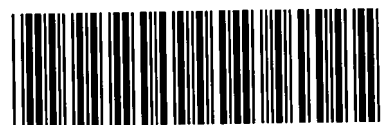




Borders & Southern Petroleum Plc
ANNUAL REPORT AND ACCOUNTS 2021

SATURDAY



AB5YHCLV

A05

11/06/2022

#91

COMPANIES HOUSE

Borders & Southern is an independent oil and gas exploration company, currently active in the Falkland Islands where it holds three Production Licences covering an area of nearly 10,000 square kilometres. The Company was successful with its first exploration drilling campaign, making a significant gas condensate discovery, Darwin.

CONTENTS

Strategic Report

- 2 Highlights 2021 and Company Overview
- 3 Chairman's and CEO's Review
- 4 Business Model
- 5 Darwin Gas Condensate Discovery
- 6 Principal Risks and Uncertainties

Governance

- 9 Introduction to Governance
- 10 Board of Directors
- 11 Remuneration Committee Report
- 12 Directors' Report
- 14 Independent Auditor's Report

Financial Statements

- 20 Consolidated Statement of Comprehensive Income
- 21 Consolidated Statement of Financial Position
- 22 Consolidated Statement of Changes in Equity
- 23 Company Statement of Financial Position
- 24 Company Statement of Changes in Equity
- 25 Consolidated Statement of Cash Flows
- 26 Company Statement of Cash Flows
- 27 Notes to the Financial Statements
- 42 Corporate Directory

Further information:

www.bordersandsouthern.com

HIGHLIGHTS 2021

- Cash balance on 31 December 2021: \$0.714 million (2020: \$2.18 million)
- Administrative expense for the year: \$1.1 million (2020: \$1.0 million)
- Operating loss of \$1.0 million (2020: \$1.0 million)
- Farm-out process continues
- Post year-end events:
 - extended Production Licences and Discovery Area through to 31 December 2022
 - raised \$1.8 million (before expenses) through the issue of 103,858,914 new Ordinary shares
 - the total number of Ordinary shares in issue is now 587,957,318
 - the Open Offer for excess shares was significantly over-subscribed
 - currently evaluating different development options including an accelerated production development

Company Overview

Borders & Southern is listed on the AIM market of the London Stock Exchange plc. The Company holds an operating interest (100%) in three Production Licences in the Falkland Islands which provide exclusive rights for surveying, drilling and production within the specified area. The acreage covers nearly 10,000 square kilometres and is located approximately 150 km south-east of the Islands.

The Company has acquired 2,517 km of 3D seismic data and drilled two exploration wells. The first well, Darwin, resulted in a major, liquids rich, gas condensate discovery. The second well, Stebbing, had good hydrocarbon shows, but failed to reach its target depth. The Company's strategic imperative is to monetise the Darwin discovery prior to exploiting its extensive exploration prospect inventory.

Our vision is to be a successful exploration company through the discovery and monetisation of hydrocarbons for the benefit of all our stakeholders.

Our values are to always act with integrity and honesty. Our drive to succeed will not compromise high standards of business ethics. We will act safely and responsibly in all activities.

Our short-term objective is to monetise the Darwin discovery as quickly as possible, then return to our extensive prospect inventory and test further exploration prospects. The first step is to secure funding / partners for the next phase of operations.

CHAIRMAN'S AND CEO'S REVIEW

The Company reports an operating loss for 2021 of \$1.0 million (2020: \$1.0 million). Administrative expense for the year was \$1.1 million (2020: \$1.0 million). The cash balance at year end was \$0.714 million (2020: \$2.18 million). The Company continues to be debt-free. Due to the declining cash balance the Company decided in late 2021 to raise additional funds. This was completed in April this year through a \$600,000 Subscription for 34,702,000 new Ordinary Shares and an Open Offer for \$1.2 million through the issue of 69,156,914 new Ordinary Shares. The response to the Open Offer was extremely positive and resulted in a significant over-subscription and we are grateful for the support from existing shareholders. The funding was approved by shareholder resolutions at a General Meeting on April 2022.

The funding coincided with a significant upturn in oil price. Brent crude started to strengthen from the beginning of the 2022 but spiked significantly higher (towards \$130 per barrel) during March as a response to the tragic events in Eastern Europe. It is always difficult to predict future oil price movements, but there are clearly new considerations now in play for the energy transition, such as energy security. It is uncertain what impact this will have on oil & gas company strategies and from our perspective, what bearing it will have on our ability to attract partners to the Darwin project, but we will continue, with the help of our advisors, to promote the strong merits of a development.

Our technical and commercial work recently has concentrated on investigating a range of Darwin development scenarios. This focus has been on reducing initial capital expenditure, delivering a fast payback on that capital, minimising the environmental footprint and, at the same time, ensuring the break-even oil price is below \$40 a barrel.

As a result we have prioritised a phased development concept starting with around 25,000bpd of liquids production and using that cash flow to increase production after a few years. Initial production could come from 2 wells with a further well for gas re-injection. Our initial studies have concluded that this approach greatly reduces capital expenditure and results in a payback of that capital within two years.

Over the coming months we plan to commission an externally led technical study to scrutinise these plans and assumptions and will be in a position to report these results when available. If this study supports our internal findings, we believe this will make the Darwin development project much more attractive to incoming investors and partners as it will offer an investment with lower capital commitments, robustness under most near term oil price scenarios and a quick pay back on the invested capital.

In January we applied for, and were granted, an extension to our Production Licences and Discovery Area. The revised expiry date is 31 December 2022. This is the maximum extension currently available and did not come with additional work obligations.

Harry Dobson

Non-Executive Chairman

Howard Obee

Chief Executive

May 2022

BUSINESS MODEL

Our aim is to create value through the discovery and monetisation of hydrocarbons.

The Company's exploration strategy focuses on frontier and emerging basins, with an intention to establish a significant acreage position at relatively low cost. The basins we evaluate must have the potential to yield substantial yet-to-find resources, hold large prospect sizes and display good evidence for a working source rock. We ensure a comprehensive technical screening is completed prior to entry to help mitigate the sub-surface risks, coupled with economic modelling to confirm that the project rewards justify the investment decision.

The acquisition of high-quality 3D seismic data allows us to apply our detailed petroleum systems analysis, compile a comprehensive prospect inventory and high-grade a list of drilling targets. Financial resources through the capital markets or from interested farm-in partners enable a drilling programme to proceed.

If exploration drilling is successful, additional funds will again be sought, through either the capital markets or partners. This will facilitate an appraisal drilling campaign with an objective to constrain resource estimates and test reservoir deliverability and thereby assess the commerciality of the discovery.

Following successful appraisal and continued positive economic projections a detailed engineering and cost analysis of development concepts are undertaken prior to design selection and final investment decision. Funding at this stage is likely to come from both debt and equity.

Our Team

We have a small, experienced team, supported by expert consultants who have worked with the Company over a long period of time. Our key strengths are:

Technical Rigour

The team has a proven track record in basin evaluation and discovery. We acquire high quality data, use leading edge technology and create meticulous sub-surface interpretations.

