Borders & Southern Petroleum Plc

ANNUAL REPORT AND ACCOUNTS 2020

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

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Further information:

www.bordersandsouthern.com

Highlights 2020

- Cash Balance on 31 December 2020: $2.18 million (2019: $3.68 million).
- Administrative expense for the year: $1.0 million (2019: $1.45 million).
- Operating loss of $1.01 million (2019: $1.37 million)
- The farm-out process has been extensive and far-reaching - the Company continues to investigate all possible options for funding the next drilling programme.

Company Overview

Borders & Southern is listed on the London Stock Exchange (AIM). The Company holds an operating interest (100%) in three Production Licences in the Falkland Islands which provide exclusive rights for surveying, drilling and production within the specified area. The acreage covers nearly 10,000 square kilometres and 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. The Company's strategic imperative is to monetise the Darwin discovery prior to exploiting its extensive exploration prospect inventory.

Our vision is to be a successful explorer through the discovery and monetisation of hydrocarbons for the benefit of all our stakeholders.

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

Our strategy is 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 risks associated with all aspects of our business.

Our short-term objective is to monetise the Darwin discovery as quickly as possible prior to returning to the exploration drill bit to test of our extensive prospect inventory. The first step is to secure funding / partners for the next phase of operations.

Chairman's and CEO's Review

Borders & Southern's strategic objective is to monetise its Darwin discovery for the benefit of all its stakeholders. To achieve this and to initiate the next step, the Company's principal focus has been to acquire partners and funding for Darwin's appraisal programme. However, in the past few years, industry and capital market fundamentals have not helped our progress. 2020 continued in the same vein. But despite the challenge, the Board believes that the quality of the Darwin project merits the continuation of its strategy and the Board's commitment remains undiminished.

The loss from operations in 2020 was $1,046,000 (compared to $1,370,000 in 2019). The Company has always maintained strong financial control and a low overhead. However, further cost savings have been made during the past year, including a reduction in salaries by 50%. Administrative expense for the year was $1.0 million, compared to $1.47 million in 2019. The cash balance at year-end was $2.18 million (2019: $3.68 million). The Company remains debt-free. With a decreasing cash balance, and in the event that market conditions prevent us from sourcing partner funding, it may be necessary to raise additional capital in the coming year.

The farm-out process has been extensive and far reaching. To assist the marketing, considerable effort has been put into minimising drilling costs for the next campaign, addressing both the well designs and the service company costs. Potential savings of up to 25% have been identified and this has formed the basis of our current conversations with potential partners.

The project fundamentals are strong. Economic projections are attractive, the break-even oil price is low (less than $35 per barrel), sub-surface risks are low, and the environmental footprint low. As the industry enters the energy transition to a lower carbon future, we believe that Darwin (with its estimated 460 million barrels of condensate and LPGs) is a worthy development, comparing favourably to many global alternatives. Prior to the start of the next phase of operations, the Company commits to fully integrating climate change into its business plan. We will define measures, report transparently, and mitigate our own emissions as far as practicable.

Outlook for the industry remains challenging, although signs of optimism are noted. Brent crude has risen during the first quarter of 2021, approaching $70 per barrel before declining to around $60 later in the quarter. Whilst this has not yet impacted company expenditure patterns, if the trend were to continue, and energy demand accelerates as the world comes out of the Covid pandemic crisis, there will be a need to bring additional resources into production. Borders & Southern aim to be part of that production increase.

Harry Dobson
Non-Executive Chairman

Howard Obee
Chief Executive

13 April 2021

Darwin Gas Condensate Discovery

Darwin's reservoir comprises high quality, laterally continuous shallow marine sands. The trap consists of two contiguous 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 area of seismic amplitude anomaly is 26 square kilometres. The wet gas discovery contains a large volume of LPGs as well condensate. An independent un-risked resource assessment concluded:

Estimated Wet Gas Initially In-place (Bscf):

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

Best Estimate Gross Contingent & Prospective Resource:

	Condensate (MMSTB)	Condensate & LPG (MMBBL)
Darwin East (2C Contingent Resource)	115	170
Darwin West (Prospective Resource)	202	292

Darwin - Key Facts

Licence: PL018

Discovery well number: 61/17-1

Water Depth: 2011 metres

Structure: Tilted fault blocks

Gross reservoir interval: 84.5 metres

Average porosity: 22% (up to 30%)

Initial condensate yield: 148 stb/MMscf

B&S interest: 100%

Discovery date: April 2012

Total depth: 4876 metres

Reservoir: Early Cretaceous

Net pay: 67.8 metres

Average permeability: 337 mD (up to 1D)

Condensate API: 46 to 49 degrees

Exploration Inventory

The Company holds an exciting portfolio of amplitude supported prospects. Management's total un-risked best estimate prospective resource for near-field prospects exceeds one billion barrels. Additional, higher risk, structural and stratigraphic prospects within the licensed acreage (nearly 10,000 square kilometres) exceed 5 billion barrels (management estimates).

