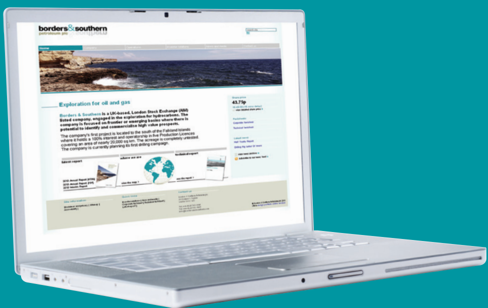
Unlocking the potential for major new resource discoveries

Borders & Southern Petroleum Plc
Interim Report 2011

borders&southern
petroleum plc

Highlights

- Signed Assignment Agreement for the Leiv Eiriksson
- Finalised well engineering for the Darwin and Stebbing wells
- Set up an operations base in the Falkland Islands
- Cash balance as of 30 June 2011, $197 million



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

The company's first drilling campaign will target an untested fold belt in the South Falkland Basin.

Our operations

Borders & Southern holds a 100% equity interest and operatorship in five Production Licences located to the south of the Falkland Islands. The acreage covers an area of nearly 20,000 sq km.

We have acquired and evaluated 2,862 km of 2D seismic data and 1,492 sq km of 3D seismic data and have compiled an extensive prospect inventory.

Logistical planning is well underway as we target the first quarter 2012 to spud our first exploration well.

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Chief executive's statement

We are now only a few months away from the start of our drilling programme in the Falkland Islands. Our project plan is on track and the logistics team are making good progress with mobilising equipment and supplies. An office has been set up in the Falklands and the supply base will be ready by the end of November. We have assembled a very experienced operations team of drilling superintendents, supervisors and engineers and they are already preparing for the arrival of the rig.

We are currently anticipating a mid January start date for drilling, although this is still some what fluid due to the uncertainty of when the Leiv Eiriksson will finish its current operations in Greenland. Once the rig has left Greenland and has made good progress on its voyage to the Falklands, an announcement will be made with a more accurate estimate for the spud date of the first well.

Our plan is to drill the Darwin prospect first (estimated recoverable resource of 300 to 760 million barrels), followed by Stebbing (estimated recoverable resource of 710 to 1,280 million barrels). As reported previously, our selected first two prospects are geologically independent, other than they require the same source rock to be present. Success or failure with the first well therefore has no impact on the second. Depending on the well outcomes, our extensive prospect inventory provides multiple follow up options. These include look-a-like folds and tilted fault blocks along with alternative play types such as stratigraphically trapped basin floor fans.

The combined two well programme is estimated to last approximately 90 days. The rig will then drill two wells for Falkland Oil and Gas. The two companies are working closely together by sharing resources where possible to deliver cost savings for both companies.

The company's financial statements show a cash balance including restricted use cash of $197 million. This includes gains recorded as a result of currency movements. The funds are held in sterling and dollar treasury deposits with two UK based banks. Whilst the cash balance is net of payments already made on the long lead items such as casing and well heads, the majority of the pre-drilling expenditures are yet to be reflected in the accounts. Capital costs have started and will continue to accelerate in the second half of the year as the rig gets closer to being on location.

Based on current cost estimates, the company believes it has sufficient funds to complete its two well drilling programme with contingency.

Howard Obee
Chief Executive

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Consolidated statement of comprehensive income

for the six months ended 30 June 2011

	Notes	**6 months ended 30 June 2011 (unaudited) $**	6 months ended 30 June 2010 (unaudited) $	12 months ended 31 December 2010 (audited) $
Administrative expenses		**(942,784)**	(613,543)	(1,504,467)
Loss from operations		**(942,784)**	(613,543)	(1,504,467)
Finance income	3	**1,703,995**	240,420	1,359,497
Finance expense	3	**—**	(299,062)	(20,313)
Profits/(loss) before tax		**761,211**	(672,185)	(165,283)
Tax expense		**(320,000)**	—	—
Profit/(loss) for the period and total comprehensive income/(loss) for the period attributable to equity owners of the parent		**441,211**	(672,185)	(165,283)
Earnings/(loss) per share – basic and diluted	2	**0.10 cents**	(0.16) cents	(0.039) cents

Consolidated statement of financial position

at 30 June 2011

	At 30 June 2011 (unaudited) $	At 30 June 2010 (unaudited) $	At 31 December 2010 (audited) $
Assets			
Non-current assets			
Property, plant and equipment	**10,222**	21,177	13,110
Intangible assets	**39,148,560**	36,780,101	37,730,165
Total non-current assets	**39,158,782**	36,801,278	37,743,275
Current assets			
Other receivables	**9,638,438**	203,110	11,315,514
Restricted use cash	**35,543,923**	—	—
Cash and cash equivalents	**161,772,970**	205,395,260	194,130,019
Total current assets	**206,955,331**	205,598,370	205,445,533
Total assets	**246,114,113**	242,399,648	243,188,808
Liabilities			
Current liabilities			
Trade and other payables	**(2,310,191)**	(133,292)	(271,471)
Current tax liability	**(320,000)**	—	—
Total liabilities	**(2,630,191)**	(133,292)	(271,471)
Total net assets	**243,483,922**	242,266,356	242,917,337
Equity			
Share capital	**7,675,453**	7,675,453	7,675,453
Share premium account	**238,034,095**	238,034,095	238,034,095
Other reserve	**746,036**	476,583	620,662
Retained deficit	**(2,955,266)**	(3,903,379)	(3,396,477)
Foreign currency reserve	**(16,396)**	(16,396)	(16,396)
Total equity	**243,483,922**	242,266,356	242,917,337