Commercial Discipline

The Company has robust financial controls in-place. We maintain a low overhead, hold no debt, and ensure that our financial resources are effectively directed towards our strategic objectives.

Risk Management

Our activities are underpinned by thorough risk identification, monitoring and mitigation. Prior to operational phases, Company policies are reviewed and modified to ensure current industry best practice standards are applied. We aim to operate responsibly, displaying care and respect to all our stakeholders and the environment.

DARWIN GAS CONDENSATE DISCOVERY

The Darwin gas condensate discovery is located 150 km south of the Falkland Islands, in 2000m of water. It comprises two adjacent tilted fault blocks (Darwin East & West). The liquids-rich discovery has been independently assessed to contain 3.2 TCF of wet gas initially in-place, with a contingent (2C) and prospective resource of 462 million barrels of condensate and LPG.

The reservoir comprises high-quality, laterally continuous shallow marine sands. It is exceptionally imaged on 3D seismic data, where hydrocarbons are marked by a positive AVO response, a clear flat spot and amplitude conformance to structure. The area of seismic amplitude anomaly is 26 square kilometres. The wet gas contains a large volume of LPGs as well as condensate. An independent un-risked resource assessment concluded:

Estimated Wet Gas Initially In-place (Bscf)

	Low	Best	High
Darwin East	659	1,096	1,759
Darwin West	1,361	2,110	3,160

Best Estimate Gross Contingent & Prospective Resource

	Condensate (MMSTB)	Condensate & LPG (MMBBL)
Darwin East (2C Contingent Resource)	115	170
Darwin West (Prospective)	202	292

Darwin Key Facts

Licence: PL018

Discovery well number: 61/17-1

Water depth: 2011 metres

Structure: Tilted fault blocks

Gross reservoir interval: 84.5 metres

Average porosity: 22% (up to 30%)

Initial condensate yield: 148 stb/MMscf

B&S interest: 100%

Discovery date: April 2012

Total depth: 4876 metres

Reservoir: Early Cretaceous

Net pay: 67.8 metres

Average permeability: 337 mD (up to 1D)

Condensate API: 46 to 49 degrees

Appraisal & Development

Further drilling is required for Darwin to proceed towards development. This is to confirm the resource estimates, define the gas contact, demonstrate reservoir deliverability and assess if there is an oil rim to the discovery. Multiple development options are possible, ranging from a full field 90,000 bpd, 10 well project (6 production, 4 gas injection wells) to a 3 well (2 production, 1 injection well), lower capital, development of Darwin East.

Exploration Inventory

The Company holds an exciting portfolio of amplitude supported prospects. Management's total un-risked best estimate prospective resource for near-field prospects exceeds one billion barrels. Additional, higher risk, structural and stratigraphic prospects within the licenced acreage exceed 5 billion barrels (management estimates).

PRINCIPAL RISKS AND UNCERTAINTIES

As an oil and gas exploration company, Borders & Southern is subject to a variety of risks and uncertainties. Managing risk effectively is fundamental to delivering safe and responsible business plans and strategic objectives. Our approach is to ensure that all significant risks are identified, their potential impact understood, and the likelihood of their occurrence assessed. The Board of Directors review the risk register and ensure management plans are put in place where appropriate.

Sub-surface risk – exploration for oil and gas is inherently a risky business and commercial success cannot be guaranteed. Whilst many of the technical risks can be mitigated, they cannot be eliminated.

The Company has an experienced sub-surface team with a proven track record. Industry experts provide specialist supplementary skills. Current technologies and techniques are used in all evaluations.

Health and Safety risk – drilling for oil and gas in a remote, offshore environment presents many risks to personal safety including serious injury or death.

The Company employs experienced drilling management teams. Prior to operations, detailed risk assessments and mitigation plans are put in place, along with emergency response exercises, closely following industry best practices.

Environmental risk – the Falkland Islands are located in a remote area with an abundant range of wildlife and plant life that could be at risk from operational incidents.

Prior to operations, the Company undertakes detailed environmental impact assessments and baseline studies using industry specialists. Mitigation plans are put in place including oil response training for all relevant personnel.

Climate change risk – the activities of exploration and production companies could be subject to restrictions or moratoriums in response to carbon emission reduction targets.

A Darwin development would have a lower carbon signature than many oil developments around the world. There is no indication that the Falkland Islands Government want to place restrictions on the production of hydrocarbons as the potential revenues will have a profound economic benefit to the Islands.

Financial (access to capital) risk – The Company may need to raise further funds to carry out the implementation of its business plan. There can be no assurance that further funds will not be required in the future to complete future drilling or carry out the implementation of the Group's business plan

The Company holds a high-quality asset (Darwin) with a low break-even oil price and a relatively small environmental footprint. Based on economic and environmental considerations, the Board considers Darwin to be very competitive against other global opportunities.

Post balance date the Company raised £1.35 million (\$1.8 million) in additional funds to ensure it is able to meet its overheads for the coming year.

Energy Market Volatility – energy prices have historically been very volatile with the potential for sustained low prices in the future. Whilst the Company can, when in production, potentially hedge some of this risk, it is very likely that the Company would continue to be impacted by any volatility in the energy markets.

The Darwin project appears very robust at current levels of oil price. Project modelling suggests it is economic down to at least \$40 per barrel.

COVID-19 Pandemic – whilst the oil and gas industry has adapted to COVID-19 in terms of safe operating, there remains a risk that operations will once again be disrupted by new variants of COVID in the future. This could result in delays and additional costs for the Company.

The Company is confident that it will be able to operate within best practice practices that have emerged to cope with outbreaks of COVID.

Political risk – the sovereignty of the Falkland Islands is challenged by Argentina.

In the 2013 referendum in the Falkland Islands the people voted unequivocally to remain as a British Overseas Territory. The British Government strongly supports the Falkland Islands right to determine their own future and rebuts Argentina's claim to sovereignty.

Russia's war with Ukraine

Whilst the Company is not currently in operations, if the Russia/Ukraine is on-going when it is operating, it could disrupt the supply chains and increase costs.

The oil industry is global with multiple supply sources around the world and has proven historically to be adept at adjusting to changing circumstances.

PRINCIPAL RISKS AND UNCERTAINTIES continued

Dependence on key personnel – the success of the Group, in common with other businesses of a similar size, will be dependent on the expertise and experience of its directors and senior management. The loss of key personnel could harm the business or cause delays to the plans of the Group whilst management time is directed at finding suitable replacements. The future success of the Group is in part dependent upon its ability to identify, attract, motivate and retain staff with the requisite experience.

Measures are in place and are under review to reward and retain key individuals and to protect the Group from the impact of staff turnover.

Reliance on third parties – the Group may contract with third parties for commercial evaluation and support, equipment and services. The failure of a third party to perform its obligations and quality could subject the Group to additional costs, delays or abandonment of the projects.