Business Model

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

Technical rigour

Our experienced in-house team is supported by expert consultants who 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.

How we create value:

Exploration

The Company has an exploration strategy focused on frontier or emerging basins. The aim is to build significant acreage positions 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, whilst economic modelling ensures project rewards justify the investment decision. We carefully deploy our limited financial resources on acquiring the highest quality data, then apply our rigorous petroleum systems analysis to compile a comprehensive prospect inventory with high-graded drilling targets.

Appraisal

If successful in the exploration phase, a discovery will be assessed for 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 recovery volume. If the project economics look positive, an appraisal drilling programme is designed and executed in order to constrain resource estimates and test reservoir deliverability.

Development

Following successful appraisal and with continued positive project economic projections, detailed engineering and cost analysis of development concepts are undertaken prior to design selection and final project sanction. First production and cash flow might be several 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.

Principal Risks and Uncertainties

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.

Sub-surface risk - 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.

Health and Safety risk – drilling for oil and gas in a remote, offshore environment presents many risks to personal safety including serious injury or death.

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.

Environmental risk – 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.

Climate change risk – the activities of exploration and production companies could be subject to restrictions or moratoriums in response to carbon emission reduction targets.

A Darwin development would have a lower carbon signature than many oil developments around the world. There is no indication that the Falkland Islands Government want to place restrictions on the production of hydrocarbons as the potential revenues will have a profound economic benefit to the Islands.

Financial (access to capital) risk – constraints in the capital markets could impact the Companies ability to carry out the appraisal programme, future development programme and fund on-going overheads.

The Company holds a high-quality asset (Darwin) with a low break-even oil price and a relatively small environmental footprint. Based on economic and environmental considerations, the Board considers Darwin to be very competitive against other global opportunities.

If the Company is unable, in the short term, to complete a farm-out to fund the appraisal programme, the Company may need to raise additional funds to ensure it is able to meet its overheads.

Financial (commodity price) risk – 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.

Political risk – 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.

Key Personnel risk – 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.

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. We aim to conduct our operations safely, in line with industry best practice. We focus on limiting and mitigating our impact on the environment and we aim to conduct ourselves in an ethical and transparent way with strong corporate governance.

Principal Risks and Uncertainties continued

Climate Change and the Energy Transition

The 2016 Paris Agreement sets out targets to reduce the anthropogenic emissions of gasses that contribute towards global warming. Energy production through the combustion of fossil fuels is one of several factors that contribute to greenhouse gas emissions. But with energy demand expected to increase in line with continued global population growth and economic development, the transition away from fossil-based energy resources to greener, renewable forms of energy is complex. During the transition, hydrocarbons will remain an important resource, although high grading of projects is likely to occur. The Company believes that Darwin is a worthy project to progress during the energy transition, due to the condensed environmental impact of the development and the nature of the produced hydrocarbons.

At present the Company is in a non-operational phase. Our environmental footprint is minimal. But this will change when we enter the appraisal drilling phase, with an increase in emissions. Prior to the start of operations, the Company commits to fully integrating climate change into its business plan. We will define measures, report transparently, and mitigate our own emissions as far as practicable.

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.

Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

At 31 December 2020, the Group had a net cash position of $2.184m (31 December 2019 : $3.682m).The Group does not have any external borrowings or debts. The Group has a commitment to drill a well before the expiry of its production license in January 2022 (see note 18). The Group plans to fund the well through a farm-out. If the Group is not able to farm-out before January 2022, the Group is confident that it will be able to extend the production licenses and the associated commitment to drill the well. This is in line with previous extensions.

The Group's board of directors have reviewed the Group's forecasts for a period of no less than twelve months from the date of approval of these financial statements, the period to 31 March 2022.

Based on these forecasts, in the absence of a farm-out, the directors have identified that further funding may be required to cover administrative costs and licence fees beyond December 2021. Therefore, a material uncertainty exists which may cast significant doubt about the Group's continued ability to operate as a going concern beyond December 2021.

Principal Risks and Uncertainties continued

Section 172 Statement

In addition to that outlined in the Chairman's and CEO's report (page 3) the ESG section above and in the Director's Report (pages 11-12), the Directors fulfilled their duties during the year in the following ways.

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.

The Company's strategies, results and on-going 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 13 April 2021 and signed on its behalf by:

Harry Dobson
Non-Executive Chairman

INTRODUCTION TO GOVERNANCE

Principles of corporate governance

I am, along with the rest of the directors, responsible for corporate governance. The board currently comprises the Non-Executive 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. The board meets formally or informally 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

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. I am in regular contact with the Chief Executive Officer on matters to do with the strategy.

Role of the Non-executive Director

William Hodson brings oil and gas 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 2020 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. During operations the Company has robust internal controls and risk management procedures which are reviewed regularly to ensure they are aligned with best practice.

