for payment within one year. The Group's exploration licenses are held by a wholly owned subsidiary and all costs incurred by the subsidiary have been loaned to that company by the Parent Company. The inter-company loan is interest free and 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 internal and external technical and economic studies undertaken to date have confirmed Darwin to be economic. Sensitivities have been applied to the key inputs into the models used to analyse Darwin and the field has been proven to be robust under different scenarios. Management have also completed a scenario based assessment based on their judgements 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 Moody's, F1 with Fitch and A-1 with Standard & Poor's. Amounts owed by Group undertakings are not interest-bearing and are payable on demand.

14 Trade and other payables

	Group		Company	
	2019 $000	2018 $000	**2019 $000**	2018 $000
Trade payables	**–**	46	**–**	46
Other taxes and social security costs	**35**	37	**35**	37
Lease liability	**72**	–	**72**	–
Accruals	**128**	254	**128**	254
	235	337	**235**	337

In accordance with IFRS 16 and using the modified retrospective approach, lease liabilities of $184,000 were recognised as at 1 January 2019. As at 31 December 2019 $112,000 had been repaid to leave an amount due of $72,000 at year end and interest of $11,000 was paid during the year.

15 Share capital

	2019 $000	2018 $000
Authorised		
750,000,000 ordinary shares of 1 pence each (2018: 750,000,000)	**14,926**	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2018: 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	2019 $000	2018 $0000
Cash available on demand	**320**	256
Cash on deposit	**3,362**	5,370
Total	**3,682**	5,626

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 $478,340 (2018: $541,828) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end $291,944,000 (2018: $291,546,000) 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 Group Production Licence commitment is to drill one exploration well before 1 November 2020. It is now clear that this will not be achieved. The Directors are confident that the Production Licence period will be extended by the Falkland Island Authorities and it is likely the commitment well would remain an obligation. The Directors note that if the Production Licence period is not extended, then the Production Licenses will lapse. The Discovery Area Licence would continue to remain active.

19 Events after the reporting period

Post reporting date the COVID-19 pandemic spread across the globe. The Company, along with all other companies and governing bodies, is still assessing the impact both on the short and the long term of this pandemic. In the short term, the Company is not significantly impacted as it is not operational and its employees are following government guidelines.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2019

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	**2019 $000**	2018 $000
Other receivables	**53**	173
Cash and cash equivalents	**3,682**	5,626
Trade and other payables	**200**	300

Other receivables does not include items that are not financial instruments.

The fair values of the Group's financial assets and liabilities at 31 December 2018 and as at 31 December 2019 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 2019 the Group held cash at bank and in deposits under its control of $3,681,581 (2018: $5,626,124), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, $319,348 (2018: $256,265) 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 $3,362,233 (2018: $5,369,859) with a weighted average fixed interest rate of 0.2% (2018: 0.2%) for three months. If there was a 1% change in interest rates the impact on the Statement of Comprehensive Income would be $33,622 (2018: $53,698).

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$. Foreign exchange risk arises because the currency of the Group's services and treasury function is UK sterling, which results in gains or losses on retranslation into US$. 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 2019 $000**	Other receivables measured at amortised cost 2018 $000	**Other receivables measured at amortised cost 2019 $000**	Other receivables measured at amortised cost 2018 $000
Held in UK£:				
Other receivables	**90**	280	**90**	260
Cash and cash equivalents	**3,664**	5,599	**3,664**	5,599
Total current financial assets held in UK£	**3,754**	5,899	**3,754**	5,859
Held in US$:				
Trade and other receivables	**–**	–	**291,944**	291,546
Cash and cash equivalents	**18**	27	**18**	27
Total financial assets	**3,772**	5,886	**295,716**	297,432

20 Financial instruments continued

b) Foreign currency translation risk continued

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 $375,400 (2018: $589,900) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2019 $000	Financial liabilities measured at amortised cost 2018 $000	**Financial liabilities measured at amortised cost 2019 $000**	Financial liabilities measured at amortised cost 2018 $000
Held in UK£:				
Trade and other payables	**200**	300	**200**	300
Total financial liabilities	**200**	300	**200**	300

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:

	2019		2018	
	Carrying value $000	**Maximum exposure $000**	Carrying value $000	Maximum exposure $000
Cash and cash equivalents	**3,682**	**3,682**	5,626	8,251
Maximum credit risk exposure	**3,682**	**3,682**	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.

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 Limited 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

Design and Production
www.carrkamasa.co.uk

ckd

Borders & Southern Petroleum plc
33 St James's Square
London SW1Y 4JS
United Kingdom

Tel: +44 (0)20 7661 9348
Fax: +44 (0)20 7661 8055

info@bordersandsouthern.com
www.bordersandsouthern.com