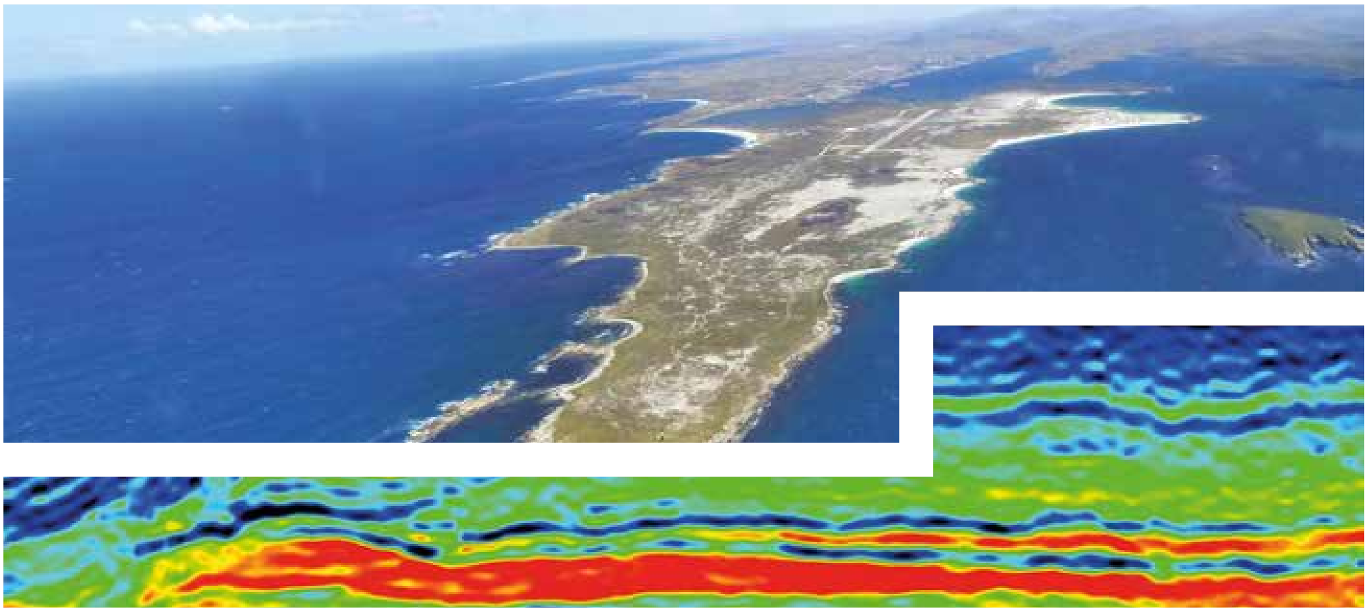


Borders & Southern Petroleum plc Annual Report & Accounts 2015

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

In 2012 the Company made its first significant gas condensate discovery and has subsequently been evaluating the scale of the hydrocarbon resource along with the near-field prospectivity.

Highlights

- Darwin recoverable resource upgrade: 360 million barrels of condensate (P50, unrisked best estimate)
- Farm-out process is active, but continues to be impacted by the low oil price environment
- Reduced administrative expenses – 2015: $1.97 million (2014: $3 million)
- Cash balance at 31 December 2015: $14.0 million (2014: $16.1 million)

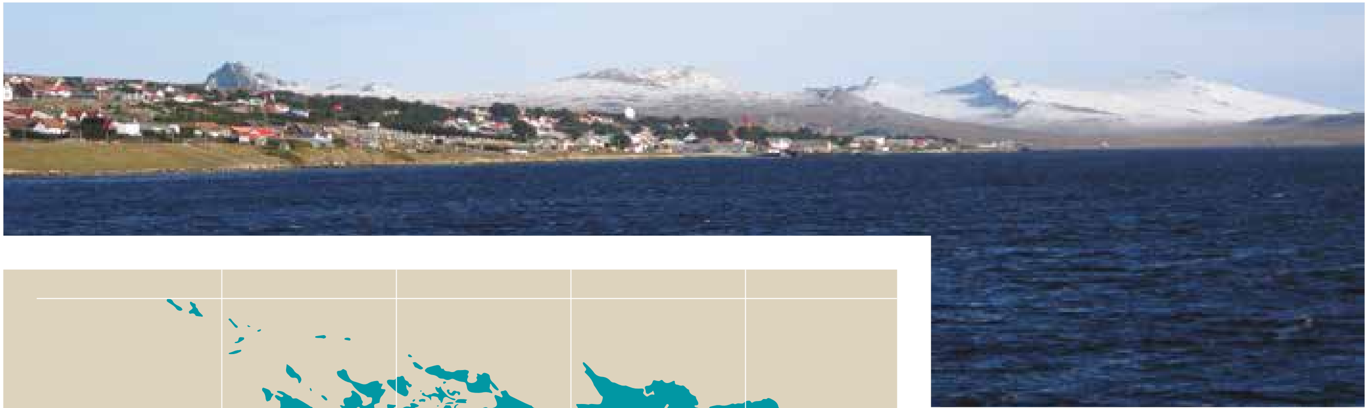
> "The technical evaluation of our exciting Darwin discovery continues to make good progress, but the consistently low oil price during 2015 has caused delay in its appraisal programme."

