



borders&**southern**
petroleum plc

Interim report 2013

Borders & Southern (AIM: BOR) 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 retains a 100% interest and operatorship 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 now working towards the appraisal of this discovery along with further exploration of the surrounding area.

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Highlights

- ▶ Acquired 1,025 square kilometres of 3D seismic
- ▶ Received fast track processed seismic and completed initial interpretation
- ▶ Farmout process is progressing
- ▶ Cash balance as of 30 June 2013: \$24.46m

Chief executive's statement

Activity during the first half of this year has focused around reservoir engineering studies of the Darwin discovery, the acquisition and processing of new 3D seismic, well planning for the next drilling campaign and the initiation of a farmout of the Company's acreage.

Reservoir engineering has concentrated on building more sophisticated models to incorporate detailed mapping of faults and internal reservoir facies variations along with our enhanced understanding of the fluid properties. Well information and mapped seismic attributes have been used to weight modelled reservoir properties. This work will continue and will again be modified once we have received the reprocessed seismic data next year. The work will ultimately result in revised estimated recoverable volumes for the discovery and provide drilling locations for appraisal wells.

Fast track processed data from the 3D seismic survey, completed earlier in the year, has been received and interpreted. Not only does the new data confirm our understanding of the potential of prospects such as Covington, it also provides valuable new insights into the regional geology. Amplitude anomalies, which occur at the same level as the Darwin reservoir, appear very encouraging. Additional amplitude anomalies observed at a slightly younger stratigraphic level than the Darwin reservoir also look intriguing. The full assessment of these anomalies will be undertaken on the final product. It is hoped that the merged reprocessed 2008 3D seismic and the new fully processed 2013 seismic will be ready by the end of the first quarter next year.

Planning for the next drilling campaign is underway. Conceptual well designs for appraisal and exploration wells have been completed. Working with other Falkland Operators we have completed a market enquiry for a suitable rig. Whilst there is a possibility for the joint operations to commence in the fourth quarter 2014, the most likely timing for the next drilling campaign is 2015. In order to participate in a shared rig programme the Company needs to secure a partner. Our farmout process is in progress and we will report further in due course.

Howard Obee
Chief Executive

Consolidated statement of comprehensive income

for the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 (unaudited) \$	Six months ended 30 June 2012 (unaudited) \$	Twelve months ended 31 December 2012 (audited) \$
Administrative expenses		(1,388,347)	(1,237,093)	(3,125,685)
Loss from operations		(1,388,347)	(1,237,093)	(3,125,685)
Finance income	3	40,254	159,721	2,023,224
Finance expense	3	(2,011,254)	–	–
Loss before tax		(3,359,347)	(1,077,372)	(1,102,461)
Tax expense		–	–	(178,043)
Loss for the period and total comprehensive loss for the period attributable to equity owners of the parent		(3,359,347)	(1,077,372)	(1,280,504)
Loss per share – basic and diluted	2	(0.7) cents	(0.2) cents	(0.3) cents

Consolidated statement of financial position

at 30 June 2013

	Notes	At 30 June 2013 (unaudited) \$	At 30 June 2012 (unaudited) \$	At 31 December 2012 (audited) \$
Assets				
Non-current assets				
Property, plant and equipment		16,278	20,773	20,773
Intangible assets		285,289,156	230,313,934	258,011,250
Total non-current assets		285,305,434	230,334,707	258,032,023
Current assets				
Other receivables		1,088,298	1,755,844	1,544,557
Restricted use cash	4	30,730	60,191,585	44,715,158
Cash and cash equivalents		24,457,160	62,461,656	11,719,899
Total current assets		25,576,188	124,409,085	57,979,614
Total assets		310,881,622	354,743,792	316,011,637
Liabilities				
Current liabilities				
Trade and other payables		(1,567,243)	(42,529,315)	(3,527,721)
Current tax liability		(178,043)	—	(178,043)
Total liabilities		(1,745,286)	(45,529,315)	(3,705,764)
Total net assets		309,136,336	312,214,477	312,305,873
Equity				
Share capital		8,530,461	8,530,461	8,530,461
Share premium		308,602,131	308,602,131	308,602,131
Other reserve		1,797,369	1,313,031	1,607,559
Retained deficit		(9,777,229)	(6,214,750)	(6,417,882)
Foreign currency reserve		(16,396)	(16,396)	(16,396)
Total equity		309,136,336	312,214,477	312,305,873