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 13 April 2021

BOARD OF DIRECTORS

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.

Howard Obee

Chief Executive Officer

Committee Memberships

None

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.

Peter Fleming

Finance Director

Committee Memberships

None

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.

William Hodson

Non-executive Director

Committee Memberships

Chairman of the Audit Committee and member of the Remuneration Committee

Experience

- 17 years' experience advising clients in the natural resources sector.
- Former partner of Ocean Equities Limited
- Former partner in Pareto Securities Limited

Number of board meetings during 2020

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	1	2	2
Howard Obee	1	–	–
Peter Fleming	1	–	–
Nigel Hurst-Brown	1	2	2
William Hodson	N/A	N/A	N/A

During the year Nigel Hurst-Brown resigned from the board (date of resignation: 29 December 2020) and William Hodson was appointed to the board (date of appointment: 29 December 2020).

REMUNERATION COMMITTEE REPORT

On 18 May 2005 all of the Company's Directors entered into a service agreement with the Company except for William Hodson who joined during 2020.

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 2020 was as follows:

	Basic salary		Share-based payment		**Total 2020**		Total 2019	
	£	$	£	$	**£**	**$**	£	$
Harry Dobson	–	–	–	–	**–**	**–**	–	–
Howard Obee	154,167	197,589	–	–	**154,167**	**197,589**	250,000	337,840
Nigel Hurst-Brown	–	–	–	–	**–**	**–**	1,819	2,458
Peter Fleming	123,333	158,071	–	–	**123,333**	**158,071**	200,000	270,270
William Hodson	–	–	–	–	**–**	**–**	–	–
	277,500	355,660	–	–	**277,500**	**355,660**	451,819	610,568

During 2020 the Company commenced several initiatives to reduce overheads by approx. 25% including a 50% reduction in salaries for the Executive Directors.

The Company paid £35,870 ($45,993) (2019: £56,784 ($76,735)) 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

13 April 2021

DIRECTORS' REPORT

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2020 and at 31 December 2019, were as follows:

	At 31 December 2020 Number	At 31 December 2019 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	**N/A**	1,530,000
William Hodson	**–**	–

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.

Nigel Hurst-Brown resigned as a director during the year.

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	1,000,000	1,000,000	24 pence	51 pence	three years
Peter Fleming	1,000,000	1,000,000	24 pence	51 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 March 2021, 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
Damille Partners	46,400,000	9.58%
Interactive Investor	41,142,561	8.50%
Hargreaves Lansdowne	28,154,764	5.82%
Julius Baer Private Banking	28,127,160	5.81%
Zila Corporation	26,670,000	5.51%
LGT Vestra	25,517,145	5.27%
HDSL	24,166,166	4.99%
Barclays Smart Investor	18,207,906	3.76%
Killik	16,997,604	3.51%

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 26 and shows the result for the year. The Directors do not recommend the payment of a dividend (2019 – $nil).

DIRECTORS' REPORT continued

Review of business and future developments

A review on the operations of the Group is contained in the Chairman and CEO's Review on page 3 onwards.

Post reporting date events

There are no Company or Group specific events that have occurred since the year end which require reporting.

Charitable and political donations

There were no political or charitable contributions made by the Company or the Group during the year (2019 – $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, and interpretations (collectively IFRSs) in conformity with the requirements of the Companies Act 2006. 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 and Interpretations (collectively IFRSs) in conformity with the requirements of the Companies Act 2006, 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 13 April 2021

Independent auditor's report to the members of Borders & Southern Petroleum Plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Borders & Southern Petroleum Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company 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.

Material Uncertainty related to going concern

In auditing the financial statements, we draw attention to Note 1of the financial statements, which indicates that the Group and the Parent Company require additional funding during the 12 months following the approval of the financial statements in order to continue as a going concern.

As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We consider this area to be a key audit matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining, challenging and assessing the Group and Parent Company's base case cash flow forecasts and the underlying assumptions which have been approved by the Board.
- Challenging the Directors on the reasonableness of forecast assumptions applied in the model and assessing these against prior year costs and considering the reasonableness of cost reduction policies proposed by Management.
- Challenging and obtaining audit evidence to ensure that key inputs applied in the cash flow forecasts relating to committed costs and working capital requirements were consistent with other financial and operational information obtained during the course of the audit.
- Performing reverse stress testing analysis on the cash flows in order to determine the point at which liquidity is breached. Our testing considered whether such scenarios, including assessing the costs relating to the renewal of the Discovery and Production licences impacted the going concern assessment.