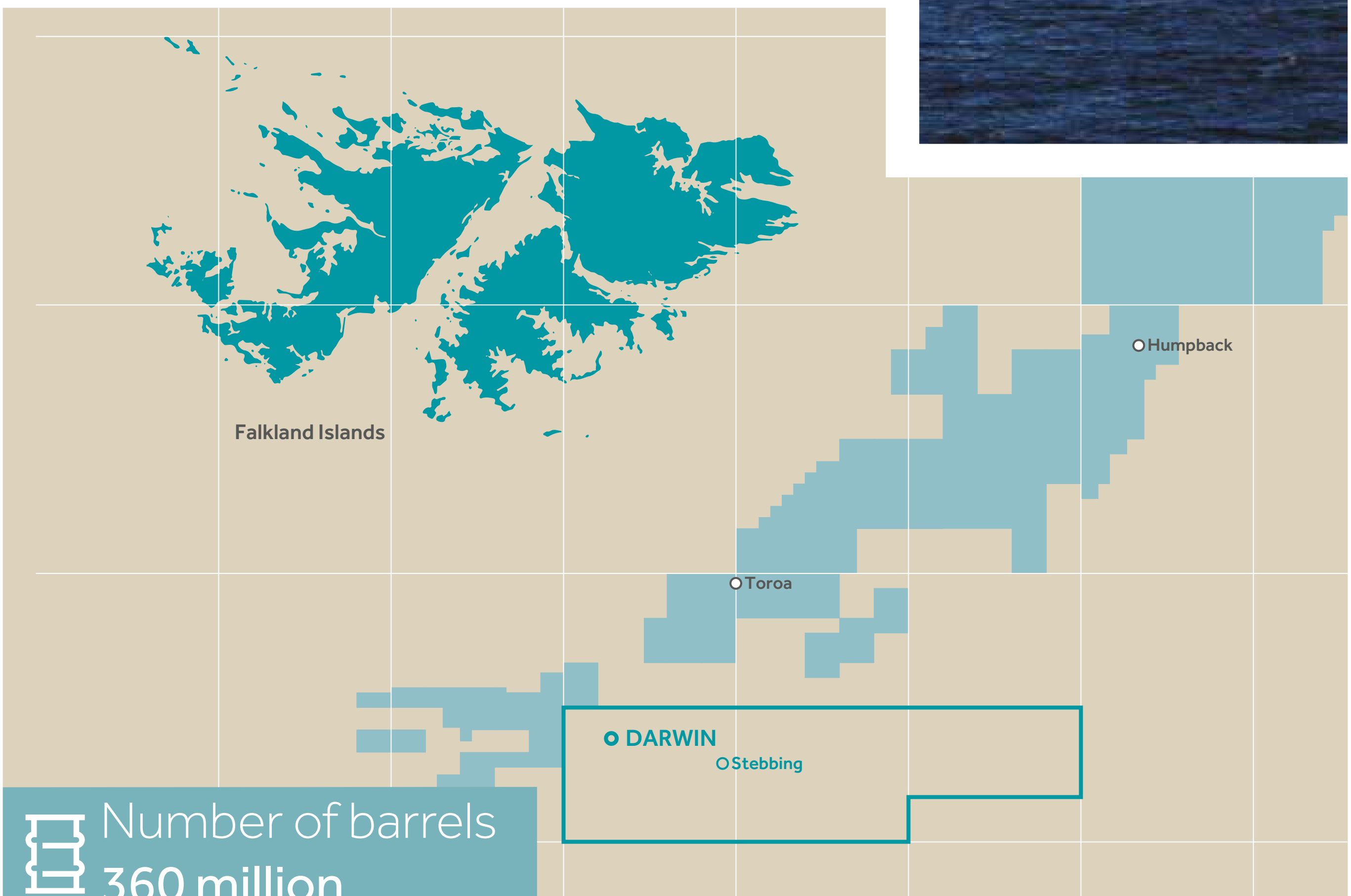
Howard Obee, Chief Executive Officer

For more information please visit:
www.bordersandsouthern.com

Company Overview

Borders & Southern was incorporated in June 2004 and listed on the London Stock Exchange (AIM: BOR) in 2005. Its Falkland Islands acreage was signed in November 2004. The exploration programme has included the acquisition of 2D and 3D seismic data followed by the drilling of two wells. This resulted in a significant gas condensate discovery, Darwin, which is currently being evaluated prior to appraisal drilling.





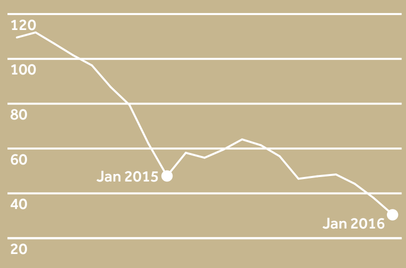
Number of barrels
360 million

Management unrisked best estimate (P50) of the recoverable condensate from the combined Darwin East and Darwin West structures.

Management unrisked best estimate (P50) for the volume of gas in place is 3.5 tcf.

BRENT CRUDE

The chart illustrates the price of Brent Crude oil ($/barrel) from May 2014 to March 2016.



Brent crude slumped dramatically from over $110 per barrel in mid 2014 down to below $30 per barrel in January 2016. This price drop has had a profound effect on the industry.

Borders & Southern has been affected like all of our peer group, notably the delay to Darwin's appraisal drilling, due to the challenge in securing funding.

Darwin, our gas condensate discovery

The Darwin discovery consists of two adjacent tilted fault blocks containing a high quality clastic reservoir, clearly imaged on 3D seismic data.

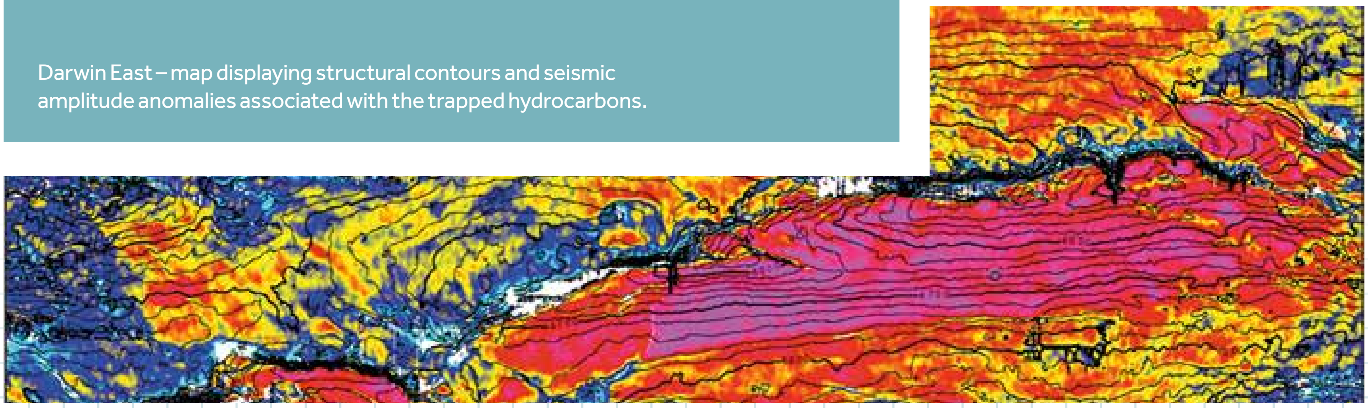
TECHNICAL SUMMARY

The Darwin reservoir comprises Early Cretaceous shallow marine sandstone. The hydrocarbons have been trapped in two simple tilted fault blocks, fault sealed to the north and dip closed to the south.

The gas condensate is highlighted seismically by amplitude conformance to structure and an associated flat spot. The gas condensate/water contact was not seen in the discovery well.

Licence	PL018
B&S Interest	100%
Structure	Tilted Fault Block
Area of seismic anomaly	26 square kilometres
Reservoir	Early Cretaceous (Aptian)
Water depth	2,011m
Total depth	4,876m
Gross interval	84.5m
Net pay	67.8m
Average porosity	22% (up to 30%)
Average permeability	337 mD (up to 1D)
Estimated gas in place	3.5 tcf
Estimated recoverable condensate	360 MMbbl (P50)
Condensate API	46 to 49 degrees
Initial condensate yield	148 stb/MMscf

Darwin East – map displaying structural contours and seismic amplitude anomalies associated with the trapped hydrocarbons.



Chairman's Statement

"All our technical and commercial work to date suggests that Darwin is a robust project, even in a low oil price environment. The principal risk for the Company over the next 12 months is that a sustained low oil price will cause further project delay."

Harry Dobson, Chairman

Industry setting

The industry downturn, triggered by the decline in the oil price, has had a significant impact on the Company's fortunes. Brent has fallen from around $110 per barrel in mid 2014, to around $35 per barrel at the end of 2015. This sustained low oil price has caused companies to make dramatic reductions in their expenditure, delay major capital projects and reduce or stop taking on new opportunities. This has made it a particularly challenging environment for us in which to conduct a farm-out. There are as many views on future oil price trends as there are analysts and commentators, with little consensus at the moment. Most believe a recovery will occur, but to what level and exactly when, there is no agreement. Consequently, companies are trying to re-base their operations to weather a low cost, low oil price world.