Consolidated statement of changes in equity

for the six months ended 30 June 2013

	Share capital \$	Share premium account \$	Other reserves \$	Retained deficit \$	Foreign currency reserve \$	Total \$
Unaudited						
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 period	–	–	–	(3,359,347)	–	(3,359,347)
Recognition of share-based payments	–	–	189,810	–	–	189,810
Balance at 30 June 2013	8,530,461	308,602,131	1,797,369	(9,777,229)	(16,396)	309,136,336
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 income 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
Audited						
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 year	–	–	–	(1,280,504)	–	(1,280,504)
Issue of ordinary shares	855,008	70,568,036	–	–	–	71,423,044
Recognition of share-based payments	–	–	560,994	–	–	560,994
Balance at 31 December 2012	8,530,461	308,602,131	1,607,559	(6,417,882)	(16,396)	312,305,873

Consolidated statement of cash flows

for the six months ended 30 June 2013

	Six months ended 30 June 2013 (unaudited) \$	Six months ended 30 June 2012 (unaudited) \$	Twelve months ended 31 December 2012 (audited) \$
Cash flow from operating activities			
Loss before tax	(3,359,347)	(1,077,372)	(1,102,461)
Adjustments for:			
Depreciation	4,495	4,000	4,000
Share-based payment	189,810	266,466	560,994
Finance income	(40,254)	(159,721)	(2,023,224)
Finance expense	2,011,254	–	532,591
	(1,194,042)	(966,627)	(2,028,100)
Decrease/(increase) in trade and other receivables	456,259	(211,741)	(454)
(Decrease)/increase in trade and other payables	(1,960,478)	41,199,203	11,248
Tax paid	–	–	–
Net cash (outflow)/inflow from operating activities	(2,698,261)	40,020,835	(2,017,306)
Cash flows used in investing activities			
Interest received	40,254	66,214	225,545
Purchase of intangible assets	(27,277,906)	(165,670,414)	(191,181,369)
Purchase of property, plant and equipment	–	(4,144)	(4,144)
Net cash used in investing activities	(27,237,652)	(165,608,344)	(190,959,968)
	(29,935,913)	(125,587,509)	(192,977,274)
Cash flows from financing activities			
Proceeds from issue of shares	–	71,423,044	71,423,044
Net (decrease)/increase in cash and cash equivalents	(29,935,913)	(54,164,465)	(121,554,230)
Cash, cash equivalents and restricted use cash at the beginning of the period/year	56,435,057	176,724,199	176,724,199
Exchange (losses)/gains on cash and cash equivalents	(2,011,254)	93,507	1,265,088
Cash, cash equivalents and restricted use cash at the end of the period	24,487,890	122,653,241	56,435,057

Notes to the unaudited consolidated interim financial statements

for the six months ended 30 June 2013

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 2012 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 2013 and 30 June 2012 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 2012 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 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 Loss per share

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

	Loss after tax for the period \$	Weighted average number of shares	Loss per share cent
Basic and diluted			
Six months ended 30 June 2013 (unaudited)	(3,359,347)	484,098,484	(0.7)
Six months ended 30 June 2012 (unaudited)	(1,077,372)	442,071,503	(0.2)
Twelve months ended 31 December 2012 (audited)	(1,280,504)	463,145,812	(0.3)

Notes to the unaudited consolidated interim financial statements *continued*

for the six months ended 30 June 2013

3 Finance income and expense

Finance income

	Unaudited Six months ended 30 June 2013 \$	Unaudited Six months ended 30 June 2012 \$	Audited Twelve months ended 31 December 2012 \$
Bank interest receivable	40,254	66,214	225,545
Foreign exchange gain	—	93,507	1,797,679
	40,254	159,721	2,023,224

Finance expense

	Unaudited Six months ended 30 June 2013 \$	Unaudited Six months ended 30 June 2012 \$	Audited Twelve months ended 31 December 2012 \$
Exchange loss on cash	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.

Corporate directory

Directors	Harry Dobson Howard Obee Peter Fleming Nigel Hurst-Brown Stephen Posford	Solicitors	Denton UKMEA LLP One Fleet Place London EC4M 7WS
Secretary	William Slack	Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Registered office	One Fleet Place London EC4M 7WS	Bankers	Lloyds TSB Bank plc 19-21 The Quadrant Richmond Surrey PW9 1BP
Business address	33 St James's Square London SW1Y 4JS		HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
Nominated advisor and joint broker	Panmure Gordon & Co One New Change London EC4M 9AF	Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Joint broker	Mirabaud Securities LLP 33 Grosvenor Place London SW1X 7HY		
Joint broker	Ocean Equities Limited 8 Angel Court London EC2R 7HJ		



33 St James's Square
London SW1Y 4JS
United Kingdom

Telephone: +44 (0)20 7661 9348

Fax: +44 (0)20 7661 8055

info@bordersandsouthern.com

www.bordersandsouthern.com