Independent auditor's report to the members of Borders & Southern Petroleum Plc continued

- Discussing and seeking views from Management and the Audit Committee on the potential impacts of Covid-19 including their assessment of risks and uncertainties.
- Comparing the Group's actual results for the year ended 31 December 2020 to the planned budgeted out turn for 2020 to assess the quality of Management's budgetary process.
- Reviewing and considering the adequacy of the disclosure within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2019: 100%) of Group loss before tax 100% (2019: 100%) of Group total assets		
Key audit matters		**2020**	**2019**
	KAM 1	Carrying value of exploration and evaluation assets	Carrying value of exploration and evaluation assets
	KAM 2*	Going concern	N/A
	* This is considered to be a key audit matter for the year end given the material uncertainty relating to going concern.		
Materiality	**Group financial statements as a whole** $ 4.1m (2019:$ 4.2m) based on 1.4% (2019: 1.4%) of total assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We determined that there were two significant components and both of these were subject to a full scope audit. Together with the Parent Company and its Group consolidation, which were both also subject to a full scope audit, these represent the significant components of the Group.

The audits of each of the significant components were performed in the UK. All of the audit work was conducted by BDO LLP.

Key audit matters

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matter described below to be a key audit matter.

Independent auditor's report to the members of Borders & Southern Petroleum Plc continued

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Carrying value of exploration and evaluation assets

(Please refer to note 11)</td><td>The Group's exploration and evaluation assets associated with the Darwin and Stebbing license areas in the Falkland Islands represent the key assets on the Group's statement of financial position. As at 31 December 2020, the Group's exploration and evaluation assets totaled $294.80m (2019: $291.82m).

Management performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration assets and whether impairment was appropriate, noting that the Group holds title to all licences until January 2022.

Given the inherent judgement involved in the assessment of potential impairment triggers and in considering the carrying value of the exploration and evaluation assets, we considered the carrying value of exploration and evaluation assets to be a key audit matter for the audit.</td><td>• We assessed and challenged Management's impairment indicator review to establish whether it was performed in accordance with the accounting policy and relevant accounting standard.

• We obtained and read third party documents relating to the licences status which included detail of the underlying well commitments.

• We assessed Management's conclusion on their ability to renew both licences and checked Management's conclusion against publically available information on the Falkland Island's licensing renewal regime.

• We considered whether there was evidence in the Group cash flow that funding was available to maintain the Exploration & Evaluation assets – alongside the material uncertainty relating to going concern above.

• We reviewed the economic models prepared by third party Management experts and considered their 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.</td></tr>
</table>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating 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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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 a whole.

Independent auditor's report to the members of Borders & Southern Petroleum Plc continued

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Materiality	4.1	4.2	3.1	3.1
Basis for determining materiality	Materiality was set at 1.4% (2019: 1.4%) of the total assets.			
Rationale for the benchmark applied	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 is a natural resources exploration entity.			
Performance materiality	Performance materiality was set at 75% (2019: 75%) of the above materiality levels.			
Basis for determining performance materiality	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% (2019: 75%) of the above materiality levels.			

Lower Threshold

For items included within the income statement we also considered a lower threshold for testing given these items could influence users of the financial statements. Thus, we have set a lower testing threshold for those the expenses in the income statement which is based on 10% of loss before tax.

Component materiality

We set materiality for each component of the Group based on a percentage of between 99% and 100% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from $ 3,074,000 to $ 3,105,000. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of $ 82,000 (2019:$ 83,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Independent auditor's report to the members of Borders & Southern Petroleum Plc continued

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 determine 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 and the Parent Company'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 the Parent Company 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Making enquiries of Management including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations including Falkland Islands regulations and assessing whether they were aware of any instances of non-compliance with such;

Independent auditor's report to the members of Borders & Southern Petroleum Plc continued

- detecting and responding to the risks of fraud from potential management override of controls and assessing whether Management have knowledge of any actual, suspected or alleged fraud; and
- reviewing the internal controls, through the testing of their design and implementation, to establish whether they are able to mitigate risks related to fraud or non-compliance with laws and regulations.

- Performing targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, for example capitalisation entries to exploration and evaluation assets without a corresponding entry to cash or trade payables
- Critically assessing areas of the financial statements which include judgement and estimates, as set out in note 1 to the financial statements

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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 Parent 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 Parent 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 Parent Company and the Parent 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
13 April 2021

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 2020

	Note	**2020 $000**	2019 $000
Administrative expenses		**(1,046)**	(1,447)
Loss from operations	2	**(1,046)**	(1,447)
Finance income	8	**55**	88
Finance expense	8	**(11)**	(11)
Loss before tax		**(1,002)**	(1,370)
Tax expense	9	**–**	–
Loss for the year and total comprehensive loss for the year attributable to equity owners of the parent		**(1,002)**	(1,370)
Basic and diluted loss per share (see note 3)		**(0.21) cents**	(0.28) cents

The notes on pages 27 to 42 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2020

		2020		2019	
	Note	$000	$000	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		**151**		118
Intangible assets	11		**292,241**		291,765
Total non-current assets			**292,392**		291,883
Current assets					
Other receivables	13	**225**		233	
Cash and cash equivalents	14	**2,184**		3,682	
Total current assets			**2,409**		3,915
Total assets			**294,801**		295,798
Liabilities					
Current liabilities					
Trade and other payables	16		**(240)**		(235)
Total net assets			**294,561**		295,563
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**		1,777
Retained deficit			**(24,332)**		(23,330)
Foreign currency reserve			**(16)**		(16)
Total equity			**294,561**		295,563

The notes on pages 27 to 42 form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 13 April 2021.