Financial position

Borders & Southern's financial status is relatively robust in the current environment, with a strong balance sheet and no debt. We ended the year with a cash balance of $14.0 million, compared to $16.1 million at the end of 2014. Like most companies in our sector, we have reduced our expenditure. The 2015 administrative expense was $1.97 million compared to $3.04 million in the previous year. This reduced expenditure has not impacted our ability to progress technical work and advance our understanding of our assets. We intend to maintain this capital discipline throughout 2016 and beyond.

Project status

The industry recession has delayed the timing of the next operations phase on our Production Licences. We had hoped to have secured partners and funding for a new exploration and appraisal drilling programme by now, but have had to reset our expectations. So whilst the current Production Licence period extends through to the end of October 2017, we have applied to the Falkland Islands Government for an extension.

From a sub-surface point of view we have continued to make good progress. Earlier in 2015, we announced an upgrade in the combined Darwin East and West recoverable resource estimate (Best estimate P50: 360 million barrels of condensate) and described some of the surrounding prospects in more detail. We continue to work the Early Cretaceous shallow marine sandstone play fairway in detail, re-mapping the discovery and analysing the seismic response on near-field prospects with the aim of developing reliable predictive models for hydrocarbon presence and phase.

Additionally, we have spent time re-assessing our basin models, incorporating the results from recent drilling activity by other operators. The Humpback well was located over 250km northeast of Darwin and its findings have no impact on the prospectivity of our licences. In fact, our recent regional basin analysis has re-enforced our belief that our licences are optimally located in the South Falkland Basin.

Current technical work is aimed at re-assessing how a Darwin development would fit into a low oil price world. We know that the combination of competitive fiscal terms in the Falkland Islands and excellent reservoir characteristics of the Early Cretaceous shallow marine sandstone makes a development competitive on the cost curve against other deep water developments. However, we need to assess just how commercial a project would be in a period of sustained low oil prices. Previously we had considered 2 to 3 appraisal wells and 10 development wells (6 producers, 4 gas re-injectors) with sub-sea tie back to an FPSO. New reservoir engineering studies are looking at reduced well count models. Outputs from this work will feed into a fresh look at facilities engineering concepts and costs and, in turn, a new economic evaluation. If we can clearly demonstrate the commercial viability of a development in a low oil price environment, it should assist the farm-out process.

Outlook

All our technical and commercial work to date suggests that Darwin is a robust project, even in a low oil price environment. The principal risk for the Company over the next 12 months is that a sustained low oil price will cause further delay to our farm-out and hence funding for the next phase of operations. We have positioned the Company so that our strong balance sheet will allow us to withstand an extended period of reduced industry activity. As we move forward, we will continue to control costs, undertake good science and maintain our resolve to monetise the Darwin discovery.

Finally, Stephen Posford, 69, one of the Company's founders and a member of the Board since the Company's inception, has announced that he intends to retire from business activities and will step down from the Board prior to the AGM. Stephen has played an influential role in the development of the Company, which included the significant gas condensate discovery in 2012. On behalf of all the Directors I would like to thank Stephen for his contribution and wish him a healthy, happy and long retirement.

Corporate Responsibility

CORPORATE RESPONSIBILITY AT A GLANCE

- Conducting business in a responsible and sustainable way
- Focusing on limiting and mitigating the environmental impact
- Ensuring health and safety practices follow best practice
- Using local suppliers and service providers where possible

Borders & Southern's business is to create value through the discovery and monetisation of hydrocarbons. To be successful we need to ensure that all our stakeholders benefit, including shareholders, host governments, the communities in which we operate, employees and our partners. Corporate Responsibility is therefore central to everything we do. We aim to conduct our operations safely, in line with industry best practice, demonstrating environmental and social responsibility. We will maintain good governance, identifying and managing risks, and will ensure high standards of business ethics.

Howard Obee, Chief Executive
May 2016

Business Model & Strategy

Our business model is all about value creation through the discovery and monetisation of hydrocarbons.

How we create value	Description	
1. ACCESS New opportunities	The first stage is to access new opportunities, either through Licence Rounds or Open Door policies. Our Frontier Exploration strategy directs us to focus on untested or emerging basins where significant acreage positions can be accessed at relatively low cost.	Comprehensive technical screening prior to access helps mitigate geological risk, however the project risk profile is relatively high at this stage. Economic modeling of fiscal terms and potential discovery volumes is undertaken to ensure project rewards merit the investment decision.
2. EXPLORE Commence operations	Our technical work is underpinned by rigorous petroleum systems analysis. Operations will typically begin with the acquisition of 2D seismic, at limited financial exposure. If interpretation of the 2D seismic data provides confidence in a working source rock, reservoirs and trapping geometries, then further investment will be made in the acquisition of 3D seismic data.	Detailed analysis of the 3D seismic will result in the development of a prospect inventory, outlining the estimated prospect sizes and their associated risks. Finally, prospects will be high-graded and the preparation for a drilling programme will commence.
3. APPRAISE Assess the commerciality	If the drilling campaign leads to the discovery of hydrocarbons, then the well results will be evaluated and integrated back into the 3D interpretation. An appraisal programme will be designed and executed in order to constrain the resource estimates and to assess the commerciality of a potential development project.	Typically, several more wells will be drilled. Coring and reservoir flow tests will be undertaken and exhaustive reservoir studies completed. Positive results from the appraisal programme will lead to detailed facilities engineering studies prior to a final investment decision to proceed with a development.
4. ACCRETE Build a strong position	Once a working petroleum system has been demonstrated through the discovery of hydrocarbons, the objective will be to maximise the acreage position and add value to the asset. Near field targets will be tested to extend the discovery and exploration will continue focusing on analogue prospects within the prospect inventory.	Alternative play types will also be tested in order to assess the overall value of the acreage.
5. MONETISE Maximise asset value	Monetisation can occur at all stages of the business cycle. Partners can be brought in at the access, exploration or appraisal stages in order to help fund new phases of work. Alternatively, partnering could occur after the appraisal stage in order to help fund a development project. Significant capital investment is required at this stage.	In order to return value to our shareholders, a dilution of interest or an asset sale might occur once a discovery has been brought into production.

Our technical work is making great strides forward. Our aim is to reduce sub-surface risk and enhance our chance of success.

Progress in 2015

In 2014 we had consolidated 2,521 square kilometres of high quality PSDM 3D seismic data. This allowed us to undertake a number of technical studies during 2015, focused on the main Darwin reservoir interval, both within the mapped limits of the discovery and its regional extrapolation. Some highlights are outlined below.

Outlook

Sub-surface analysis will continue to be refined, focusing on our proven reservoir along with other potential targets. We also aim to reassess the facilities options for a Darwin development scheme, taking a fresh look at costs and timing to reflect the current industry environment.

Seismic inversion/Reservoir characterisation

- The objective was to investigate three reservoir intervals: the main Darwin Early Cretaceous reservoir, a slightly shallower Early Cretaceous sand and a deeper high-amplitude target not penetrated by the discovery well.
- Reservoir properties were estimated using seismic data calibrated by well-log data. The study integrated pre-stack inversion elastic attributes and AVO attributes.
- Statistical results from the study have given us an insight into the spatial distribution of porosity and water saturation across the Darwin East and West structures and helped characterise the reservoir heterogeneity. The results have also provided an understanding of the potential reservoir characteristics of nearby prospects.
- The results have allowed us to generate better resource estimates and will help us optimise future well locations.

