

**Borders & Southern Petroleum Plc**  
Interim report 2014

# Oil and gas exploration and appraisal

# About us

**Borders & Southern is an independent oil and gas exploration company. Headquartered in London, the Company's principal area of activity is in the Falkland Islands.**

The Company holds a 100% operated interest in three Production licences covering an area of nearly 10,000 square kilometres.

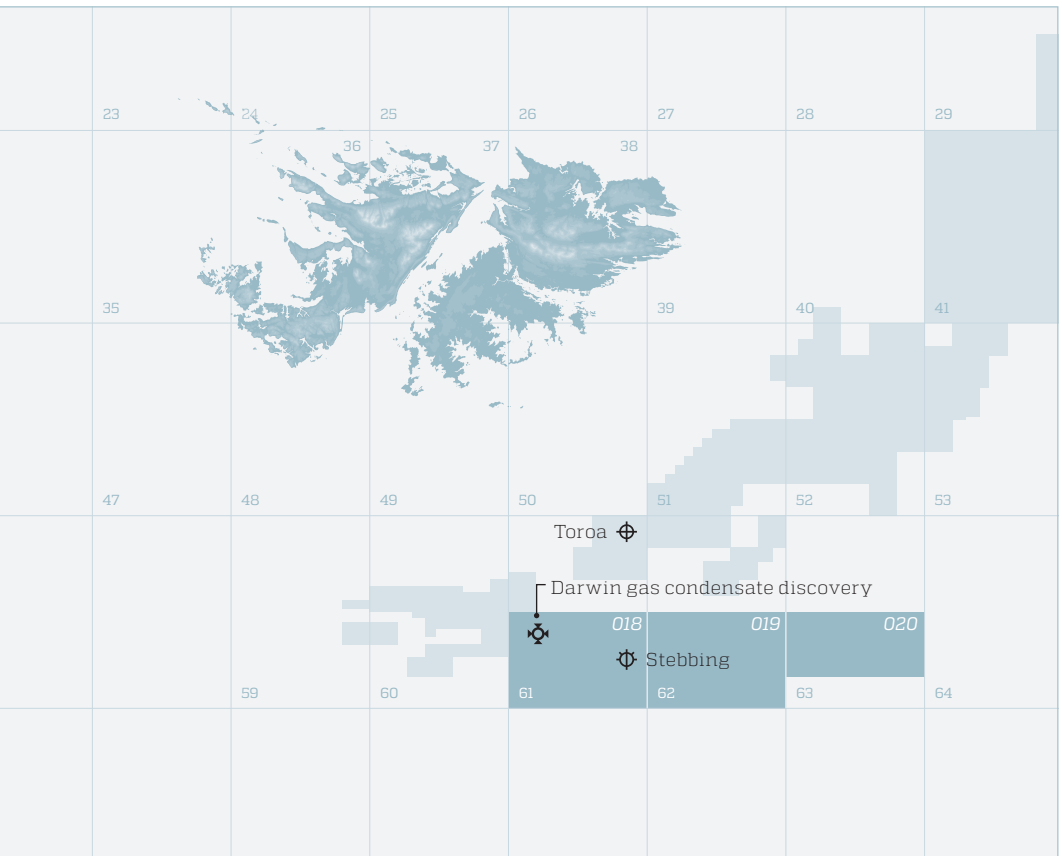
In 2012, Borders & Southern made a significant gas condensate discovery with its first exploration well. The Company is currently working towards the appraisal of this discovery along with further exploration of the surrounding area.

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## Highlights

- The technical evaluation of the merged 2008 and 2013 3D seismic surveys is progressing.
- Phase 2 reservoir engineering study completed with new base case estimate of wet gas in place of 2.6 tcf and the recovered condensate of 263 million barrels.
- Discussions with companies regarding the farmout of Borders & Southern's acreage continue.
- Planning for an appraisal/exploration programme is advancing.
- Cash balance as of 30 June 2014: \$21.5m - sufficient to cover forward overhead costs and all necessary short-term technical studies.



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## Chief executive's statement



During the first half of the year the Company received the final processed data from the 2013 3D seismic acquisition programme, along with the reprocessed data of the 2008 3D seismic survey. The two surveys have been merged together to form one continuous volume covering an area of just over 2,500 square kilometres. Based on this new data and our Phase 2 reservoir engineering study, in June of this year we reported that our estimated most likely recoverable resource for Darwin (East and West combined) was 263 million barrels of condensate from a wet gas in place estimate of 2.6 tcf. It was also noted that this number could increase if the appraisal programme confirms additional reservoir intervals.