Howard Obee
Director
Company Number: 05147938

Peter Fleming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Share capital $000	Share premium $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2019	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
Loss and total comprehensive loss for the year	–	–	–	(1,002)	–	(1,002)
Balance at 31 December 2020	**8,530**	**308,602**	**1,777**	**(24,332)**	**(16)**	**294,561**

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 the translation of foreign operation to US dollars.

The notes on pages 27 to 42 form part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2020

		2020		2019	
	Note	**$000**	**$000**	$000	$000
Assets					
Non-current assets					
Property, plant and equipment	10		**151**		118
Investments	12		**–**		–
Inter-company loan	13		**292,420**		291,944
Total non-current assets			**292,571**		292,062
Current assets					
Other receivables	13	**225**		233	
Cash and cash equivalents	14	**2,184**		3,682	
Total current assets			**2,409**		3,915
Total assets			**294,980**		295,977
Liabilities					
Current liabilities					
Trade and other payables	16		**(240)**		(235)
Total net assets			**294,740**		295,742
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**		1,777
Retained deficit			**(24,151)**		(23,149)
Foreign currency reserve			**(18)**		(18)
Total equity			**294,740**		295,742

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 2020 was $1,002,000 (2019: $1,370,000). The notes on pages 27 to 42 form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 13 April 2021.

Howard Obee
Director
Company Number: 05147938

Peter Fleming
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
At 31 December 2020

	Share capital $000	Share premium reserve $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2019	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
Loss and total comprehensive loss for the year	–	–	–	(1,002)	–	(1,002)
Recognition of share-based payments	–	–	–	–	–	–
Balance at 31 December 2020	**8,530**	**308,602**	**1,777**	**(24,151)**	**(18)**	**294,740**

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 the translation of foreign operation to US dollars.

The notes on pages 27 to 42 form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

		2020		2019	
	Note	**$000**	**$000**	$000	$000
Cash flow from operating activities					
Loss before tax			**(1,002)**		(1,370)
Adjustments for: Depreciation	10		**95**		92
Share-based payment	7		**–**		2
Finance costs	8		**11**		11
Finance income	8		**(54)**		(88)
Unrealised foreign currency movements	8		**2**		27
Cash flows used in operating activities before changes in working capital			**(948)**		(1,326)
Decrease in other receivables	13		**8**		29
Increase/(Decrease) in trade and other payables	16		**(61)**		(176)
Net cash outflow from operating activities			**(1,000)**		(1,473)
Cash flows used in investing activities					
Interest received	8	**2**		27	
Purchase of tangible fixed assets	10	**–**		(11)	
Purchase of intangible assets	11	**(476)**		(398)	
Net cash used in investing activities			**(474)**		(382)
Cash flows from financing					
Cash flows from financing activities					
Lease interest	8	**(11)**		(11)	
Lease payments	16	**(62)**		(112)	
			(73)		(123)
Net decrease in cash and cash equivalents			**(1,547)**		(1,978)
Cash and cash equivalents at the beginning of the year	14		**3,682**		5,626
Exchange gain on cash and cash equivalents			**49**		34
Cash and cash equivalents at the end of the year			**2,184**		3,682

The notes on pages 27 to 42 form part of the financial statements.

COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

		2020		2019	
	Note	**$000**	**$000**	$000	$000
Cash flow from operating activities					
Loss before tax			**(1,002)**		(1,370)
Adjustments for: Depreciation	10		**95**		92
Share-based payment	7		**–**		2
Finance costs	8		**11**		11
Finance income	8		**(54)**		(88)
Unrealised foreign currency movements	8		**2**		27
Cash flows used in operating activities before changes in working capital			**(948)**		(1,326)
Decrease in other receivables	13		**8**		27
Increase/(Decrease) in trade and other payables	16		**(61)**		(176)
Net cash outflow from operating activities			**(1,000)**		(1,475)
Cash flows used in investing activities					
Interest received	8	**2**		27	
Increase in amounts due from Group undertaking	13	**(476)**		(396)	
Purchase of intangible assets	11	**–**		(11)	
Net cash used in investing activities			**(474)**		(380)
Cash flows from financing					
Cash flows from financing activities					
Lease interest	8	**(11)**		(11)	
Lease payments	16	**(62)**		(112)	
			(73)		(123)
Net decrease in cash and cash equivalents			**(1,547)**		(1,978)
Cash and cash equivalents at the beginning of the year	14		**3,682**		5,626
Exchange gain on cash and cash equivalents			**49**		34
Cash and cash equivalents at the end of the year			**2,184**		3,682

The notes on pages 27 to 42 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

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, and Interpretations (collectively IFRSs) in conformity with the requirements of the Companies Act 2006.

