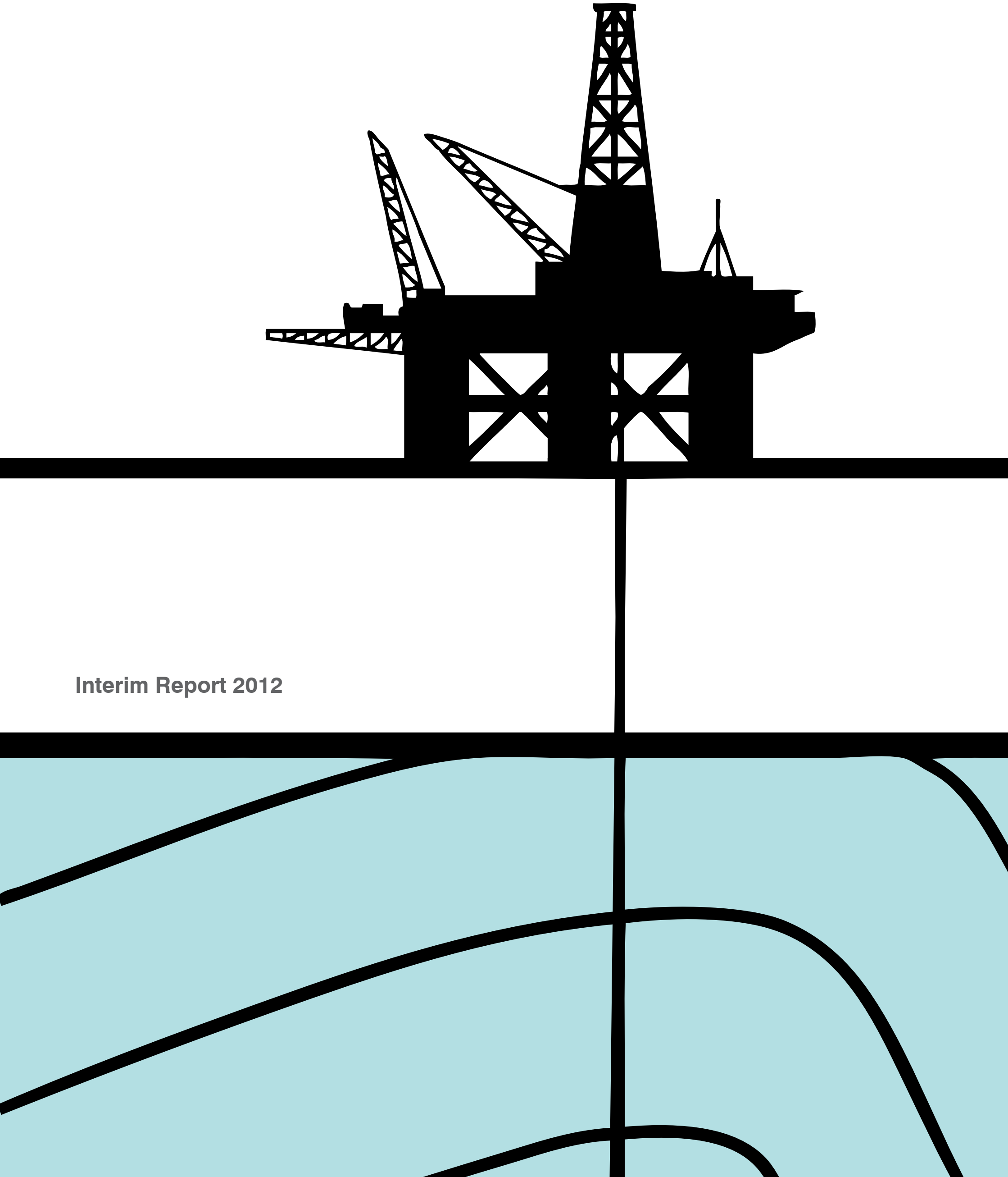
borders&southern
petroleum plc



Interim Report 2012

Borders & Southern Petroleum Plc is an oil & gas exploration company focused on frontier and emerging basins.

