



Exploration for oil and gas

Borders & Southern is focused on exploring frontier or emerging hydrocarbon systems, seeking to identify high value prospects.



View of Stanley from Mount Tumbledown.

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chief executive's statement

Within the last few months the first exploration well in the South Falkland Basin has been drilled. Unfortunately, the results from the BHP Billiton operated Tora well were negative, although some hydrocarbon shows were reported. Whilst we do not have access to the well information we are confident that the well was not a definitive test of the basin and in particular has no impact on the chance of success of the Darwin and Stebbing prospects. Tora, from what we understand, targeted older stratigraphy and was largely a stratigraphic trap defined on 2D seismic, high-graded by a CSEM anomaly. Our prospects are testing younger aged reservoirs and are clearly defined structural traps mapped on 3D seismic. Based on our continuing geological work, we believe our prospects are as exciting as ever and are anxious to see them tested as soon as possible.

With respect to our drilling activities, the company has prepared of detailed project plan for the Darwin and Stebbing prospects. This includes all aspects of shallow hazard assessment, pore pressure prediction, well design and logistics. We have entered

discussions with rig owners and operators with the aim of signing a rig contract or an assignment agreement. At the present time we have still not secured a rig for our work and it looks like our previously targeted window for operations (Q4 2010 – Q1 2011) has slipped. Consequently we will not be drilling in 2010, but remain optimistic that we will sign a rig for drilling in 2011. The delay has been caused by the competition for high specification rigs and the logistical challenges associated with operations in the Falkland Islands.

From a financial point of view, our balance sheet remains robust. As at 30 June 2010 the company had a cash balance of \$205m. This gives us the strength and independence to undertake the exploration programme that we wish. We remain focused on accessing a rig and will inform investors of the likely timing of drilling as soon as we have signed a contract.

Howard Obee
Chief Executive

consolidated statement of comprehensive income

for the six months ended 30 June 2010

	Notes	6 months ended 30 June 2010 (unaudited) \$	6 months ended 30 June 2009 (unaudited) \$	12 months ended 31 December 2009 (audited) \$
Administrative expenses		(613,543)	(488,551)	(1,209,977)
Loss from operations		(613,543)	(488,551)	(1,209,977)
Finance income	4	240,420	1,848,130	4,587,604
Finance expense – foreign exchange loss		(299,062)	—	(226,891)
(Loss)/profit before tax		(672,185)	1,359,579	3,150,736
Income tax expense		—	—	—
(Loss)/profit for the period and total comprehensive (loss)/income for the period attributable to owners of the parent		(672,185)	1,359,579	3,150,736
(Loss)/earnings per share – basic and diluted	3	(0.16) cents	0.70 cents	1.54 cents

consolidated statement of financial position

at 30 June 2010

	At 30 June 2010 (unaudited) \$	At 30 June 2009 (unaudited) \$	At 31 December 2009 (audited) \$
Assets			
Non-current assets			
Property, plant and equipment	21,177	13,756	19,516
Intangible assets	36,780,101	36,195,286	36,619,040
Total non-current assets	36,801,278	36,209,042	36,638,556
Current assets			
Trade and other receivables	203,110	109,840	100,191
Cash and cash equivalents	205,395,260	20,785,178	206,321,177
Total current assets	205,598,370	20,895,018	206,421,368
Total assets	242,399,648	57,104,060	243,059,924
Liabilities			
Current liabilities			
Trade and other payables	(133,292)	(107,631)	(244,680)
Total net assets	242,266,356	56,996,429	242,815,244
Capital and reserves			
Share capital	7,675,453	3,867,741	7,675,453
Share premium account	238,034,095	57,906,686	238,034,095
Other reserve	476,583	260,749	353,286
Retained deficit	(3,903,379)	(5,022,351)	(3,231,194)
Foreign currency reserve	(16,396)	(16,396)	(16,396)
Total equity	242,266,356	56,996,429	242,815,244

consolidated statement of changes in equity

for the six months ended 30 June 2010

	Share capital \$	Share premium reserve \$	Other reserves \$	Foreign currency reserve \$	Retained earnings \$	Total \$
Unaudited						
Balance at 1 January 2010	7,675,453	238,034,095	353,286	(16,396)	(3,231,194)	242,815,244
Total comprehensive income for the period	—	—	—	—	(672,185)	(672,185)
Recognition of share based payments	—	—	123,297	—	—	123,297
Balance at 30 June 2010	7,675,453	238,034,095	476,583	(16,396)	(3,903,379)	242,266,356
Unaudited						
Balance at 1 January 2009	3,867,741	57,906,686	209,409	(16,396)	(6,381,930)	55,585,510
Total comprehensive income for the period	—	—	—	—	1,359,579	1,359,579
Recognition of share based payments	—	—	51,340	—	—	51,340
Balance at 30 June 2009	3,867,741	57,906,686	260,749	(16,396)	(5,022,351)	56,996,429
Audited						
Balance at 1 January 2009	3,867,741	57,906,686	209,409	(16,396)	(6,381,930)	55,585,510
Total comprehensive income for the year	—	—	—	—	3,150,736	3,150,736
Issue of share capital	3,807,712	180,127,409	—	—	—	183,935,121
Recognition of share based payments	—	—	143,877	—	—	143,877
Balance at 31 December 2009	7,675,453	238,034,095	353,286	(16,396)	(3,231,194)	242,815,244