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 beginning on 1 January 2020. These include:

	Effective period commencing on or after
Amendments to References to Conceptual Framework	1 Jan 2020
IFRS3: Definition of a business	1 Jan 2020

The above standards had no material impact on the group's financial statements.

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 for the year ended 31 December 2020 and nor have they been early adopted. These standards, which are detailed below are not expected to have a material impact on the Group's consolidated Financial Statements:

- Amendments IAS 1: Classification of liabilities as current or non-current
- Amendments to IAS 16: Property, plant and equipment
- Amendments to IAS 37: Provisions, contingent liabilities and contingent assets; and
- Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform

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 financial statements of the Group should continue to be prepared on the going concern basis, following its review of the Group and Company's financial resources and other financing options available, for a period of not less than twelve months from the date of approval of the financial statements. As noted in the Director's report, the Group does have a licence commitment to drill a well on its production licences before January 2022 which is the current expiry date of the Production licence. At present the Group and Company does not have funds to complete this commitment but the Directors are seeking the funds to meet this obligation through a farm-out. If the Group is not able to farm-out the licence and associated commitment before January 2022 it remains confident that it will be able to extend the production licence and the associated commitment to drill the well. This is in line with previous extensions.

Based on the factors above the Group and Company will need further funding beyond December 2021 through either a farm-out or an equity issue to cover administrative costs and licence fees. Therefore, a material uncertainty exists which may cast significant doubt about the Group's continued ability to operate as a going concern beyond December 2021.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 Accounting policies continued

The financial statements do not include the adjustments which would be required if the Group or Company were not considered to be a going concern.

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 $1,010,000 (2019 – loss after tax of $1,370,000) 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. Interest is recognised using the effective interest method.

Finance expense

The finance expense consists of interest on lease liabilities. Interest paid is recognised using the effective interest method.

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 - 33⅓%
Right-of-use assets (Property) – over term of lease

Assets are depreciated from the date of acquisition and on a straight-line basis. Right of use assets are depreciated from the date that the asset is available for use.

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 rights to explore in a specific area have been granted, 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 prior to aggregation as determined in accordance with IFRS 8 Operating Segments. Whilst the short-term focus is on developing Darwin, Stebbing remains a viable prospect for growth beyond Darwin.

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 Accounting policies continued

Impairment of exploration and evaluation expenditure

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

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

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

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

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

Provisions

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

Foreign currencies

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

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.

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 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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 Accounting policies continued

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.

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 from inception.
- 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 Accounting policies continued

IFRS 9: Impairment of financial assets

The Company has provided a loan to its 100% owned subsidiary that is the license holder in The Falkland Islands. Management have completed a scenario-based assessment of the expected credit loss in accordance with IFRS 9 and concluded that this loss is immaterial.

Taxes

The major components of tax on the profit or loss include current and deferred tax.

Current tax is based upon the profit or loss for the year adjusted for items that are non-assessable or disallowed and is calculated using tax rates and laws 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 other comprehensive income or equity, in which case the tax is also dealt within other comprehensive income or equity respectively.

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 and laws 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 signing of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives will be reclassified from the previously reported results to take into account presentational changes.

Critical judgements in applying the Group's accounting policies

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

Recoverability of exploration and evaluation costs

Management has made the judgement to group two CGU's together for impairment purposes as both resources are contained within the same license and are close 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. The Production licences associated with the CGUs expire in January 2022 having been extended in 2020. The Discovery Area Licence is due for renewal also in January 2022. To extend the licences requires the consent of the Falkland Islands Government and there is a risk that the licences will not be extended or renewed. However, we note that other company's licences have recently been extended. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1 Accounting policies continued

Right-of-use (ROU) assets and lease obligations

The measurement of ROU 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

	2020 $000	2019 $000
Staff costs (note 5)	**590**	916
Share-based payment – equity-settled	**–**	2
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	**55**	52
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**6**	3
Depreciation of office equipment	**95**	92
Foreign exchange (gain)	**(52)**	(61)

During 2020 the Executive Directors agreed to a 35% reduction in salaries as part of a 25% reduction in total overheads. These reductions are not deferred and subject to be re-evaluated during 2021.

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 $1,010,000 (2019 – loss $1,370,000) and the weighted average number of shares in issue for the year was 484,098,484 (2019 – 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 (2019: 6,100,000) potentially dilutive ordinary shares being the share options (see note 7 for further details).

4 Segment analysis

The Company operates in one operating segment (exploration for oil and gas) and in substantially one geographical market (the Falkland Islands), therefore no additional segmental information is presented.