Resource assessment

- The objective was to provide new resource estimates based on revised mapping and inputs from the reservoir characterisation study.
- Analysis focused on the Early Cretaceous shallow marine sandstone play fairway, but incorporated an older, deeper interval that had a strong AVO anomaly.
- The study revised the un-risked best estimate (P50) for the combined Darwin East and Darwin West structures to be 360 million barrels of recoverable condensate.
- Additionally, near-field prospects highlighted by the seismic inversion study were defined: Covington, Morgan, Sulivan, Stokes and Wickham (described in an RNS, May 2015).

Basin evaluation

- Our understanding of the geological history of the South Falkland Basin is constantly evolving. New findings from the detailed studies are integrated into our regional models with the objective of enhancing our ability to predict the distribution of source rocks, reservoirs and seals.
- Drilling results from other operators are also integrated into regional models.
- Results from the Humpback well, drilled 250 km northeast of Darwin, have little bearing on the prospectivity of our acreage.
- Our current regional models suggest that very good Early Cretaceous reservoir development occurs south of the Falkland Islands. These models predict that our acreage may contain further hydrocarbon accumulations, with potential for oil, gas condensate and gas discoveries.

CEO's Statement

"Despite the challenges facing the industry today, we remain optimistic that our project will find the funding necessary to move it forward."

With **Howard Obee** and **Peter Fleming**

Our aim for 2015 had been to secure funding for the next phase of operations in the Falkland Islands, but the continued low oil price and the industry's significant reduction in capital expenditure meant that we were unable to achieve all our goals.

The industry downturn caused us to move quickly to reduce expenditure in order to preserve funds, but we ensured that our sub-surface work continued to move forward. Good progress has been made on that front. During the year we reported on a resource upgrade for the Darwin discovery and described near-field prospects along with their resource estimates. We also revised our basin geological models, incorporating new findings including the well results from other operator's drilling programmes. These regional geological studies reinforce our belief that our acreage sits in the right part of the South Falkland Basin, in an area where we can demonstrate high quality reservoirs, mature source rocks that have generated both oil and gas and a variety of trapping configurations. Our efforts to continually enhance our prospect and regional interpretations are driven by a need to minimise sub-surface risks ahead of the next exploration/appraisal campaign.

Current sub-surface work is focused on a field development study, remodelling and reassessing the reservoir performance in light of new mapping. We are considering several development possibilities using different numbers of production and gas re-injection wells, looking to determine the optimum commercial solution.

Once completed, this work will feed into a fresh look at facilities design, building on an earlier screening feasibility study. The objective is to assess different alternatives for bringing the discovery into production quickly and cost effectively. The low oil price environment has seen a reduction in many service company costs. We need to reassess our project economics in light of current cost estimates. Previous project economics for a Darwin development have suggested that it would be competitive against many other global opportunities, sitting relatively low on the global cost curve, due to the attractive fiscal terms and a low well count (a function of the high quality reservoir).

Our hope is that this new work will increase the commercial attractiveness of the project, which can only help our farm-out objectives. The industry as a whole continues to be on a run of disappointing exploration results, particularly for liquids. In this context, the South Falkland Basin represents an appealing place to explore. From our perspective, the Darwin discovery and our licensed acreage has many attractions. We can point to our assessment of a large volume of recoverable condensate, a high quality reservoir and a potentially straight forward FPSO development that is commercially attractive and able to withstand relatively low oil prices. Additionally, we have upside potential within near-field prospects.

Principal Risks and Uncertainties

RISK STATUS KEY
(*RS refers to Risk Status)

⌃ Risk increase
› Risk unchanged
⌄ Risk decrease

Risk	Nature of risk	RS*	Mitigation
EXPLORATION SUB-SURFACE	Exploration for oil and gas is inherently risky and whilst many of these risks can be mitigated, they cannot be eliminated.	›	The Company has a disciplined approach to exploration, using industry leading techniques for data acquisition and interpretation. Its employees and contractors are all very experienced geoscientists and engineers.
HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT	Conducting operations in a remote, environmentally sensitive location presents many challenges.	›	Prior to operations, detailed risk assessments and mitigation plans are put in place. Policies, plans and actions closely follow industry's best practice.
FUNDING	The Company has a strong balance sheet with sufficient funds for overheads in the foreseeable future. The challenge is to secure funds for the next phase of drilling.	⌃	Darwin's high quality reservoir and attractive fiscal terms mean that it is commercially competitive against similar global projects. Therefore we are confident of securing the necessary partners/ funding.
OIL PRICE	The industry is impacted by the commodity cycle. A protracted period of low oil price can result in serious constraints for capital investment.	⌃	The economics of a Darwin development indicate that it is robust in a low oil price environment. Whilst the Company cannot influence the commodity price, it can work on low cost development options.
KEY PERSONNEL	Like many others in our peer group, the Company is reliant upon a small number of experienced personnel.	›	The Company has service contracts with key employees that provide for notice periods that would allow sufficient time to source replacements. Also, the Company has a wide network of experienced contractors to call upon.
SUPPLY CHAIN	The geographical location and political backdrop provide significant logistical challenges.	›	Meticulous planning with in-built contingency is essential for successful operations. Several drilling campaigns have now been undertaken by the industry so there is a wealth of experience to draw upon.
COUNTRY/ POLITICAL	There is an ongoing dispute over the sovereign status of the Falkland Islands.	›	The British Government consistently provides strong support for the Falkland Islanders' right to determine their own future.

Board of Directors

HARRY DOBSON
(NON-EXECUTIVE CHAIRMAN)

Harry Dobson is a former investment banker and senior partner of Yorkton Securities. He currently engages in various merchant banking and venture capital activities in North America and Europe, and has acted as Chairman of a number of resource companies including American Pacific Mining Company Inc., Lytton Minerals Limited, Kirkland Lake Gold Inc and Rambler Metals and Mining plc. He is experienced in the organisation and funding of resource projects, including those located in inaccessible locations.

Harry is Chairman of the Remuneration Committee and sits on the Audit Committee.

HOWARD OBEE
(CHIEF EXECUTIVE)

Howard Obee was appointed Chief Executive when the Company was incorporated in June 2004. He has a PhD in Structural Geology from Imperial College and has spent 30 years in the oil industry, initially with BP (1985–1992), and subsequently with BHP Billiton (1992–2004). He trained as an exploration geologist and has held numerous technical and commercial roles, incorporating exploration, new ventures, strategic planning and business development. He has experience of executing seismic and drilling programmes in frontier basins, including those in deep water.

PETER FLEMING
(FINANCE DIRECTOR)

Peter Fleming has over 23 years of upstream oil and gas experience, the majority of which was gained at BHP Billiton both in London and Melbourne. Whilst at BHP Billiton, Peter held senior positions in exploration and business development, investment evaluation, acquisitions and disposals, and strategic planning. He holds masters degrees in Business Administration and Finance.