The oil industry is global and services, people and equipment can be sourced from many parts of the world, often at short notice.

ESG

Borders & Southern's business is to create value through the discovery and monetisation of hydrocarbons. To be successful, we recognise that all our stakeholders should benefit, including shareholders, host governments, the communities in which we operate, employees and partners. We aim to conduct our operations safely, in line with industry best practice. We focus on limiting and mitigating our impact on the environment and we aim to conduct operations in an ethical and transparent way with strong corporate governance.

Climate Change and the Energy Transition

The 2016 Paris Agreement sets out targets to reduce the anthropogenic emissions of gases that contribute towards global warming. Energy production through the combustion of fossil fuels is one of several factors that contribute to greenhouse gas emissions. But with energy demand expected to increase in line with continued global population growth and economic development, the transition away from fossil-based energy resources to greener, renewable forms of energy is complex. During the transition, hydrocarbons will remain an important resource, although high grading of projects is likely to occur. The Company believes that Darwin is a worthy project to progress during the energy transition, due to the condensed environmental impact of the development and the nature of the produced hydrocarbons.

At present the Company is in a non-operational phase and has a minimal environmental footprint. But this will change when we enter the appraisal drilling phase, with an increase in emissions. Prior to the start of operations, the Company commits to fully integrating climate change into its business plan. We will define measures, report transparently, and mitigate our own emissions as far as practicable.

Directors' Duties

The Directors act in accordance with a set of duties detailed in section 172 of the Companies Act which are summarised as follows:

- A director of a company must act in the way they consider, in good faith, would be the most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so, have regard to:
 - The likely consequences of any decisions in the long term;
 - The interests of the company's employees;
 - The need to foster the company's business relationships with suppliers, customers and others;
 - The impact of the company's operations on the community and environment;
 - The desirability of the company maintaining a reputation for high standards of business conduct; and
 - The need to act fairly between shareholders of the company.

Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

At 31 December 2021, the Group had a net cash position of \$0.714m (31 December 2020: \$2.184m). The Group does not have any external borrowings or debts. The Group has a commitment to drill a well before the expiry of its production licence in December 2022 (see note 19). The Group plans to fund the well through a farm-out. If the Group is not able to farm-out before

PRINCIPAL RISKS AND UNCERTAINTIES continued

December 2022, the Group would seek to gain an extension to the licences and the associated commitment to drill the well. This is in line with previous extensions and the Directors are confident that further extensions will be granted.

The Group's board of directors have reviewed the Group's forecasts for a period of no less than twelve months from the date of approval of these financial statements, the period to May 2023.

Based on these forecasts, in the absence of a farm-out, the directors identified that further funding would be required to cover administrative costs and licence fees until May 2023. At present the cost base of the business principally consists of administrative costs, listing costs and costs to maintain the licences in good-standing. In order to meet this cost base a capital raise was initiated in March 2022 and raised \$1.8 million (£1.35 million) before expenses, with the completion of the capital raise being announced in early April 2022. Based on the future cashflow forecasts the Directors consider this recent funding provides the Group and Parent Company with sufficient funding until early 2023. Therefore in the absence of a farm-out agreement or other funding arrangement contributing further working capital to the Group or Company, additional funding will may be required, before May 2023, to meet the day to day operational cashflow requirements, noted above, of the Group and Parent Company.

These events or conditions indicate the existence of a material uncertainty which may cast doubt on the Group and Parent Company's ability to continue as a going concern and therefore that the Group and Company may be unable to realise their assets in the normal course of business.

Section 172 Statement

In addition to that outlined in the Chairman's and CEO's report (page 3) the ESG section above and in the Director's Report (pages 11-12), the Directors fulfilled their duties during the year in the following ways.

Throughout the year the Company has engaged with its key stakeholders and has incorporated their feedback into the Board's main strategic decisions. The two principal areas of strategic focus have been the pursuit of funding/partners for the next phase of operations and the advancement of the sub-surface technical work.

As a company active in the Falkland Islands we ensure we represent the interests of the Falkland Islands community, the Falkland Islands Government, Department of Minerals and environmental groups. As a member of FIPLA (Falkland Islands Petroleum Licensee's Association), not only do we foster relationships with other Falkland Islands operating companies, but also engage with the government on petroleum policy development and matters impacting our business. We also provide support to environmental groups for base-line studies with the objective of minimising our impact on the natural environment. Through our monthly reporting to the Falkland Islands Department of Minerals we communicate developments in our sub-surface work and listen to any feedback offered by their advisors at the British Geological Survey.

In our technical work, we have developed wider relationships with the academic community. For many years we have made our data available to certain British universities and mentored students.

The Company's strategies, results and on-going developments are communicated to shareholders and other stakeholders through the Company's website, incorporating London Stock Exchange public releases and presentation material. The Board of Directors are made aware of shareholder comments and feedback. Shareholders are encouraged, where possible, to attend the annual AGM to offer direct feedback to all the Company's Directors.

As a relatively small company with a business structure that has a limited number of in-house roles supported by expert out-sourced functions, we are able to ensure a high level of communication with all employees. This cultivates a good appreciation of business risks and objectives and provides employees with direct access to all Board members and input into critical decision making.

The Strategic Report was approved by the Directors on May 2022 and signed on its behalf by:

Harry Dobson

Non-Executive Chairman

INTRODUCTION TO GOVERNANCE

Principles of corporate governance

I am, along with the rest of the directors, responsible for corporate governance. The board currently comprises the Non-Executive Chairman, two Executive Directors and one Non-executive Director. The roles of the Chairman and CEO are separate and clearly defined. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. One of the critical roles of the board is to make decisions that are in the best interests of the Company and that follow the six key factors in S172(1) of the Companies Act. The board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. The board considers that the current balance of Executive and Non-executive Directors is appropriate for the Company, taking into account its size and status. All Directors retire by rotation.

QCA Corporate Governance

The Company follows the QCA corporate governance code which was chosen as the most appropriate for the time being. The Company remains compliant with the principles of the code and further details can be found on its website under investor relations/ corporate governance.

My role as Chairman

I have been Chairman of the Company since its inception and I am responsible for the effective running of the board and for ensuring that it plays a constructive role in the development of the Company. Together with the Chief Executive Officer, I also set and run the board meeting agendas. I am in regular contact with the Chief Executive Officer on matters to do with the strategy.

Role of the Non-executive Director

William Hodson brings oil and gas business experience to the board and its Committees. He provides independent views on the Company's performance, operations and strategy.

Audit Committee

The Audit Committee comprises two Non- executive Directors. The members of the Audit Committee and their attendance at meetings of the Audit Committee during 2021 are detailed in the Directors' Report.

The objectives of the Audit Committee are to ensure:

- the accuracy and integrity of the financial statements and related disclosures;
- the keeping of adequate books, records and internal controls;
- compliance with legal and regulatory requirements; and
- oversight and communication with the Auditors

Internal Controls

The board is responsible for approving all major projects, external reports and budgets. The Company has robust internal controls and risk management procedures which are reviewed regularly to ensure they are aligned with best practice.