Of the Group's total non-current assets, the property, plant and equipment are based in the UK and all other non-current assets are located in the Falkland Islands.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

5 Staff costs

Company and Group:

Staff costs (including Directors) comprise:

	2020 $000	2019 $000
Wages and salaries	522	806
Employers' national insurance contributions	63	103
Employers' pension contributions	5	7
	590	916
Share-based payment – equity-settled	–	2
	590	918

The average number of employees (including Directors) employed during the year by the Group and the Company was five (2019 – 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 $Nil (2019 – $1,718) share-based payment charge included in the Consolidated Statement of Comprehensive Income, $Nil (2019 – $1,718) 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:

	2020 $000	2019 $000
Executive directors		
Wages and salaries	**356**	575
Share-based payments – equity-settled	**–**	2
	356	577

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 $197,589 (2019 – $337,840).

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, $Nil has been expensed during 2020. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

7 Share-based payment

	2020 Weighted average exercise price	**2020 Number**	2019 Weighted average exercise price	2019 Number
Outstanding at 1 January	**29p**	**6,100,000**	30p	7,050,000
Granted during the year		**–**		–
Outstanding at 31 December	**29p**	**6,100,000**	29p	6,100,000
Exercisable at 31 December	**29p**	**6,100,000**	29p	6,100,000

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 four years (2019 – five years). The range of exercise prices of share options outstanding at the end of the year is 1.8p-51p (2019 – 1.8p-74p).

8 Finance income and expense

Finance income	**2020 $000**	2019 $000
Bank interest received	**2**	27
Foreign exchange gain	**53**	61
	55	88

Finance expense	**2020 $000**	2019 $000
Lease interest	**11**	11
	11	11

9 Tax expense

Current tax expense	**2020 $000**	2019 $000
UK corporation tax on loss for the year at 19% (2019 – 19%)	**–**	–
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
For the year ended 31 December 2020

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:

	2020 $'000	2019 $'000
Loss before taxation	**(1,002)**	(1,368)
Standard corporation tax charge at 19% (2019 -19%)	**(190)**	(260)
Expenses not deductible for tax purposes	–	–
Prior year adjustment	–	(183)
Adjust closing deferred tax rate to average rate 19% (2018 -19%)	–	187
Adjust opening deferred tax rate to average rate 19% (2018 -19%)	–	(160)
Remeasurement of deferred tax for changes in tax rate	**(186)**	–
Movement in unrecognised deferred tax for the year	**376**	413
Fixed asset differences		1
IFRS 16 adjustment	–	2
Total current and deferred tax for the year	–	–

The Group has a deferred tax asset of approximately $1,962,874 (2019: $1,607,622) in respect of unrelieved tax losses of approximately $10,229,437 at 2020 (2019: $9,456,602) and fixed asset timing differences of $101,478 at 2020 (2019: $nil). The tax rate of tax used in the calculation for the deferred tax asset is 19% (2019: 17%). The deferred tax asset has not been recognised in the financial statements as the timing of the economic benefit is uncertain.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

10 Property, plant and equipment – Group and Company

	Right-of-use assets $'000	Office equipment assets $'000	Office equipment and right-of-use $'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

	Right of use asset (Property) $'000	Office equipment $'000	Total $'000
Cost			
As at 1 January 2020	184	131	315
Additions	127	-	127
As at 31 December 2020	311	131	442
Depreciation			
As at 1 January 2020	89	108	197
Charge for the year	89	6	95
As at 31 December 2020	178	114	292
As at 1 January 2020	95	23	118
As at 31 December 2020	133	18	151

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

11 Intangible assets

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

Group	Exploration and evaluation costs $000
Cost	
As at 1 January 2020	291,765
Additions	476
As at 31 December 2020	292,241
Net book value	
As at 1 January 2020	291,765
As at 31 December 2020	292,241

In November 2020 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 Licences PL018, PL019 and part of PL020 was extended until 31 January 2022. The expiry date of Darwin East Discovery Area licence is also 31 January 2022. As noted, the Company has a one exploration well commitment on its production licences.

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 have been made.

12 Investment in subsidiary

Company	**2020 $**	2019 $
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 is registered in England and its principal activity is oil and gas exploration. Company's registered office is in One Fleet Place, London EC4M 9AF.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

13 Other receivables

	Group		Company	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Amount due from subsidiary	**–**	–	**292,412**	291,944
Other receivables	**77**	90	**77**	90
Prepayments	**148**	143	**148**	143
Subtotal	**225**	233	**225**	233
Total other receivables	**225**	233	**292,637**	292,177

All amounts owed by or to entities outside the group are shown as other receivables and prepayments and 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 financed by the parent company. The amount due from the subsidiary is interest free and payable on demand and is expected to be repaid from the revenues of the Darwin field production. Management considers the 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 judgments of the expected credit loss in accordance with IFRS 9 and concluded that any loss is immaterial.