NIGEL HURST-BROWN
(NON-EXECUTIVE DIRECTOR)

Since qualifying as a Chartered Accountant, Nigel Hurst-Brown has pursued a career in fund management. From 1986 to 1990 he was Chairman of Lloyd's Investment Managers. In 1990 he moved to Mercury Asset Management as a main Board Director and following Mercury's acquisition by Merrill Lynch in 1997 became a Managing Director of Merrill Lynch Investment Managers. Currently he is Chief Executive of Hotchkis and Wiley (UK) Limited, a member of the Executive Committee of its US parent, Hotchkis and Wiley Capital Management LLC, and Non-executive Chairman of Central Asia Metals plc.

Nigel is Chairman of the Audit Committee and sits on the Remuneration Committee.

STEPHEN POSFORD
(NON-EXECUTIVE DIRECTOR)

Background

Stephen Posford was a partner of stockbrokers W.Greenwell and Co. In 1986, he became Managing Director of Greenwell Montagu Gilt Edged and in 1989 moved to Salomon Brothers to head up its proprietary trading department in London. He then became Salomon Brothers European CEO before retiring in 1996.

Stephen, one of the founders of the company, is retiring from business activities and will step down from the Board prior to the AGM.

BOARD OF DIRECTORS

Harry Dobson Non-executive Chairman	A R
Howard Obee Chief Executive	E
Peter Fleming Finance Director	E
Nigel Hurst-Brown Non-executive Director	A R
Stephen Posford Non-executive Director	A R

A Audit Committee

R Remuneration Committee

E Executive Director

Corporate Governance

Borders & Southern is committed to applying robust Corporate Governance practices across all its activities. Throughout the year the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ("the Code") in so far as it considers them to be appropriate to a company of its size and nature.

The Board

Borders & Southern recognises that an effective Board facilitates the efficient discharge of the duties imposed by law on Directors and contributes to the delivery of the Company's strategic objectives. Accordingly, Borders & Southern has structured its Board so that it:

- has a proper understanding of, and the competencies to deal with, the current and emerging issues in the Company's business;
- exercises independent judgement; and
- effectively reviews and challenges management's performance and exercises independent judgement.

The Board currently comprises the Chairman, two Executive Directors and two Non-executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry combined with general business and financial skills. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

Role of the Chairman

Harry Dobson was appointed Chairman of the Company at its inception. As Chairman, he is 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, the Chairman sets and runs the agenda for Board meetings.

Roles of the Non-executive Directors

The Non-executive Directors bring a wealth of business experience to the Board and its Committees. They provide independent views on the Company's performance, operations and strategy. All Directors retire by rotation.

Remuneration Committee

The Board has a Remuneration Committee comprising three Non-executive Directors. The members of the Remuneration Committee and their attendance at meetings of the Remuneration Committee during 2015 are detailed in the Directors' Report.

The strategy of the Remuneration Committee is to ensure the Company:

- remunerates fairly and responsibly. Borders & Southern's policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable;
- includes both short-term and long-term performance-based components in its remuneration practices; and
- benchmarks its remuneration with comparable companies.

Audit Committee

The Board has an Audit Committee comprising three Non-executive Directors. The members of the Audit Committee and their attendance at meetings of the Audit Committee during 2015 are detailed in the Directors' Report.

The objectives of the Audit Committee are to ensure:

- the accuracy and integrity of the financial statements and related disclosures;
- the keeping of adequate books, records and internal controls;
- the auditor is independent and is qualified and its performance is monitored; and
- compliance with legal and regulatory requirements.

Insurances

The Company has taken out Directors and Officers insurance that provides insurance cover for all Directors and senior officers of the Company. This insurance is reviewed annually.

Key Performance Indicators

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

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

Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2015.

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at the beginning of the year or the date of their appointment to the Board, whichever is later, and at 31 December 2015, were as follows:

	At 31 December 2015 Number	At 31 December 2014 Number
Harry Dobson	26,670,000	26,670,000
Howard Obee	10,000,000	10,000,000
Peter Fleming	2,200,000	2,200,000
Nigel Hurst-Brown	1,530,000	1,530,000
Stephen Posford	27,500,000	27,500,000

The ordinary shares in which Harry Dobson is interested are held by the Zila Corporation, a company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary.

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

Share options

	Number of options held at the beginning of the year	Number of options held at the end of the year	Fair value of options	Exercise price	Vesting period
Howard Obee	1,300,000	1,300,000	24–30 pence	48–58 pence	three years
Peter Fleming	1,300,000	1,300,000	24–30 pence	48–58 pence	three years
Nigel Hurst-Brown	250,000	250,000	32 pence	58 pence	three years

Substantial shareholders

At 29 March 2016 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
Landsdowne Partners Limited Partnership	67,613,605	13.97%
Allianz Global Investors	38,571,714	7.97%
Stephen Posford	27,500,000	5.68%
Capital Research Global Investors	27,293,100	5.64%
Zila Corporation	26,670,000	5.51%
Ignis Investment Services Limited	23,549,230	4.86%
TD Direct Investing	23,151,275	4.78%
Vestra Wealth	16,373,092	3.38%
Halifax Share Dealing	16,073,358	3.32%
Barclays Wealth	15,667,633	3.24%

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 18 and shows the results for the year.

The Directors do not recommend the payment of a dividend (2014: $nil).

Review of business and future developments

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

Post reporting date events

There are no events that have occurred since the year end which require reporting.

Charitable and political donations

There were no political or charitable contributions made by the Company or the Group during the year (2014: $nil).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertaking are contained in note 20 of the financial statements.

Directors' Report continued

Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and elected to prepare the Company financial statements in accordance with IFRSs. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Number of Board meetings during 2015

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	4	1	2
Howard Obee	4	–	–
Peter Fleming	4	–	–
Nigel Hurst-Brown	4	1	2
Stephen Posford	4	1	2

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of its audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

BDO LLP has expressed its willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

William Slack
Company Secretary
11 May 2016

Corporate Responsibility at a Glance

- Conducting business in a responsible and sustainable way.
- Focusing on limiting and mitigating the environmental impact.
- Ensuring health and safety practices follow best practice.
- Using local suppliers and service providers where possible.

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

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

Howard Obee
Chief Executive
11 May 2016

Remuneration Committee Report

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

The strategies the Remuneration Committee uses to set the remuneration of Directors and senior management are outlined on page 12.

The remuneration of the Directors for the year ended 31 December 2015 was as follows:

	Basic salary $	Share-based payment $	**Total 2015 $**	Total 2014 $
Harry Dobson	–	–	**–**	–
Stephen Posford	–	–	**–**	49,661
Howard Obee	383,821	–	**383,821**	475,457
Nigel Hurst-Brown	–	–	**–**	66,214
Peter Fleming	307,057	–	**307,057**	392,689
	690,878	–	**690,878**	984,021

The share-based payments are the amortisation over the vesting period of the fair value of options issued to Directors in previous years. See note 7 for more details.

The Group does not operate a pension scheme for its Directors or employees.

From 1 January 2015, the Non-Executive Directors have elected not to receive a salary until further notice.