Insurances

The Company has taken out Directors and Officers insurance that provides insurance cover for all Directors and senior officers of the Company. This insurance is reviewed annually.

Key performance indicators

At this stage in its development, the Company is focused on the development of the Darwin discovery. When the Company commences production, KPIs will be developed and reported as appropriate. The Directors do, however, closely monitor certain financial information, in particular overheads and cash balances.

Harry Dobson

Non-Executive Chairman May 2022

BOARD OF DIRECTORS

Harry Dobson

Non-executive Chairman

Committee Memberships

Chairman of the Remuneration Committee and member of the Audit Committee

Experience

- Former investment banker and senior partner of Yorkton Securities plc
- Former Chairman of American Pacific Mining Company Inc, Lytton Minerals Limited, Kirkland Lake Gold Inc and Rambler Metals and Mining plc
- Former director of Copper Bay Limited, Glenmore Highlands Inc., Belvedere Resources Ltd and Concordia Resource Corp.

Howard Obee

Chief Executive Officer

Committee Memberships

None

Experience

- Over 35 years' experience in the oil industry, with BP and BHP Billiton
- Trained as an exploration geologist
- Numerous technical and commercial roles with strategic planning and business development
- Seismic and drilling operational experience.

Peter Fleming

Finance Director

Committee Memberships

None

Experience

- Over 30 years of upstream oil and gas experience, at BHP Billiton
- Held senior positions in exploration and business development, investment evaluation, acquisitions and disposals and strategic planning
- Masters degrees in business administration and finance.

William Hodson

Non-executive Director

Committee Memberships

Chairman of the Audit Committee and member of the Remuneration Committee

Experience

- 18 years' experience advising clients in the natural resources sector.
- Former partner of Ocean Equities Limited
- Former partner in Pareto Securities Limited

Number of board meetings during 2021

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	2	—	2
Howard Obee	2	—	—
Peter Fleming	2	—	—
William Hodson	2	—	2

REMUNERATION COMMITTEE REPORT

On 18 May 2005 all of the Company's Directors entered into a service agreement with the Company except for William Hodson who joined during 2021.

The board has a Remuneration Committee comprising myself and one non-executive Director. The members of the Remuneration Committee are detailed in the Directors' Report.

The purpose of the Remuneration Committee is to independently ensure the company remunerates fairly and responsibly and ensure that the level and composition of remuneration for all employees is competitive. Both short- and long-term performance-based components are reviewed. The Company benchmarks its remuneration and overheads with comparable peer group companies.

The remuneration of the Directors for the year ended 31 December 2021 was as follows:

	Basic salary		Share-based payment		Total 2021		Total 2020	
	£	\$	£	\$	£	\$	£	\$
Harry Dobson	—	—	—	—	—	—	—	—
Howard Obee	125,000	165,000	—	—	125,000	165,000	154,167	197,589
Peter Fleming	100,000	132,000	—	—	100,000	132,000	123,333	158,071
William Hodson	20,000	26,400	—	—	20,000	26,400	—	—
	245,000	323,400	—	—	245,000	323,400	277,500	355,660

During 2020 the Company commenced several initiatives to reduce overheads by approximately 25% including a 35% reduction in salaries for the Executive Directors. There were no further changes during 2021.

The Company paid £30,000 (\$39,000) (2020: £35,900 (\$46,000)) in employee National Insurance for its Directors during the year. The Group operates a pension scheme for some of its employees.

Harry Dobson

Non-Executive Chairman of the Remuneration Committee

May 2022

DIRECTORS' REPORT

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2021 and at 31 December 2020, were as follows:

	At 31 December 2021 Number	At 31 December 2020 Number
Harry Dobson	26,670,000	26,670,000
Howard Obee	10,000,000	10,000,000
Peter Fleming	2,200,000	2,200,000
William Hodson	—	—

The ordinary shares in which Harry Dobson is interested are held by the Zila Corporation, a company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary. During the share subscription in March 2022, Zila Corporation acquired 34.702 million additional shares.

The Group has provided the Directors with qualifying indemnity insurance from a third party.

Share options

	Number of options held at the beginning of the year	Number of options held at the end of the year	Fair value of Options	Exercise price	Vesting period
Howard Obee	1,000,000	1,000,000	24 pence	51 pence	three years
Peter Fleming	1,000,000	1,000,000	24 pence	51 pence	three years

The share-based payments are the amortisation over the vesting period of the fair value of options issued to Directors in previous years. See note 7 for more details.

Substantial shareholders

At 10 May 2022, the following held 3% or more of the nominal value of the Company's shares carrying voting rights:

	Number of Ordinary shares	% of share capital
Zila Corporation	61,372,000	10.44%
Damille Partners	48,568,234	8.26%
Alan Brimacombe	36,628,711	6.23%
Interactive Investor	35,335,154	6.01%
Hargreaves Lansdown	33,814,282	5.75%
Bank Julius Baer	27,378,468	4.66%
Halifax Share Dealing	24,446,649	4.16%
Barclays Smart Investor	21,832,819	3.71%

Domicile

The Parent Company of the Group, Borders & Southern Petroleum plc, is a public limited company and is registered and domiciled in England.

Results and dividends

The Group Statement of Comprehensive Income is set out on page 23 and shows the result for the year. The Directors do not recommend the payment of a dividend (2020 – \$nil).

Review of business and future developments

A review on the operations of the Group is contained in the Chairman and CEO's Review on page 3 onwards.

DIRECTORS' REPORT continued

Post reporting date events

During January 2022 the Company renewed its licences in The Falkland Islands until the end of 2022. In March 2022 the Company announced that it was seeking to raise more capital and this closed in April 2022 having raised £1.35 million (\$1.8 million) before costs.

Charitable and political donations

There were no political or charitable contributions made by the Company or the Group during the year (2020 – \$nil).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 21 of the financial statements.

Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards, and interpretations (collectively IFRSs) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM market.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs and Interpretations (collectively IFRSs) in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of its audit and to establish that the auditor is aware of that information.

The Directors are not aware of any relevant audit information of which the auditor is unaware.