14 Cash and cash equivalents and restricted use cash

Group and Company	**2020 $000**	2019 $0000
Cash available on demand	**321**	320
Cash on deposit	**1,862**	3,362
Total	**2,184**	3,682

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

All of the Company's bank deposits are with Lloyds Bank plc. It has a P-2 credit rating with Moody's, F1 with Fitch and A-2 with Standard & Poor's.

15 Share capital

	2020 $000	2019 $000
Authorised		
750,000,000 ordinary shares of 1 pence each (2019 – 750,000,000)	**14,926**	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2019 – 484,098,484)	**8,530**	8,530
Share capital		
At 1 January	**8,530**	8,530
At 31 December	**8.530**	8,530
Share premium		
At 1 January	**308,602**	308,602
At 31 December	**308,602**	308,602

There are no restrictions on the share capital.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

16 Trade and other payables

	Group		Company	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Trade payables	**3**	–	**3**	–
Other taxes and social security costs	**19**	35	**19**	35
Lease liabilities	**137**	72	**137**	72
Accruals	**81**	128	**81**	128
Total	**240**	235	**240**	235

In accordance with IFRS 16 and using the modified retrospective approach, lease liabilities of $184,000 were recognised as at 1 January 2019. During 31 December 2020 $62,000 had been repaid to leave an amount due of $10,000 at year end and interest of $11,000 was paid during the year. In October 2020 the lease was extended to 31 January 2022, resulting in an increased liability of $137,000 at 31 December 2020 all due within one year. Due to changes in the way people may work after the COVID related travel restrictions are lifted may impact the lease cost level and expiry date.

17 Related party transactions

Company

During the year Borders & Southern Petroleum Plc paid expenses of $476,000 (2019 – $478,000) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end $292,412,000 (2019 – $291,944,000) was due from the subsidiary.

18 Commitments

The Group Production Licence commitment is to drill one exploration well before 31 January 2022.

19 COVID-19

The Company has throughout the pandemic complied with Government guidelines. However, the company is not significantly impacted as employees are able to work from home. Once the travel restrictions are lifted it is expected that employees will combine coming into the office with working from home. During operations a full risk assessment on all matters would be completed.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

20 Financial instruments continued

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	**2020 $000**	2019 $000
Other receivables	**77**	53
Cash and cash equivalents	**2,184**	3,682
Trade and other payables	240	200

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

The fair values of the Group's financial assets and liabilities at 31 December 2019 and at 31 December 2020 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 2020 the Group held cash at bank and in deposits under its control of $2,183,823 (2019 – $3,681,581), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, $321,403 (2019 – $319,348) 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 $1,862,420 (2019 – $3,362,233) with a weighted average fixed interest rate of 0.1% (2019 – 0.2%) for three months. If there was 1% change in interest rates the impact on the Statement of Comprehensive Income would be $18,624 (2019 – $33,622).

b) Foreign currency translation risk

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

20 Financial instruments continued

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 2020 $000**	Other receivables measured at amortised cost 2019 $000	**Other receivables measured at amortised cost 2020 $000**	Other receivables measured at amortised cost 2019 $000
Held in UK £:				
Trade and other receivables	**77**	90	**77**	90
Cash and cash equivalents	**2,155**	3,664	**2,155**	3,664
Total current financial assets held in UK£	**2,232**	3,754	**2,232**	3,754
Held in US$:				
Trade and other receivables	**–**	–	**292,420**	291,944
Cash and cash equivalents	**29**	18	**29**	18
Total financial assets	**2,261**	3,772	**294,449**	295,716

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 $223,200 (2019: $375,000) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2020 $000	Financial liabilities measured at amortised cost 2019 $000	**Financial liabilities measured at amortised cost 2020 $000**	Financial liabilities measured at amortised cost 2019 $000
Held in UK£:				
Trade and other payables	**240**	235	**240**	235
Total financial liabilities	**240**	235	**240**	235

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

20 Financial instruments continued

c) Credit risk

Neither the Group nor the Company have customers, so formal credit procedures are in the process of being established. 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:

	2020		2019	
	Carrying Value $000	Maximum exposure $000	**Carrying Value $000**	Maximum exposure $000
Cash and cash equivalents	**2,184**	2,184	**3,682**	3,682
Maximum credit risk exposure	**2,184**	2,184	**3,682**	3,682

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 William Hodson
Secretary	William Slack
Registered office	One Fleet Place London EC4M 7WS
Business address	33 St James's Square London SW1Y 4JS
Nominated adviser and Joint Broker	Strand Hanson 26 Mount Row London W1K 3SQ
Joint Broker	Auctus Advisors Robsacks Long Barn Road Weald Sevenoaks Kent TN14 6NJ
Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Registrars	Link Group 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL
Bankers	Lloyds TSB Bank plc 19-21 The Quadrant Richmon Surrey TW9 1BP
Independent Auditors	BDO LLP 55 Baker Street London W1U 7EU
Investor Relations	Tavistock 1 Cornhill London EC3V 3ND

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