Independent Auditor's Report

to the members of Borders & Southern Petroleum plc

We have audited the financial statements of Borders & Southern Petroleum Plc for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the Company statement of financial position, the Company statement of changes in equity, the consolidated statement of cash flows, the Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Scott Knight (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
11 May 2016

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 2015

	Note	2015 $000	2014 $000
Administrative expenses		(1,968)	(3,037)
Loss from operations	2	(1,968)	(3,037)
Finance income	8	47	59
Finance expense	8	(679)	(910)
Loss before tax		(2,600)	(3,888)
Tax expense	9	–	–
Loss for the year and total comprehensive loss for the year attributable to owners of the parent		(2,600)	(3,888)
Basic and diluted loss per share (see note 3)		(0.54) cents	(0.8) cents

The notes on pages 25 to 34 form part of the financial statements.

Consolidated Statement of Financial Position

At 31 December 2015

	Note	2015 $000	2015 $000	2014 $000	2014 $000
Assets					
Non-current assets					
Property, plant and equipment	10		**10**		11
Intangible assets	11		**289,590**		289,966
Total non-current assets			**289,600**		289,977
Current assets					
Other receivables	13	**297**		329	
Cash and cash equivalents		**14,011**		16,079	
Total current assets			**14,308**		16,408
Total assets			**303,908**		306,385
Liabilities					
Current liabilities					
Trade and other payables	14		**(283)**		(250)
Total assets			**303,625**		306,135
Equity					
Share capital	15		**8,530**		8,530
Share premium	15		**308,602**		308,602
Other reserves			**2,370**		2,280
Retained deficit			**(15,861)**		(13,261)
Foreign currency reserve			**(16)**		(16)
Total equity			**303,625**		306,135

The notes on pages 25 to 34 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 May 2016.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2015

	Share capital $000	Share premium $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2014	8,530	308,602	2,035	(9,373)	(16)	309,778
Loss and total comprehensive loss for the year	–	–	–	(3,888)	–	(3,888)
Recognition of share based payments	–	–	245	–	–	245
Balance at 31 December 2014	8,530	308,602	2,280	(13,261)	(16)	306,135
Loss and total comprehensive loss for the year	–	–	–	(2,600)	–	(2,600)
Recognition of share based payments	–	–	90	–	–	90
Balance at 31 December 2015	**8,530**	**308,602**	**2,370**	**(15,861)**	**(16)**	**303,625**

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

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign currency reserves	Differences arising on change of presentation and functional currency to US dollars.

The notes on pages 25 to 34 form part of the financial statements.

Company Statement of Financial Position

At 31 December 2015

	Note	2015 $000	2015 $000	2014 $000	2014 $000
Assets					
Non-current assets					
Property, plant and equipment	10		10		11
Investments	12		–		–
Total non-current assets			10		11
Current assets					
Other receivables	13	290,066		290,472	
Cash and cash equivalents		14,011		16,079	
Total current assets			304,077		306,551
Total assets			304,087		306,562
Liabilities					
Current liabilities					
Trade and other payables	14		(283)		(250)
Total net assets			303,804		306,312
Equity					
Called up share capital	15		8,530		8,530
Share premium	15		308,602		308,602
Other reserves			2,370		2,280
Retained deficit			(15,680)		(13,082)
Foreign currency reserve			(18)		(18)
Total equity			303,804		306,312

The notes on pages 25 to 34 form part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 May 2016.

Howard Obee
Director

Peter Fleming
Director

Company Number: 5147938

Company Statement of Changes in Equity

At 31 December 2015

	Share capital $000	Share premium reserve $000	Other reserves $000	Retained deficit $000	Foreign currency reserve $000	Total $000
Balance at 1 January 2014	8,530	308,602	2,035	(9,196)	(18)	309,953
Loss and total comprehensive loss for the year	–	–	–	(3,886)	–	(3,886)
Recognition of share based payments	–	–	245	–	–	245
Balance at 31 December 2014	8,530	308,602	2,280	(13,082)	(18)	306,312
Loss and total comprehensive loss for the year	–	–	–	(2,598)	–	(2,598)
Recognition of share based payments	–	–	90	–	–	90
Balance at 31 December 2015	**8,530**	**308,602**	**2,370**	**(15,680)**	**(18)**	**303,804**

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

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign currency reserves	Differences arising on change of presentation and functional currency to US Dollars.

The notes on pages 25 to 34 form part of the financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 $000	2015 $000	2014 $000	2014 $000
Cash flow from operating activities					
Loss before tax			(2,600)		(3,888)
Adjustments for:					
Depreciation			1		2
Share-based payment			90		245
Net finance costs			632		851
Realised foreign exchange gains			(8)		5
Cash flows from operating activities before changes in working capital			(1,885)		(2,785)
Decrease in other receivables			32		689
Decrease/(increase) in trade and other payables			33		(518)
Tax paid			–		(185)
Net cash outflow from operating activities			(1,820)		(2,799)
Cash flows used in investing activities					
Interest received		47		59	
Purchase of intangible assets		(773)		(3,555)	
Proceeds from disposal of intangible assets		1,149		–	
Net cash used in investing activities			423		(3,496)
Cash flows from financing					
Proceeds from issue of shares		–		–	
Cash flows from financing activities			–		–
Net decrease in cash and cash equivalents			(1,397)		(6,295)
Cash and cash equivalents at the beginning of the year	16		16,079		23,290
Exchange loss on cash and cash equivalents			(671)		(916)
Cash and cash equivalents at the end of the year			14,011		16,079

Company Statement of Cash Flows

for the Year Ended 31 December 2015

	Note	2015 $000	2015 $000	2014 $000	2014 $000
Cash flow from operating activities					
Loss before tax			(2,598)		(3,886)
Adjustments for:					
Depreciation			1		2
Share-based payment			90		245
Net finance costs			632		851
Realised foreign exchange gains			(8)		3
Cash flows from operating activities before changes in working capital			(1,883)		(2,785)
Decrease in other receivables			32		689
Increase/(decrease) in trade and other payables			33		(518)
Tax paid			–		(185)
Net cash outflow from operating activities			(1,818)		(2,799)
Cash flows from investing activities					
Interest received		47		59	
Decrease/(increase) in amounts due from group undertaking		374		(3,555)	
Purchase of property, plant and equipment		–		–	
Net cash used in investing activities			421		(3,496)
Net decrease in cash and cash equivalents			(1,397)		(6,295)
Cash and cash equivalents at the beginning of the year	16		16,079		23,290
Exchange loss on cash and cash equivalents			(671)		(916)
Cash and cash equivalents and cash held in escrow at the end of the year			14,011		16,079

Notes to the Financial Statements

for the Year Ended 31 December 2015

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years presented.

These consolidated and parent financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

The consolidated financial statements have been prepared under the historical cost convention.

New and revised standards effective for 31 December 2015 year end

There were no new standards issued in respect of the year ended 31 December 2015 that were relevant for adoption by the Group.

New and revised standards issued but not effective for 31 December 2015 year end

We are still considering the impact of IFRS 15 and 16 and it is not anticipated that the other new standards issued but not effective for the year ended 31 December 2015 would be relevant for adoption by the Group.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Going concern

The Directors are of the opinion that the Group has adequate financial resources to enable it to undertake its planned programme of exploration and appraisal activities for a period of at least 12 months.

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 $2,599,393, (2014 – loss after tax of $3,887,512) which is dealt with in the financial statements of the Parent Company.

The Company's investments in subsidiaries

The Parent Company's subsidiaries are carried at cost less amounts provided for impairment.