consolidated statement of cash flows

for the six months ended 30 June 2010

	6 months ended 30 June 2010 (unaudited) \$	6 months ended 30 June 2009 (unaudited) \$	12 months ended 31 December 2009 (audited) \$
Cash flows from operating activities			
(Loss)/profit before tax	(672,185)	1,359,579	3,150,736
Adjustments for:			
Depreciation	1,863	4,073	9,206
Share-based payment	123,297	51,340	143,877
Finance income	(240,420)	(1,848,130)	(4,587,604)
Finance expense	299,062	—	226,891
	(488,383)	(433,138)	(1,056,894)
Decrease/(increase) in trade and other receivables	(13,830)	2,943	12,841
Decrease in trade and other payables	(111,388)	(87,139)	49,910
Net cash outflow from operating activities	(613,601)	(517,334)	(994,143)
Cash flows used in investing activities			
Interest received	151,330	290,624	359,490
Redemption of other financial assets	—	9,950,668	9,950,668
Exploration and evaluation expenditure	(161,061)	(154,425)	(578,180)
Purchase of property, plant and equipment	(3,524)	(2,897)	(13,793)
Net cash used in investing activities	(13,255)	10,083,970	9,718,185
Cash flows from financing activities			
Exchange gain on forward contract	—	—	4,366,870
Proceeds from issue of shares and share options (net of issue costs)	—	—	183,935,121
	—	—	188,301,991
Net increase/(decrease) in cash and cash equivalents	(626,856)	9,566,636	197,026,033
Cash and cash equivalents at the beginning of the period	206,321,178	9,522,035	9,522,035
Exchange (losses)/gains on cash and cash equivalents	(299,062)	1,696,507	(226,891)
Cash and cash equivalents at the end of the period	205,395,260	20,785,178	206,321,177

notes to the consolidated interim financial statements

for the six months ended 30 June 2010

1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared using the recognition and measurement principles of International Accounting Standards, International Reporting Standards and Interpretations adopted for use in the European Union (collectively EU IFRSs). The group has not elected to comply with IAS 34 Interim Financial Reporting as permitted. The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the group's annual report for the year ended 31 December 2009 and are expected to be consistent with those policies that will be in effect at the year end.

In the current financial year, the group has adopted IAS 27 Consolidated and separate financial statements, IAS 39 Reclassification of financial assets, and Improvements to IFRSs (2010) – amendments to various standards issued 16 April 2009. This has not had any impact on the figures stated in these interim financial statements.

The condensed financial statements for the six months ended 30 June 2010 and 30 June 2009 are unreviewed and unaudited. The comparative financial information does not constitute statutory financial statements as defined by Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2009 is not the company's full statutory accounts for that period. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2)–(3) of the Companies Act 2006.

Effective 1 July 2009, the company's functional currency changed from Pounds Sterling (£) to the US dollar (\$). This change was made as, due to the \$ being the currency that mainly influences significant transactions and balances, the directors considered the \$ to most faithfully represent the economic effects of the underlying transactions, events and conditions in the company.

2 Segmental analysis

The company operates in one operating segment (exploration and gas) and in substantially one geographical market (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, all other non-current assets are located in the Falkland Islands.

3 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period. Diluted earnings per share are not stated as the dilution would relate only to share options and would not be material.

	(Loss)/profit after tax for the period \$	Weighted average number of shares	(Loss)/profit per share cent
Basic and diluted			
Six months ended 30 June 2010 (unaudited)	(672,185)	428,578,404	(0.16)
Six months ended 30 June 2009 (unaudited)	1,359,579	194,344,170	0.70
12 months ended 31 December 2009 (audited)	3,150,736	204,611,972	1.54

4 Finance income and expense

Finance income

	6 months ended 30 June 2010 \$	6 months ended 30 June 2009 \$	12 months ended 31 December 2009 \$
Bank interest receivable	240,420	101,963	171,075
Treasury stock interest	—	49,660	49,659
Foreign exchange gain	—	1,696,507	4,366,870
	240,420	1,848,130	4,587,604

Finance expense

	6 months ended 30 June 2010 \$	6 months ended 30 June 2009 \$	12 months ended 31 December 2009 \$
Exchange loss on cash and other financial assets	299,062	—	226,891

corporate directory

Directors	David Harry Williamson Dobson Stephen James Douglas Posford Howard Kevin Obee Christopher Nigel Hurst-Brown Peter William Fleming
Secretary	William John Walton Slack
Registered office	3 Cophall Avenue London EC2R 7BH
Business address	33 St James's Square London SW1Y 4JS
Nominated advisor and joint broker	Panmure Gordon & Co. Moorgate Hall 155 Moorgate London EC2M 6XB
Joint broker	Mirabaud Securities LLP 33 Grosvenor Place London SW1Y 7HY
Joint broker	Ocean Equities Limited 3 Cophall Avenue London EC2R 7BH
Solicitors to the company as to English Law	Denton Wilde Spate 1 Fleet Place London EC4M 7WS
Registrars	Capita Registrars 34 Beckenham Road Beckenham BR3 4TU
Bankers	Lloyds TSB Bank plc 19–21 The Quadrant Richmond Surrey PW9 1BP HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
Independent auditors	BDO LLP Chartered Accountants & Registered Auditors 55 Baker Street London W1U 7EU

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