Based in London and listed on the London Stock Exchange (AIM), the company operates five Production licences (100% interest) covering an area of nearly 20,000 sq km in the Falkland Islands.

We have acquired and evaluated 2,862 km of 2D and 1,492 sq km of 3D seismic data. Our first two well drilling programme has been completed and resulted in a significant gas condensate discovery.

For up-to-date information on our share price and all the latest news please visit our website
www.bordersandsouthern.com

The Leiv Eiriksson drilling rig

Highlights

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- Safely executed a two well exploration drilling programme in the Falkland Islands.
- Made a gas condensate discovery with recoverable liquids in the range 130 to 250m barrels.
- Identified a significant number of structural and stratigraphic prospects within the now proven Early Cretaceous play fairway.
- Entered negotiations with a seismic contractor to acquire additional 3D seismic.
- Cash balance (including restricted use cash) as of 30 June 2012 was $122m.
- Based on current estimates, the company will have a cash balance of $50 to $55m after all 2012 operations expenditures have been accounted for.
- In order to help fund the next phase of drilling operations, the company will shortly look to farmout some of its 100% interest in its discovery and adjacent exploration areas.

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Chief executive's statement

The company's first drilling programme resulted in one discovery and one well with very strong gas shows but which failed to evaluate all reservoir targets due to abnormal pressures.

The Darwin gas condensate discovery has a relatively high liquid content. Initial reservoir modelling indicates a range in recoverable resource of 130 to 250m barrels of 46 to 49 degree API condensate. Log analysis indicates that the reservoir quality is good. The well encountered 67.8m of net pay with average porosity of 22% and average permeability of 337 mD. The well also confirmed that the seismic amplitude anomalies, identified on 3D seismic data prior to drilling, correspond directly to hydrocarbon charged reservoir. This ability to identify good quality reservoir and hydrocarbons on seismic will have significant benefits in high grading future exploration prospects.

In contrast, the Stebbing well encountered a hydrocarbon charged, poorly defined reservoir interval in the Tertiary. It is clear that significant hydrocarbons have charged the structure but the reservoir was characterised by thinly laminated siltstones and claystones. Good average porosity values of 19% were measured on logs but due to the thin-bedded nature of the interval it was not possible to gain a clear indication of fluid type, nor hydrocarbon saturation. Again, there was a good correlation between hydrocarbons encountered in the well and seismic amplitude anomalies. Whilst these anomalies can be traced over a large area onto the adjacent FitzRoy structure, the company's initial assessment is that this target is unlikely to be commercial. For this reason the company believes that its short-term focus should be on the Early Cretaceous play fairway.

The company's exploration portfolio contains a number of Early Cretaceous prospects that have been identified on 2D seismic data but are located outside the 3D coverage. In order to mature these prospects and to enhance our understanding of this Early Cretaceous play fairway, the company initiated a competitive tender for the acquisition of a new 3D seismic survey. We are currently finalising contract discussions with the selected contractor and hope to have a vessel to start acquisition in mid January 2013. The survey area will measure approximately 1100 sq km and be located adjacent to the existing 3D area. Key objectives from the survey are to provide greater definition to our Covington, Childs and Bute prospects along with potentially identifying new Early Cretaceous prospects. The company also intends to reprocess some of its existing 3D data with the aim of providing greater definition to our Chaffers and Burgess prospects.

In the interim period prior to seismic acquisition there are numerous technical studies underway or about to be commissioned including: reservoir engineering, fluid analysis, sedimentology and petrology, biostratigraphy, geochemistry, petrophysics, rock physics, pore pressure analysis and drilling optimisation studies. Additionally, we have commissioned a screening facilities study to assess a range of potential development concepts along with economics in order to understand the commercial thresholds for existing and potential future discoveries.