BDO LLP has expressed its willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting, by order of the board

William Slack

Company Secretary 27 May 2022



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Borders & Southern Petroleum Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the company statement of financial position, the company statement of changes in equity, the consolidated statement of cash flows, the company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 of the financial statements which indicates that the Group and Parent Company require additional funding before May 2023 to meet their day-to-day operational cash flows. As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting was considered an a key audit matter and included:

- Obtaining, challenging and assessing the Group and Parent Company's base case cash flow forecasts and the underlying assumptions which have been approved by the Board. In so doing we challenged the Directors on the reasonableness of forecast assumptions applied in the model and assessed these against prior year costs and considered the reasonableness of cost reduction policies proposed by Management.
- Challenging and obtaining audit evidence to ensure that key inputs applied in the cash flow forecasts relating to committed costs and working capital requirements were consistent with other financial and operational information obtained during the course of the audit.
- Performing reverse stress testing analysis on the cash flows in order to determine the whether there were alternative scenarios, other than those identified by the Directors, in which liquidity was breached. Our testing considered whether such scenarios, including assessing the costs relating to the annual renewal and required extension of the Discovery and Production licences and costs of finding funding partners impacted the going concern assessment. In the stress testing we also considered the licence commitments relating to drilling and the risk of lack of funding to meet these commitments on the renewal of licences.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC continued

- Obtaining an understanding the conditions for renewal of the licences and challenging the Directors on their assessment that the licences will be renewed. In challenging the Directors, we considered the history of licence renewals previously granted, and read correspondence with the relevant Government bodies to consider whether there was any indication that future renewals might not be granted.
- Discussing and seeking views from Management, the Directors and the Audit Committee on any ongoing potential impacts of Covid-19 including their assessment of risks and uncertainties.
- Comparing the Group's actual results for the year ended 31 December 2021 to the planned budgeted out turn for 2021 to assess the quality of Management and the Directors budgetary process.
- Reviewing and considering the adequacy of the disclosure within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage¹	100% (2020: 100%) of Group loss before tax 100% (2020: 100%) of Group total assets		
Key audit matters	KAM 1	2021 Carrying value of exploration and evaluation assets	2020 Carrying value of exploration and evaluation assets
	KAM 2	Going concern	Going concern
Materiality	Group financial statements as a whole \$4.1m (2020: \$4.1m) based on 1.4% (2020: 1.4%) of total assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The group consists of the Parent Company and one subsidiary. We determined that both of these components were significant and were subject to a full scope audits by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters.

¹ These are areas which have been subject to a full scope audit by the group engagement team

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC continued

Key audit matter	How the scope of our audit addressed the key audit matter
Carrying value of exploration and evaluation assets (Please refer to note 12)	The Group's exploration and evaluation assets associated with the Darwin and Stebbing license areas in the Falkland Islands represent the key assets on the Group's statement of financial position. As at 31 December 2021, the Group's exploration and evaluation assets totalled \$292.75m (2020: \$292.24m). The Group performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration assets and whether impairment was required, noting that the Group holds title to all licences until December 2022. Given the inherent judgement involved in the assessment of potential triggers of impairment and any subsequently required assessment of the carrying value of the exploration and evaluation assets, we this to be a key audit matter for the audit. • We assessed and challenged Management's impairment indicator review to establish whether it was performed in accordance with the Group's accounting policy and the relevant accounting standard. • We obtained and read third party documents relating to the status of the licences and licence commitments. We assessed Management's conclusion on their ability to renew both licences and checked Management's conclusion against publicly available information on the Falkland Island's licensing renewal regime. • We considered whether there was evidence in the Group cash flow that funding was available to maintain the exploration and evaluation assets in full and considered our conclusions alongside the material uncertainty relating to going concern noted above. • We have obtained the technical report prepared by the expert engaged by management to report to them on the resources and possible production output of the project, which includes an economic model estimating the net present value of the exploration and evaluation assets over the life of the project. We considered the independence, competence and objectivity of management's expert with reference to their scope of work, qualifications and the declarations of independence made in their report. We have read their report and considered whether its content highlights any indicators of impairment not already considered by management. Key observations: Our audit procedures did not identify any potential triggers for impairment of the exploration and evaluation assets.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC continued

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
	4.1	4.1	3.1	3.1
Materiality				
Basis for determining materiality	Group materiality was set at 1.4% (2020: 1.4%) of the total assets.		Parent company materiality was set at 1.1% (2020: 1.0%) of the total assets.	
Rationale for the benchmark applied	We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Group and Parent Company are natural resources exploration entities.			
Performance materiality	Group performance materiality was set at \$3.1m (2020: \$3.1m) and		Parent Company performance materiality was set at \$2.3m (2020: \$2.3m).	
Basis for determining performance materiality	Performance materiality was set at 75% (2020: 75%) of the above materiality levels. Performance materiality has been set at 75% considering the nature of activities, historic audit adjustments and Management's attitude to correcting identified misstatements.			

Lower threshold for testing

We also determined that for balances within the consolidated statement of comprehensive income, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result, we determined materiality for these items based on 10% (2020: 10%) of loss before taxation of \$102,000 (2020: \$96,000). We further applied a performance materiality level of 75% of this lower threshold used for audit testing to ensure that the risk of errors exceeding this threshold for materiality was appropriately mitigated.

Component materiality

We set materiality for each component of the Group based on a percentage of between 74% and 75% of Group materiality (2020: between 74% and 75%) dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from \$3m to \$3.1m (2020: \$3m to \$3.1m). In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of \$82,000 (2020: \$82,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2021 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC continued

in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: - the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and - the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: - adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or - the Parent Company financial statements are not in agreement with the accounting records and returns; or - certain disclosures of Directors' remuneration specified by law are not made; or - we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities section of the Directors Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

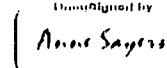
- Making enquiries of the Directors including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations including, the laws and regulations of the Falkland Islands, the AIM listing rules, and the UK Companies Act, and assessing whether they were aware of any instances of non-compliance with such;
 - detecting and responding to the risks of fraud on management override of controls and assessing whether they have knowledge of any actual, suspected or alleged fraud; and
 - reviewing the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations by testing their design and implementation.
- In addressing management override of controls, performing targeted journal entry testing based on identified characteristics we considered could be indicative of fraud, for example capitalisation entries to exploration and evaluation assets without a corresponding entry to cash or trade payables
- Critically assessing areas of the financial statements which include judgement and estimates as set out in note 1 to the financial statements, including the judgement and estimates discussed in the key audit matters above

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Unaudited by


Anne Sayers (Senior Statutory Auditor)
 For and on behalf of BDO LLP, Statutory Auditor
 London
 United Kingdom
 27 May 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BORDERS & SOUTHERN PETROLEUM PLC continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Making enquiries of the Directors including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations including the laws and regulations of the Falkland Islands, the AIM listing rules, and the UK Companies Act, and assessing whether they were aware of any instances of non-compliance with such;
 - detecting and responding to the risks of fraud on management override of controls and assessing whether they have knowledge of any actual, suspected or alleged fraud; and
 - reviewing the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations by testing their design and implementation.
- In addressing management override of controls, performing targeted journal entry testing based on identified characteristics we considered could be indicative of fraud, for example capitalisation entries to exploration and evaluation assets without a corresponding entry to cash or trade payables
- Critically assessing areas of the financial statements which include judgement and estimates as set out in note 1 to the financial statements, including the judgement and estimates discussed in the key audit matters above

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
27 May 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 \$'000	2020 \$'000
Administrative expenses		(1,096)	(1,046)
Loss from operations	3	(1,096)	(1,046)
Finance income	9	74	55
Finance expense	9	(1)	(11)
Loss before tax		(1,023)	(1,002)
Tax expense	10	—	—
Loss for the year and total comprehensive loss for the year attributable to equity owners of the parent		(1,023)	(1,002)
Basic and diluted loss per share (see note 4)	4	(0.21) cents	(0.21) cents

The notes on pages 26 to 41 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2021**

		2021	2020
	Note	\$'000	\$'000
Assets			
Non-current assets			
Property, plant and equipment	11	22	151
Intangible assets	12	292,746	292,241
Total non-current assets		292,768	292,392
Current assets			
Other receivables	14	183	225
Cash and cash equivalents	15	714	2,184
Total current assets		897	2,409
Total assets		293,665	294,801
Liabilities			
Current liabilities			
Trade and other payables	16	(126)	(240)
Total net assets		293,539	294,561
Equity attributable to the equity owners of the parent company			
Share capital	17	8,530	8,530
Share premium	17	308,602	308,602
Other reserves		1,778	1,777
Retained deficit		(25,355)	(24,332)
Foreign currency reserve		(16)	(16)
Total equity		293,539	294,561

The notes on pages 26 to 41 form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 27 May 2022.