Detailed technical analysis of the Darwin East discovery continues, including the selection of potential appraisal well locations. Evaluation of nearby prospects is also underway. Initial mapping has identified numerous amplitude anomalies at the same stratigraphic interval as the Darwin reservoir. The next phase of the evaluation is to complete a detailed seismic reservoir characterisation study, using the well data to calibrate the seismic response. It is hoped that the study may allow us to differentiate between oil, gas and water charged reservoirs and therefore rank the anomalies and prospects that have been identified. This work, currently in the planning stage, will continue through the fourth quarter of 2014.

Our main commercial thrust has been to bring partners into our acreage. Discussions with companies continue and our objective is to reach a conclusion so that we can participate in the 2015 Falkland Islands drilling programme that has been announced by other companies operating in the Falkland Islands. The conceptual well designs for an exploration and appraisal programme with associated logistical planning is in an advanced stage allowing us to join the consortium as soon as partnering and funding has been secured.

In the six month period to 30 June 2014, the Company reports a loss of \$0.9m (30 June 2013: \$3.3m loss). Administrative expenses for the six month period were \$1.7m (30 June 2013: \$1.4m). The cash balance remains strong at \$21.5m.

**Howard Obee**  
Chief Executive

# Consolidated statement of comprehensive income

for the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 (unaudited) \$	Six months ended 30 June 2013 (unaudited) \$
Administrative expenses		(1,664,997)	(1,388,347)
<b>Loss from operations</b>		<b>(1,664,997)</b>	<b>(1,388,347)</b>
Finance income	3	731,505	40,254
Finance expense	3	—	(2,011,254)
<b>Loss before tax</b>		<b>(933,492)</b>	<b>(3,359,347)</b>
Tax expense		—	—
<b>Loss for the period and total comprehensive loss for the period attributable to equity owners of the parents</b>		<b>(933,492)</b>	<b>(3,359,347)</b>
<b>Loss per share – basic and diluted</b>	2	<b>(0.2) cents</b>	<b>(0.7) cents</b>

# Consolidated statement of financial position

at 30 June 2014

	Notes	At 30 June 2014 (unaudited) \$	At 31 December 2013 (audited) \$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		11,858	12,801
Intangible assets		289,786,678	286,950,378
<b>Total non-current assets</b>		289,798,536	286,963,179
<b>Current assets</b>			
Other receivables		575,834	1,017,040
Restricted use cash	4	30,739	30,736
Cash and cash equivalents		21,473,836	23,258,717
<b>Total current assets</b>		22,080,409	24,306,493
<b>Total assets</b>		311,878,945	311,269,672
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(2,817,231)	(1,306,889)
Current tax liability		—	(185,327)
<b>Total liabilities</b>		(2,817,231)	(1,492,216)
<b>Total net assets</b>		309,061,714	309,777,456
<b>Equity</b>			
Share capital		8,530,461	8,530,461
Share premium account		308,602,131	308,602,131
Other reserve		2,252,418	2,034,668
Retained deficit		(10,306,900)	(9,373,408)
Foreign currency reserve		(16,396)	(16,396)
<b>Total equity</b>		309,061,714	309,777,456

# Consolidated statement of changes in equity

for the six months ended 30 June 2014

	Share capital \$	Share premium account \$	Other reserve \$	Retained Deficit \$	Foreign currency reserve \$	Total \$
<b>Unaudited</b>						
Balance at 1 January 2014	8,530,461	308,602,131	2,034,668	(9,373,408)	(16,396)	309,777,456
Total comprehensive loss for the period	—	—	—	(933,492)	—	(933,492)
Recognition of share-based payments	—	—	217,750	—	—	217,750
<b>Balance at 30 June 2014</b>	<b>8,530,461</b>	<b>308,602,131</b>	<b>2,252,418</b>	<b>(10,306,900)</b>	<b>(16,396)</b>	<b>309,061,714</b>
<b>Unaudited</b>						
Balance at 1 January 2013	8,530,461	308,602,131	1,607,559	(6,417,882)	(16,396)	312,305,873
Total comprehensive income for the period	—	—	—	(3,359,347)	—	(3,359,347)
Recognition of share-based payments	—	—	189,810	—	—	189,810
<b>Balance at 30 June 2013</b>	<b>8,530,461</b>	<b>308,602,131</b>	<b>1,797,369</b>	<b>(9,777,229)</b>	<b>(16,396)</b>	<b>309,136,336</b>
<b>Audited</b>						
Balance at 1 January 2013	8,530,461	308,602,131	1,607,559	(6,417,882)	(16,396)	312,305,873
Total comprehensive loss for the year	—	—	—	(2,955,526)	—	(2,955,526)
Recognition of share-based payments	—	—	427,109	—	—	427,109
<b>Balance at 31 December 2013</b>	<b>8,530,461</b>	<b>308,602,131</b>	<b>2,034,668</b>	<b>(9,373,408)</b>	<b>(16,396)</b>	<b>309,777,456</b>