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Consolidated statement of changes in equity

for the six months ended 30 June 2011

	Share capital $	Share premium reserve $	Other reserves $	Retained deficit $	Foreign currency reserve $	Total $
Unaudited						
Balance at 1 January 2011	7,675,453	238,034,095	620,662	(3,396,477)	(16,396)	242,917,337
Total comprehensive income for the period	—	—	—	441,211	—	441,211
Recognition of share-based payments	—	—	125,374	—	—	125,374
Balance at 30 June 2011	**7,675,453**	**238,034,095**	**746,036**	**(2,955,266)**	**(16,396)**	**243,483,922**
Unaudited						
Balance at 1 January 2010	7,675,453	238,034,095	353,286	(3,231,194)	(16,396)	242,815,244
Total comprehensive loss 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	(3,903,379)	(16,396)	242,266,356
Audited						
Balance at 1 January 2010	7,675,453	238,034,095	353,286	(3,231,194)	(16,396)	242,815,244
Total comprehensive loss for the year	—	—	—	(165,283)	—	(165,283)
Recognition of share-based payments	—	—	267,376	—	—	267,376
Balance at 31 December 2010	7,675,453	238,034,095	620,662	(3,396,477)	(16,396)	242,917,337

Consolidated statement of cash flows

for the six months ended 30 June 2011

	6 months ended 30 June 2011 (unaudited) $	6 months ended 30 June 2010 (unaudited) $	12 months ended 31 December 2010 (audited) $
Cash flows from operating activities			
Profit/(loss) before tax	**761,211**	(672,185)	(165,283)
Adjustments for:			
Depreciation	**2,888**	1,863	9,930
Share-based payment	**125,374**	123,297	267,376
Finance income	**(1,703,995)**	(240,420)	(1,359,497)
Finance expense	**—**	299,062	20,313
	(814,522)	(488,383)	(1,227,161)
Decrease/(increase) in trade and other receivables	**1,677,076**	(13,830)	(11,216,086)
Increase/(decrease) in trade and other payables	**2,045,949**	(111,388)	26,791
Net cash inflow/(outflow) from operating activities	**2,908,503**	(613,601)	(12,416,456)
Cash flows used in investing activities			
Interest received	**211,790**	151,330	520,830
Exploration and evaluation expenditure	**(1,418,395)**	(161,061)	(1,111,125)
Purchase of property, plant and equipment	**—**	(3,524)	(3,524)
Net cash used in investing activities	**(1,206,605)**	(13,255)	(593,819)
Cash flows from financing activities			
Interest paid	**—**	—	(20,313)
	—	—	(20,313)
Net increase/(decrease) in cash and cash equivalents	**1,701,898**	(626,856)	(13,030,588)
Cash, cash equivalents and restricted use cash at the beginning of the period	**194,130,019**	206,321,178	206,321,177
Exchange gains/(losses) on cash and cash equivalents	**1,484,976**	(299,062)	839,430
Cash, cash equivalents and restricted use cash at the end of the period	**197,316,893**	205,395,260	194,130,019

Notes to the consolidated interim financial statements

for the six months ended 30 June 2011

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 2010 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 2011 and 30 June 2010 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 2010 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.

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. Due to the small number of share options granted relative to issued capital, diluted earnings per share rounds to the same number of earnings per share.

	Profit/(loss) after tax for the period/year $	Weighted average number of shares	Earnings/(loss) per share cent
Basic and diluted			
Six months ended 30 June 2011 (unaudited)	**441,211**	**428,578,404**	**0.10**
Six months ended 30 June 2010 (unaudited)	(672,185)	428,578,404	(0.16)
Twelve months ended 31 December 2010 (audited)	(165,283)	428,578,404	(0.039)

3. Finance income and expense

Finance income

	6 months ended 30 June 2011 $	6 months ended 30 June 2010 $	12 months ended 31 December 2010 $
Bank interest receivable	**219,019**	240,420	520,067
Foreign exchange gain	**1,484,976**	—	839,430
	1,703,995	240,420	1,359,497

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2011

3. Finance income and expense continued

Finance expense

	6 months ended 30 June 2011 $	6 months ended 30 June 2010 $	12 months ended 31 December 2010 $
Exchange loss on cash and other financial assets	**—**	299,062	20,313

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.

Corporate directory

Directors	Harry Dobson Stephen Posford Howard Obee Nigel Hurst-Brown Peter Fleming
Secretary	William Slack
Registered office	3 Copthall Avenue London EC2R 7BH
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Joint broker	Mirabaud Securities LLP 33 Grosvenor Place London SW1X 7HY
Joint broker	Ocean Equities Limited 3 Copthall Avenue London EC2R 7BH
Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Bankers	Lloyds TSB Bank plc 19–21 The Quadrant Richmond Surrey TW9 1BP HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Investor relations	Tavistock Communications 131 Finsbury Pavement London EC2A 1NT

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