Howard Obee
 Director


Peter Fleming
 Director

Company Number: 05147938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2021**

	Share capital \$'000	Share premium \$'000	Other reserves \$'000	Retained deficit \$'000	Foreign currency reserve \$'000	Total \$'000
Balance at 1 January 2020	8,530	308,602	1,777	(23,330)	(16)	295,563
Loss and total comprehensive loss for the year	—	—	—	(1,002)	—	(1,002)
Balance at 31 December 2020	8,530	308,602	1,777	(24,332)	(16)	294,561
Loss and total comprehensive loss for the year	—	—	—	(1,023)	—	(1,023)
Recognition of share-based payments	—	—	1	—	—	1
Balance at 31 December 2021	8,530	308,602	1,778	(25,355)	(16)	293,539

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued less transfers to retained deficit on expiry.
Retained deficit	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.
Foreign currency reserves	Differences arising on the translation of foreign operation to US dollars.

The notes on pages 26 to 41 form part of the financial statements.

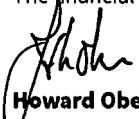
COMPANY STATEMENT OF FINANCIAL POSITION**At 31 December 2021**

		2021		2020	
	Note	\$'000	\$000	\$'000	\$'000
Assets					
Non-current assets					
Property, plant and equipment	11		22		151
Investments	13		—		—
Inter-company loan	14		292,925		292,420
Total non-current assets			292,947		292,571
Current assets					
Other receivables	14	183		225	
Cash and cash equivalents	15	714		2,184	
Total current assets			897		2,409
Total assets			293,844		294,980
Liabilities					
Current liabilities					
Trade and other payables	16		(126)		(240)
Total net assets			293,718		294,740
Equity attributable to owners of the parent company					
Share capital	17		8,530		8,530
Share premium	17		308,602		308,602
Other reserves			1,778		1,777
Retained deficit			(25,174)		(24,151)
Foreign currency reserve			(18)		(18)
Total equity			293,718		294,740

The Parent Company has taken advantage of the exemption from the requirement to publish its own income statement.

The Parent Company loss for the year ended 31 December 2021 was \$1,023,000 (2020: \$1,002,000). The notes on pages 26 to 41 form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 27 May 2022.


Howard Obee
 Director


Peter Fleming
 Director

Company Number: 05147938

COMPANY STATEMENT OF CHANGES IN EQUITY

At 31 December 2021

	Share capital \$'000	Share premium reserve \$'000	Other reserves \$'000	Retained deficit \$'000	Foreign currency reserve \$'000	Total \$'000
Balance at 1 January 2020	8,530	308,602	1,777	(23,149)	(18)	295,742
Loss and total comprehensive loss for the year	—	—	—	(1,002)	—	(1,002)
Balance at 31 December 2020	8,530	308,602	1,777	(24,151)	(18)	294,740
Loss and total comprehensive loss for the year	—	—	—	(1,023)	—	(1,023)
Recognition of share-based payments	—	—	1	—	—	1
Balance at 31 December 2021	8,530	308,602	1,778	(25,174)	(18)	293,718

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	This represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserves	Fair value of options issued less transfers to retained deficit on expiry.
Retained deficit	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.
Foreign currency reserve	Differences arising on the translation of foreign operation to US dollars.

The notes on pages 26 to 41 form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended 31 December 2021**

		2021	2020
	Note	\$'000	\$'000
Cash flow from operating activities			
Loss before tax		(1,023)	(1,002)
Adjustments for: Depreciation	11	129	95
Share-based payment	8	1	—
Finance costs	9	1	11
Finance income	9	(74)	(54)
Unrealised foreign currency movements	9	—	2
Cash flows used in operating activities before changes in working capital		(966)	(948)
Decrease in other receivables	14	42	8
Increase/(decrease) in trade and other payables	16	10	(61)
Net cash outflow from operating activities		(914)	(1,000)
Cash flows used in investing activities			
Interest received	9	—	2
Purchase of intangible assets	12	(505)	(476)
Net cash used in investing activities		(505)	(474)
Cash flows used in financing activities			
Lease interest	9	(1)	(11)
Lease payments	16	(124)	(62)
Net cash used in financing activities		(125)	(73)
Net decrease in cash and cash equivalents		(1,544)	(1,547)
Cash and cash equivalents at the beginning of the year	15	2,184	3,682
Exchange gain on cash and cash equivalents		74	49
Cash and cash equivalents at the end of the year		714	2,184

The notes on pages 26 to 41 form part of the financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

		2021	2020
	Note	\$'000	\$'000
Cash flow from operating activities			
Loss before tax		(1,023)	(1,002)
Adjustments for: Depreciation	11	129	95
Share-based payment	8	1	—
Finance costs	9	1	11
Finance income	9	(74)	(54)
Unrealised foreign currency movements	9	—	2
Cash flows used in operating activities before changes in working capital		(966)	(948)
Decrease in other receivables	14	42	8
Increase/(decrease) in trade and other payables	16	10	(61)
Net cash outflow from operating activities		(914)	(1,000)
Cash flows from investing			
Cash flows used in investing activities			
Interest received	9	—	2
Increase in amounts due from Group undertaking	12, 18	(505)	(476)
Net cash used in investing activities		(505)	(474)
Cash flows from financing			
Cash flows from financing activities			
Lease interest	9	(1)	(11)
Lease payments	16	(124)	(62)
Net cash used in financing activities		(125)	(73)
Net decrease in cash and cash equivalents		(1,544)	(1,547)
Cash and cash equivalents at the beginning of the year	15	2,184	3,682
Exchange gain on cash and cash equivalents		74	49
Cash and cash equivalents at the end of the year		714	2,184

The notes on pages 26 to 41 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years presented.

The consolidated and Parent Company financial statements have been prepared in accordance with UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements have been prepared under the historical cost convention.