# Consolidated statement of cash flows

for the six months ended 30 June 2014

	Six months ended 30 June 2014 (unaudited) \$	Six months ended 30 June 2013 (unaudited) \$
<b>Cash flow from operating activities</b>		
Loss before tax	(933,492)	(3,359,347)
Adjustments for:		
Depreciation	943	4,495
Share-based payment	217,750	189,810
Finance income	(731,505)	1,946,380
Finance expense	(13,089)	24,620
	(1,459,393)	(1,194,042)
Decrease in trade and other receivables	441,206	456,259
Increase/(decrease) in trade and other payables	957,125	(1,960,478)
Tax paid	(185,327)	—
<b>Net cash outflow from operating activities</b>	<b>(246,389)</b>	<b>(2,698,261)</b>
<b>Cash flows used in investing activities</b>		
Interest received	33,613	40,254
Interest paid	—	—
Purchase of intangible fixed assets	(2,283,083)	(27,277,906)
Purchase of property, plant and equipment	—	—
Net cash used in investing activities	(2,249,470)	(27,237,652)
	(2,495,859)	(29,935,913)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	—	—
<b>Net decrease in cash and cash equivalents</b>	<b>(2,495,859)</b>	<b>(29,935,913)</b>
Cash, cash equivalents and restricted use cash at the beginning of the period	23,289,453	56,435,057
Exchange gains/(losses) on cash and cash equivalents	710,981	(2,011,254)
Cash, cash equivalents and restricted use cash at the end of the period	21,504,575	24,487,890



# Notes to the unaudited consolidated interim financial statements

*for the six months ended 30 June 2014*

## 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 financial statements are unchanged from those disclosed in the group's annual report for the year ended 31 December 2013 and are expected to be consistent with those policies that will be in effect at the year end.

The condensed financial statements for the six months ended 30 June 2014 and 30 June 2013 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 2013 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 auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor's 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.

## 2. 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 group was loss making so there is no significant difference between basic and diluted earning per share.

	Loss after tax for the period \$	Weighted average number of shares	Loss per share cent
<b>Basic and diluted</b>			
<b>Six months ended 30 June 2014 (unaudited)</b>	<b>(933,492)</b>	<b>484,098,484</b>	<b>(0.2)</b>
Six months ended 30 June 2013 (unaudited)	(3,359,347)	484,098,484	(0.7)

# Notes to the unaudited consolidated interim financial statements continued

for the six months ended 30 June 2014

## 3. Finance income and expense

### Finance income

	Six months ended 30 June 2014 \$	Six months ended 30 June 2013 \$
Bank interest receivable	33,613	40,254
Foreign exchange gain	697,892	—
	731,505	40,254

### Finance expense

	Six months ended 30 June 2014 \$	Six months ended 30 June 2013 \$
Exchange loss on cash and other financial assets	—	2,011,254

## 4. Restricted use cash

The Company has placed funds with a bank as security for a letter of credit issued in favour of a Company providing it services. As payment for these services is made, these funds will be released to the Company.

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## Corporate directory

<b>Directors</b>	Harry Dobson Howard Obee Peter Fleming Stephen Posford Nigel Hurst-Brown	<b>Solicitors</b>	Dentons UKMEA LLP One Fleet Place London EC4M 7WS
<b>Secretary</b>	William Slack	<b>Registrars</b>	Capita Asset Services Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
<b>Registered office</b>	One Fleet Place London EC4M 7WS	<b>Bankers</b>	Lloyds TSB Bank plc 19–21 The Quadrant Richmond Surrey TW9 1BP
<b>Business address</b>	33 St James's Square London SW1Y 4JS		HSBC Bank plc 69 Pall Mall London SW1Y 5EZ
<b>Nominated advisor and joint broker</b>	Panmure Gordon & Co One New Change London EC4M 9AF	<b>Independent auditor</b>	BDO LLP 55 Baker Street London W1U 7EU
<b>Joint broker</b>	Mirabaud Securities LLP 33 Grosvenor Place London SW1X 7HY		
<b>Joint broker</b>	Pareto Securities Ltd 8 Angel Court London EC2R 7HJ		



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