At the end of October, the first exploration term under our Production licences comes to an end. Having exceeded our work programme obligations for the first exploration period, we have indicated to the Falkland Islands Government our intent to enter the second five-year exploration term. This will have a one well work programme commitment associated with it. At the same time we are obliged to relinquish 50% of our current acreage which will reduce our holding to just under 10,000 sq km. This can be done without impacting the prospectivity and a proposed relinquishment area has been submitted to the Falkland Islands Government for approval.

The company is still in the process of closing out drilling operations from earlier in the year. Once the rig and equipment have been demobilised towards the end of the year, we will have an accurate view of costs for the operation. Based on current estimates, the company will have a cash balance of \$50 to \$55m after all 2012 operations expenditures have been accounted for. In order to help fund the next phase of drilling operations, the company will shortly look to farmout some of its 100% interest in its discovery and adjacent exploration areas.

Howard Obee
Chief Executive

Consolidated statement of comprehensive income

for the six months ended 30 June 2012

	Notes	**Six months ended 30 June 2012 (unaudited) $**	Six months ended 30 June 2011 (unaudited) $	Twelve months ended 31 December 2011 (audited) $
Administrative expenses		**(1,237,093)**	(942,784)	(2,081,967)
Loss from operations		**(1,237,093)**	(942,784)	(2,081,967)
Finance income	3	**159,721**	1,703,995	360,037
Finance expense		**—**	—	(13,465)
(Loss)/profit before tax		**(1,077,372)**	761,211	(1,735,395)
Tax expense		**—**	(320,000)	(5,506)
(Loss)/profit for the period and total comprehensive (loss)/income for the period attributable to equity owners of the parent		**(1,077,372)**	441,211	(1,740,901)
(Loss)/earnings per share – basic and diluted	2	**(0.2) cents**	0.1 cents	(0.4) cents

Consolidated statement of financial position

at 30 June 2012

	Notes	At 30 June 2012 (unaudited) $	At 30 June 2011 (unaudited) $	At 31 December 2011 (audited) $
Assets				
Non-current assets				
Property, plant and equipment		**20,773**	10,222	20,629
Intangible assets		**230,313,934**	39,148,560	64,643,520
Total non-current assets		**230,334,707**	39,158,782	64,664,149
Current assets				
Other receivables		**1,755,844**	9,638,438	1,544,103
Restricted use cash	4	**60,191,585**	35,543,923	80,947,886
Cash and cash equivalents		**62,461,656**	161,772,970	95,776,313
Total current assets		**124,409,085**	206,955,331	178,268,302
Total assets		**354,743,792**	246,114,113	242,932,451
Liabilities				
Current liabilities				
Trade and other payables		**(42,529,315)**	(2,310,191)	(1,330,112)
Current tax liability		**—**	(320,000)	—
Total liabilities		**(42,529,315)**	(2,630,191)	(1,330,112)
Total net assets		**312,214,477**	243,483,922	241,602,339
Equity				
Share capital		**8,530,461**	7,675,453	7,675,453
Share premium account		**308,602,131**	238,034,095	238,034,095
Other reserve		**1,313,031**	746,036	1,046,565
Retained deficit		**(6,214,750)**	(2,955,266)	(5,137,378)
Foreign currency reserve		**(16,396)**	(16,396)	(16,396)
Total equity		**312,214,477**	243,483,922	241,602,339