Adoption of new and revised International Financial Reporting Standards

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group's activities and are mandatory for the Group's accounting periods beginning on 1 January 2021. These include:

	Effective period commencing on or after
Amendments to IFRS 16: COVID-19 Related Rent Concessions	1 Jan 2021

Standards effective in future periods

A number of new and amended accounting standards and interpretations have been published that are not mandatory for the Group's accounts for the year ended 31 December 2021 and nor have they been early adopted. These standards, which are detailed below are not expected to have a material impact on the Group's consolidated Financial Statements:

The following amendments are effective for the period beginning 1 January 2022:

- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41: Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3: References to Conceptual Framework

The following amendments are effective for the period beginning 1 January 2023:

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

At 31 December 2021, the Group had a net cash position of \$0.714m (31 December 2020: \$2.184m). The Group does not have any external borrowings or debts. The Group has a commitment to drill a well before the expiry of its production licence in December 2022 (see note 19). The Group plans to fund the well through a farm-out. If the Group is not able to farm-out before

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Accounting policies continued

December 2022, the Group would seek to gain an extension to the licences and the associated commitment to drill the well. This is in line with previous extensions and the Directors are confident that further extensions will be granted.

The Group's board of directors have reviewed the Group's forecasts for a period of no less than twelve months from the date of approval of these financial statements, the period to May 2023.

Based on these forecasts, in the absence of a farm-out, the directors identified that further funding would be required to cover administrative costs and licence fees until May 2023. At present the cost base of the business principally consists of administrative costs, listing costs and costs to maintain the licences in good-standing. In order to meet this cost base a capital raise was initiated in March 2022 and raised \$1.8 million (£1.35 million) before expenses, with the completion of the capital raise being announced in early April 2022. Based on the future cashflow forecasts the Directors consider this recent funding provides the Group and Parent Company with sufficient funding until early 2023. Therefore in the absence of a farm-out agreement or other funding arrangement contributing further working capital to the Group or Company, additional funding will be required, before May 2023, to meet the day to day operational cashflow requirements, noted above, of the Group and Parent Company.

These events or conditions indicate the existence of a material uncertainty which may cast doubt on the Group and Parent Company's ability to continue as a going concern and therefore that the Group and Company may be unable to realise their assets in the normal course of business.

Loss for the financial year

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. The Group loss for the year includes a loss after tax of \$1,023,000 (2020 – loss after tax of \$1,002,000) which is dealt with in the financial statements of the Parent Company.

The Company's investments in subsidiaries

The Parent Company's subsidiaries are carried at cost less amounts provided for impairment.

Finance income

Finance income consists of interest on cash deposits and foreign exchange gain. Interest is recognised using the effective interest method.

Finance expense

The finance expense consists of interest on lease liabilities and foreign exchange losses. Interest paid is recognised using the effective interest method.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors.

Property, plant and equipment

Office equipment is initially recorded at cost. Depreciation is provided on office equipment so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Office equipment – 33⅓%

Right-of-use assets (Property) – over term of lease

Assets are depreciated from the date of acquisition and on a straight-line basis. Right of use assets are depreciated from the date that the asset is available for use.

Exploration and evaluation expenditure

The Group applies the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources in respect of its exploration and evaluation expenditure. The requirements of IFRS 6 are not applied to expenditure incurred by the Group before legal rights to explore in a specific area have been granted, generally referred to as pre-licence expenditure. Likewise, the Group does not apply the requirements of IFRS 6 after the point at which the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Accounting policies continued

The costs of exploring for and evaluating hydrocarbon resources are accumulated and capitalised as intangible assets by reference to appropriate cash-generating units (CGUs), generally referred to as full cost accounting. Such CGUs have been determined by the Group to be a Darwin CGU and a Stebbing CGU and are noted as not being larger than an operating segment prior to aggregation as determined in accordance with IFRS 8 Operating Segments. Whilst the short-term focus is on developing Darwin, Stebbing remains a viable prospect for growth beyond Darwin.

Capitalised exploration and evaluation expenditure may include, amongst other costs, costs of licence acquisition, third party technical services and studies, seismic acquisition, exploration drilling and testing, but do not include general overheads. Any property, plant and equipment (PPE) acquired for use in exploration and evaluation activities is classified as property, plant and equipment. However, to the extent that such PPE is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the intangible exploration and evaluation asset.

Intangible exploration and evaluation assets are not depreciated and are carried forward, subject to the provisions of the Group's impairment of exploration and evaluation policy, until the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable. At such point, exploration and evaluation assets are assessed for impairment and any impairment loss is recognised before reclassification of the assets to a category of property, plant and equipment.

Impairment of exploration and evaluation expenditure

The Group's exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the exploration and evaluation assets may exceed the assets' recoverable amount.

In accordance with IFRS 6, the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:

- whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- whether exploration for and evaluation of hydrocarbons in a specific area have not led to the discovery of commercially viable quantities of hydrocarbons and the Group has decided to discontinue such activities in the specific area; and
- whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36.

In such circumstances, the aggregate carrying value of the exploration and evaluations assets is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell. The Group has identified two cash-generating units, a Darwin CGU and a Stebbing CGU. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Group's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Foreign currencies

Transactions in foreign currencies are translated into US dollars at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the closing rates at the reporting date and the exchange differences are included in the Statement of Comprehensive Income. The functional and presentational currency of the Parent and all Group companies is the US dollar.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Accounting policies continued

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes amounts expected to be payable under any residual value guarantee;

- Right of use assets are initially measured at the amount of the lease liability incentives received, and increased for lease payments made at or before commencement of the lease; and
- initial direct costs incurred

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

Share-based payments

The fair value of employee share option plans is calculated using the Black-Scholes pricing model. Non-employee options granted as part of consideration for services rendered are valued at the fair value of those services. Where information on the fair value of services rendered is not readily available, the fair value is calculated using the Black-Scholes pricing model.

In accordance with IFRS 2 Share-based Payments the resulting cost is charged to the Statement of Comprehensive Income over the vesting period of the options. The amount of charge is adjusted each year to reflect expected and actual levels of options vesting.

Where equity-settled share options are awarded, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period.

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent measurement depends on the designation of the instrument, as follows:

- Other receivables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest, net of expected credit losses.
- Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective rate of interest.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 Accounting policies continued

Financial instruments issued by Group companies are treated as equity only to the extent that they do not meet the definition of a financial liability.

- The Group's and Company's ordinary shares are all classified as equity instruments.
- Cash and cash equivalents consist of cash at bank on demand and balances on deposit with an original maturity of three months or less from inception.
- Inter-company receivables are held in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. These receivables are initially recognised at fair value and are subsequently carried at amortised cost.

IFRS 9: Impairment of financial assets

The Company has provided a loan to its 100% owned subsidiary that is the license holder in The Falkland Islands. Management have completed a scenario-based assessment of the expected credit loss in accordance with IFRS 9 and concluded that this loss is immaterial.

Taxes

The major components of tax on the profit or loss include current and deferred tax.