Finance income

Finance income consists of interest on cash deposits and foreign exchange gains.

Segment reporting

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

Property, plant and equipment

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

Office equipment 33 1/3%

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

Exploration and evaluation expenditure

The Group applies the requirements of IFRS 6 Exploration for and evaluation of mineral resources in respect of its exploration and evaluation expenditure. The requirements of IFRS 6 are not applied to expenditure incurred by the Group before legal title to explore for and evaluate hydrocarbon resources in a specific area, generally referred to as pre-licence expenditure. Likewise the group do not apply the requirements of IFRS 6 after the point at which the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable.

Notes to the Financial Statements continued

for the Year Ended 31 December 2015

1 Accounting policies continued

The costs of exploring for and evaluating hydrocarbon resources are accumulated and capitalised as intangible assets by reference to appropriate cash-generating units (CGU), generally referred to as full cost accounting. Such CGUs have been determined by the Group to be a Darwin CGU and a Stebbing CGU and are noted as not being larger than an operating segment as determined in accordance with IFRS 8 Operating segments.

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

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

Impairment of exploration and evaluation expenditure

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

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

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

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluations assets is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell.

The Group has identified two cash-generating units, a Darwin CGU and a Stebbing CGU. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Group's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Provisions

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

Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the closing rates at the reporting date and the exchange differences are included in the statement of comprehensive income. The functional and presentational currency of the parent and all Group companies is the US dollar.

Operating leases

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the lease term.

Share-based payments

The fair value of employee share option plans is calculated using the Black-Scholes pricing model. Non-employee options granted as part of consideration for services rendered are valued at the fair value of those services. Where information on the fair value of services rendered is not readily available, the fair value is calculated using the Black-Scholes pricing model.

In accordance with IFRS 2 Share-based payments the resulting cost is charged to the statement of comprehensive income over the vesting period of the options. The amount of charge is adjusted each year to reflect expected and actual levels of options vesting.

Where equity-settled share options are awarded, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

1 Accounting policies continued

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent measurement depends on the designation of the instrument, as follows:

- Trade and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest, net of allowances for impairment.
- Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest.
- Financial instruments issued by Group companies are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's and Company's ordinary shares are all classified as equity instruments.
- Cash and cash equivalents consist of cash at bank on demand and balances on deposit with an original maturity of three months or less. Some of these funds are held in restricted deposits or escrow accounts as security for suppliers to the Company.

Taxes

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

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

Tax is charged or credited to the statement of comprehensive income, except where the tax relates to items credited or charged directly to equity, in which case the tax is also dealt within equity.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base.

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

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

Critical accounting estimates and judgements and key sources of estimation uncertainty

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

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

Recoverability of exploration and evaluation costs

Expenditure is capitalised as an intangible asset by reference to appropriate CGUs and is assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to:
(i) the timing of future development of the asset;
(ii) funding structures and financing costs of development;
(iii) commercial development opportunities for extracting value from the asset; and
(iv) modelling inputs such as the appropriateness of discount rates, reserve and resource estimates, oil and gas pricing predictions, etc.

Share options

The Group's share-based payments were recognised at fair value using a 60% volatility rate based on long-term average standard deviation of the Company's share price and a 1.5% risk free rate based on current UK Government bond yields.

See note 7.

2 Loss from operations

	2015 $000	2014 $000
Staff costs (note 5)	**1,090**	1,321
Share-based payment – equity settled	**90**	245
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	**70**	74
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**6**	9
Consultancy	**–**	27
Depreciation of office equipment	**1**	2
Operating lease expenses-property	**321**	329
Foreign exchange loss	**679**	910

Notes to the Financial Statements continued

for the Year Ended 31 December 2015

3 Basic and dilutive (loss)/earnings per share

The calculation of the basic and dilutive loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The loss for the financial year for the Group was $2,599,393 (2014 – loss $3,887,512) and the weighted average number of shares in issue for the year was 484,098,484 (2014 – 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 6,150,000 (2014 – 6,150,000) potentially dilutive ordinary shares being the share options (see note 7 for further details).

4 Segment analysis

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

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

5 Staff costs

Company and Group:

Staff costs (including Directors) comprise:

	2015 $	2014 $
Wages and salaries	964	1,172
Employers national insurance contribution	126	149
Total	1,090	1,321
Share-based payment – equity settled	90	201
	1,180	1,522

The average number of employees (including Directors) employed during the year by the Company was six (2014 – six) and for the Group was six (2014 – six). All employees and Directors of the Group and the Company are considered to be the key management personnel.

Of the $90,000 (2014 – $244,715) share-based payment charge included in the consolidated statement of comprehensive income, $90,000 (2014 – $201,053) has been charged in respect of share options granted to staff (including Directors) in the current and prior years. The remaining $nil (2014 – $43,662) relates to share options granted to external parties, see note 7 for further details.

6 Directors' emoluments

The Directors' emoluments for the year are as follows:

	2015 $	2014 $
Directors' fees	691	861
Share-based payments – equity settled	–	123
	691	984

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 $383,821 (2014 – $475,457).

7 Share-based payment

	2015 Weighted average exercise price	2015 Number	2014 Weighted average exercise price	2014 Number
Outstanding at the beginning of the year	39p	6,150,000	56p	6,150,000
Granted during the year	–	–	11.25p	1,400,000
Cancelled during the year	–	–	52p	1,400,000
Outstanding at the end of the year	39p	6,150,000	39p	6,150,000
Exercisable at the end of the year	50p	4,150,000	52p	3,750,000

The weighted average contractual life of the options outstanding at the year end was 6 years (2014 – 7 years).

The range of exercise prices of share options outstanding at the end of the year is 11.25-74p (2014 – 11.25p-74p).

The following information is relevant in the determination of the fair value of the options granted during the prior years under the scheme operated by the company.

	2014	2013
Equity-settled scheme		
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date	11.25p	15p
Exercise price	11.25p	15p
Weighted average contractual life (days)	1,460	1,460
Expected volatility	60%	75%
Risk-free interest rate	1.5%	1.25%
Fair value of options	5p	9p
Option life	4 years	4 years

The expected volatility used to calculate the share-based remuneration expense was based on the standard deviation of the Company's monthly close share prices since inception.

8 Finance income and expense

Finance income

	2015 $000	2014 $000
Bank interest received	47	59
Foreign exchange gain	–	–
	47	59

Finance expense

	2015 $000	2014 $000
Foreign exchange loss	679	910
	679	910

Notes to the Financial Statements continued

for the Year Ended 31 December 2015

9 Tax expense

Current tax expense

	2015 $000	2014 $000
UK corporation tax on loss for the year at 20.25% (2014 – 21.5%)	–	–
Adjustments recognised in the current year in relation to the current tax of prior years	–	–
Total current and deferred tax for the year	–	–

Factors affecting current year tax charge

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to losses for the year are as follows:

	2015 $000	2014 $000
Loss before and after taxation	(2,600)	(3,888)
Standard rate corporation tax charge at 20.25% (2014 – 21.5%)	(527)	(836)
Expenses not deductible for tax purposes	296	466
Adjustments to tax charge in respect of previous periods	0	0
Adjust closing deferred tax to average rate of 20.25%	84	40
Adjust opening deferred tax to average rate of 20.25%	(6)	(15)
Movement in unrecognised deferred tax for the year	153	345
Small companies relief	–	–
Total current and deferred tax for the year	–	–

Factors that may affect future tax charges

The Group has a deferred tax asset of approximately $671,128 (2014 – $546,848) in respect of unrelieved tax losses of approximately $3,728,488 as at 31 December 2015 (2014 – $2,734,239). The rate of tax used in the calculation of the deferred tax asset is 18% (2014 – 20%). The deferred tax asset has not been recognised in the financial statements as the timing of the economic benefit is uncertain.