Consolidated statement of changes in equity

for the six months ended 30 June 2012

	Share capital $	Share premium reserve $	Other reserves $	Retained deficit $	Foreign currency reserve $	Total $
Unaudited						
Balance at 1 January 2012	**7,675,453**	**238,034,095**	**1,046,565**	**(5,137,378)**	**(16,396)**	**241,602,339**
Total comprehensive loss for the period	**—**	**—**	**—**	**(1,077,372)**	**—**	**(1,077,372)**
Issue of ordinary shares	**855,008**	**70,568,036**	**—**			**71,423,044**
Recognition of share-based payments	**—**	**—**	**266,466**	**—**	**—**	**266,466**
Balance at 30 June 2012	**8,530,461**	**308,602,131**	**1,313,031**	**(6,214,750)**	**(16,396)**	**312,214,477**
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
Audited						
Balance at 1 January 2011	7,675,453	238,034,095	620,662	(3,396,477)	(16,396)	242,917,337
Total comprehensive loss for the year	—	—	—	(1,740,901)	—	(1,740,901)
Recognition of share-based payments	—	—	425,903	—	—	425,903
Balance at 31 December 2011	**7,675,453**	**238,034,095**	**1,046,565**	**(5,137,378)**	**(16,396)**	**241,602,339**

Consolidated statement of cash flows

for the six months ended 30 June 2012

	Six months ended 30 June 2012 (unaudited) $	Six months ended 30 June 2011 (unaudited) $	Twelve months ended 31 December 2011 (audited) $
Cash flow from operating activities			
(Loss)/profit before tax	**(1,077,372)**	761,211	(1,735,395)
Adjustments for:			
Depreciation	**4,000**	2,888	13,606
Share-based payment	**266,466**	125,374	425,903
Finance income	**(159,721)**	(1,703,995)	(360,037)
Finance expense	**—**	—	13,465
	(966,627)	(814,522)	(1,642,458)
(Increase)/decrease in trade and other receivables	**(211,741)**	3,684,305	402,423
Increase in trade and other payables	**41,199,203**	38,720	1,058,641
Tax paid	**—**	—	(5,506)
Net cash inflow/(outflow) from operating activities	**40,020,835**	2,908,503	(186,900)
Cash flows used in investing activities			
Interest received	**66,214**	211,790	360,743
Interest paid	**—**	—	(254)
Exploration and evaluation expenditure	**(165,670,414)**	(1,418,395)	(17,545,073)
Purchase of property, plant and equipment	**(4,144)**	—	(21,125)
Net cash used in investing activities	**(165,608,344)**	(1,206,605)	(17,205,709)
	(125,587,509)	1,701,898	(17,392,609)
Cash flows from financing activities			
Proceeds from issue of shares	**71,423,044**	—	—
Net (decrease)/increase in cash and cash equivalents	**(54,164,465)**	1,701,898	(17,392,609)
Cash, cash equivalents and restricted use cash at the beginning of the period	**176,724,199**	194,130,019	194,130,019
Exchange gains/(losses) on cash and cash equivalents	**93,507**	1,484,976	(13,211)
Cash, cash equivalents and restricted use cash at the end of the period	**122,653,241**	197,316,893	176,724,199

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 2011 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 2012 and 30 June 2011 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 2011 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 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. (Loss)/earnings per share

The calculation of the basic earnings per share is based on the (loss)/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 effect of the loss is considered anti-dilutive.

	(Loss)/profit after tax for the period $	Weighted average number of shares	(Loss)/ earnings per share cent
Basic and diluted			
Six months ended 30 June 2012 (unaudited)	**(1,077,372)**	**442,071,503**	**(0.2)**
Six months ended 30 June 2011 (unaudited)	441,211	428,578,404	0.1
Twelve months ended 31 December 2011 (audited)	(1,740,901)	428,578,404	(0.4)

Notes to the consolidated interim financial statements (continued)

for the six months ended 30 June 2012

3. Finance income and expense

Finance income

	Unaudited Six months ended 30 June 2012 $	Unaudited Six months ended 30 June 2011 $	Audited Twelve months ended 31 December 2011 $
Bank interest receivable	**66,214**	219,019	360,037
Foreign exchange gain	**93,507**	1,484,976	—
	159,721	1,703,995	360,037

Finance expense

	Six months ended 30 June 2012 $	Six months ended 30 June 2011 $	Twelve months ended 31 December 2011 $
Exchange loss on cash and other financial assets	**—**	—	13,211

4. Restricted use cash

The company has placed funds with a bank as security for a letter of credit and has funds held in an escrow account in both cases to provide suppliers with security of payment.

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