10 Property, plant and equipment

Group and Company

	Office equipment $000
Cost	
As at 1 January 2014	113
Additions	
As at 31 December 2014	113
Depreciation	
As at 1 January 2014	100
Charge for the year	2
As at 31 December 2014	102
Net book value	
As at 31 December 2014	11

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

11 Intangible assets

Group

	Exploration and evaluation costs $000
Cost	
As at 1 January 2014	286,950
Additions	3,016
As at 31 December 2014	289,966
Net book value	
As at 31 December 2014	289,966

Group

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

On 8 November 2012 the Company received approval from The Falkland Islands Government to proceed into the second term for Production Licenses PL018, PL019 and part of PL020. The other part of PL020, License PL021 and PL022 were relinquished. The second term of the licences expires on 1 November 2017.

12 Investments in subsidiary

Company

	2015 $	2014 $
Cost		
As at 1 January and 31 December	**2**	2
Net book value		
As at 31 December	**2**	2

The Company owns the one ordinary £1 subscriber share, being 100% of the issued share capital, in Borders and Southern Falkland Islands Limited. The Company was registered in England and its principal activity is oil and gas exploration.

13 Other receivables

	Group		Company	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Amounts owed by Group undertakings	**–**	–	**289,769**	290,143
Other receivables	**165**	204	**165**	204
Prepayments and accrued income	**132**	125	**132**	125
	297	329	**290,066**	290,472

All amounts shown under receivables fall due for payment within one year.

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

There are no past dues or impaired receivables at year end.

Notes to the Financial Statements continued

for the Year Ended 31 December 2015

14 Trade and other payables

	Group		Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Trade payables	81	24	81	24
Other taxes and social security costs	42	48	42	48
Accruals and deferred income	160	178	160	178
	283	250	283	250

15 Share capital

	2015 $	2014 $
Authorised		
750,000,000 ordinary shares of 1 pence each (2014 – 750,000,000)	14,926	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2013 – 484,098,484)	8,530	8,530
Share capital		
Brought forward	8,530	8,530
Carried forward	8.530	8,530
Share premium		
Brought forward	308,602	308,602
Carried forward	308,602	308,602

16 Cash and cash equivalents and restricted use cash

Group and Company

	2015 $000	2014 $0000
Cash available on demand	13,011	540
Cash on deposit	1,000	15,539
Total	14,011	16,079

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

17 Related party transactions

Company

During the year Borders & Southern Petroleum Plc paid expenses of $774,513 (2014 – $3,017,706) on behalf of Borders & Southern Falkland Islands Limited. At the year end $289,976,373 (2014 – $290,145,043) was due from the subsidiary.

The employees and Directors of the Group and the Company are considered to be the key management personnel. There were no transactions between the Group, the Company and the key management personnel during the year. The remuneration paid to the key management personnel is disclosed in note 6.

18 Commitments

The total future value of minimum lease payments on office property is due as follows:

	Land and Buildings	
	2015 $	2014 $
Not later than one year	240	329

The Group licence commitment is to drill one exploration well before 1 November 2017.

19 Events after the reporting period

There were no reportable events post reporting date.

20 Financial instruments

The main risks arising from the Group's operations are cash flow interest rate risk, foreign currency translation risk and credit risk. The Group monitors risk on a regular basis and takes appropriate measures to ensure risks are managed in a controlled manner.

Liquidity is not considered to be a risk due to the sufficient cash funds readily available by the Group at the year end.

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

Principal financial instruments

The principal financial instruments used by the group from which financial instrument risk arises, held by category, are as follows:

- Other receivables.
- Cash and cash equivalents.
- Trade and other payables.

The fair values of the Group's financial assets and liabilities at 31 December 2015 and as at 31 December 2015 are materially equivalent to the carrying value as disclosed in the statement of financial position and related notes.

Market risk

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 2015 the Group held cash at bank and in deposits under its control of $14,011,005 (2014 – $16,078,547) which forms the majority of the Group's working capital. Of the cash at bank and in deposit $13,011,005 (2014 – $539,971) 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 $1,000,000 (2014 – $15,569,416) with a weighted average fixed interest rate of 0.2% (2014 – 0.2%) for 3 months. If there was 1% change in interest rates the impact on the statement of comprehensive income would be $132,610 (2014 – $44,427).

b) Foreign currency translation risk

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

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

	Group		Company	
	Other receivables measured at amortised cost 2015 $000	Other receivables measured at amortised cost 2014 $000	**Other receivables measured at amortised cost 2015 $000**	Other receivables measured at amortised cost 2014 $000
Current financial assets				
Held in UK£:				
Other receivables	**297**	329	**297**	329
Cash and cash equivalents	**12,826**	16,030	**12,826**	16,030
Total current financial assets held in UK£	**13,123**	16,359	**13,123**	16,359
Held in US$:				
Trade and other receivables	**–**	–	**289,769**	290,143
Cash and cash equivalents	**1,185**	49	**1,185**	49
Total financial assets	**14,308**	16,408	**304,077**	306,551

If there was a +/-10% change in the year end exchange rate there would be a movement in the US$ equivalent of financial assets held in UK£ of $1,454,000 (2014 – $1,818,000) and $1,189,000 (2014 – $1,487,000) respectively for the Group and Company.

Notes to the Financial Statements continued

for the Year Ended 31 December 2015

20 Financial instruments continued

	Group		Company	
	Financial liabilities measured at amortised cost 2015 $000	Financial liabilities measured at amortised cost 2014 $000	**Financial liabilities measured at amortised cost 2015 $000**	Financial liabilities measured at amortised cost 2014 $000
Held in UK£:				
Trade and other payables	**283**	250	**283**	250
Total financial liabilities	**283**	250	**283**	250

If there was a 10% change in the year end exchange rate there would be a movement in the US$ equivalent of financial liabilities held in the UK£ of $28,300 (2014 – $25,000) for the Group and Company.

Credit risk

Neither the Group nor the Company have customers so formal credit procedures are in the process of being established. During drilling operations, the Group incurred 100% of costs that were shared with other companies and these were invoiced to these companies with all amounts due for these shared costs paid to the group during the year. 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:

	2015		2014	
	Carrying Value $000	**Maximum exposure $000**	Carrying Value $000	Maximum exposure $000
Cash and cash equivalents	**14,011**	**14,011**	16,079	16,079
Maximum credit risk exposure	**14,011**	**14,011**	16,079	16,079

The maximum credit risk for the Company is $303,780,000 (2014 – $306,222,000). The amounts owed by Group undertakings of $289,796,000 (2014 – $290,143,000) are considered to have no credit risk exposure from the Parent Company's point of view.

Capital

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

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