Current tax is based upon the profit or loss for the year adjusted for items that are non-assessable or disallowed and is calculated using tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Tax is charged or credited to the Statement of Comprehensive Income, except where the tax relates to items credited or charged directly to other comprehensive income or equity, in which case the tax is also dealt within other comprehensive income or equity respectively.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when deferred tax liabilities and assets are settled or recovered.

2 Critical accounting estimates and judgements

Critical accounting estimates and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of signing of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives will be reclassified from the previously reported results to take into account presentational changes.

Critical judgements in applying the Group's accounting policies

Management has made the following judgements which have the most significant effects on the amounts recognised in the financial statements:

Recoverability of exploration and evaluation costs

Management has made the judgement to group two CGU's together for impairment purposes as both resources are contained within the same license and are close in proximity. Expenditure is capitalised as an intangible asset by reference to the CGUs and is assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to whether there are any circumstances which are considered to be an indicator of impairment. The Production licences and the Discovery Area Licence associated with the CGUs expired in January 2022 but, post balance date, have been extended to December 2022. When taken alongside the positive resource report communicated in 2018 and the expected cash flows from the development of Darwin, management have concluded that there is no impairment of the CGUs at the year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 Critical accounting estimates and judgements continued

Recoverability of inter-group receivable balances (Company only)

Management are required to apply their judgement in the assessment of whether the inter-group receivable balances held by the Company are subject to any potential expected credit loss. Management have assessed the recoverability of the balances by reference to chances of success of finding first liquids attributed to the specific assets, probabilities around funding and the overall indicative value of the assets derived from third party reports.

Right-of-use (ROU) assets and lease obligations

The measurement of ROU assets and the corresponding obligations are subject to management's judgement of the applicable incremental borrowing rate and the expected lease term. The net book value of the ROU assets, lease obligations, and interest and depreciation expense may differ due to changes in the expected lease terms. Where the discount rate determined by reference to the rate inherent in the lease (as is typically the case) is not readily determinable, the group's incremental borrowing rate on commencement of lease is used as the discount rate. The weighted average cost of capital is used as an input when determining the incremental borrowing rate.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

3 Loss from operations

	2021 \$'000	2020 \$'000
Staff costs (note 6)	533	590
Share-based payment – equity-settled	(1)	—
Services provided by the auditors:		
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated annual accounts	59	55
Fees payable to the Company's auditor and its associates for other services:		
Tax services	6	6
Depreciation of office equipment	129	95
Foreign exchange gain	(74)	(53)

During 2020 the Executive Directors agreed to a 35% reduction in salaries as part of a 25% reduction in total overheads. These reductions are not deferred and subject to be re-evaluated in the future. There were no further changes during 2021.

4 Basic and dilutive loss per share

The calculation of the basic and dilutive loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The loss for the financial year for the Group was \$1,023,000 (2020 – loss \$1,002,000) and the weighted average number of shares in issue for the year was 484,098,484 (2020 – 484,098,484). During the year the potential ordinary shares are anti-dilutive and therefore diluted loss per share has not been calculated. At the Statement of Financial Position date, there were 6,200,000 (2020: 6,100,000) potentially dilutive ordinary shares being the share options (see note 7 for further details).

5 Segment analysis

The Company operates in one operating segment (exploration for oil and gas) and in substantially one geographical market (the Falkland Islands), therefore no additional segmental information is presented.

Of the Group's total non-current assets, the property, plant and equipment are based in the UK and all other non-current assets are located in the Falkland Islands.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

6 Staff costs

Staff costs (including Directors) comprise:

	2021 \$'000	2020 \$'000
Wages and salaries	475	522
Employers' national insurance contributions	53	63
Employers' pension contributions	5	5
	533	590
Share-based payment – equity-settled	(1)	—
	532	590

The average number of employees (including Directors) employed during the year was five (2020 – five). All employees and Directors of the Group and the Company are considered to be the key management personnel. The employee National Insurance payments made during the year are detailed in the Remuneration Committee Report.

Of the \$1,000 (2020 – \$Nil) share-based payment credit included in the Consolidated Statement of Comprehensive Income, \$1,000 (2020 – \$Nil) has been charged in respect of share options granted to a contractor in the current year.

7 Directors' emoluments

The Directors' emoluments for the year are as follows:

	2021 \$'000	2020 \$'000
Executive directors		
Wages and salaries	323	356
Share-based payments – equity-settled	—	—
	323	356

The fees and share-based payments made to each Director are disclosed in the Remuneration Committee Report. During the year, the highest paid director received total remuneration of \$165,000 (2020 – \$197,589).

8 Share-based payment

	2021 Weighted average exercise price	2021 Number	2020 Weighted average exercise price	2020 Number
Outstanding at 1 January	29p	6,100,000	29p	6,100,000
Granted during the year	1.47p	300,000	—	—
Outstanding at 31 December	26p	6,400,000	29p	6,100,000
Exercisable at 31 December	29p	6,100,000	29p	6,100,000

The Company operates a share option scheme. During the year the Company issued new options to a contractor to the Company.

All options are issued at market price at the time of issue, vest after three years and have a life of ten years. When exercised they are equity-settled. The weighted average contractual life of the options outstanding at the year end was three years (2020 – four years). The range of exercise prices of share options outstanding at the end of the year is 1.47p-51p (2020 – 1.8p-51p).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 Finance income and expense

	2021 \$'000	2020 \$'000
Finance income		
Bank interest received	—	2
Foreign exchange gain	74	53
	74	55
Finance expense		
Lease interest	1	11
	1	11

10 Tax expense

	2021 \$'000	2020 \$'000
Loss before taxation	(1,023)	(1,002)
Standard corporation tax charge at 19% (2020 -19%)	(194)	(190)
Expenses not deductible for tax purposes	—	—
Remeasurement of deferred tax for changes in tax rate	(681)	(186)
Movement in unrecognised deferred tax for the year	876	376
Total current and deferred tax for the year	—	—

The Group has a deferred tax asset of approximately \$2,838,453 (2020: \$1,962,874) in respect of unrelieved tax losses of approximately \$11,252,065 at 2021 (2020 – \$10,229,437) and fixed asset timing differences of \$101,746 (2020: \$101,478). Following the Budget on 3 March 2021, the corporation tax rate effective from 1 April 2023 will increase to 25%. This was substantially enacted on 10 June 2021 which is before the balance sheet date. This will impact the value of the UK deferred tax balances, and the tax charged on UK profits generated in 2023 and subsequently. As a result, the tax rate of tax used in the calculation for the deferred tax asset is 25% (2020 – 19%). The deferred tax asset has not been recognised in the financial statements as the timing of the economic benefit is uncertain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

11 Property, plant and equipment – Group and Company

	Right of use asset (Property) \$'000	Office equipment \$'000	Total \$'000
Cost			
As at 1 January 2020	184	132	316
Additions	127	—	127
As at 31 December 2020	311	132	443
Depreciation			
As at 1 January 2020	89	108	197
Charge for the year	89	6	95
As at 31 December 2020	178	114	292
As at 1 January 2020	95	24	119
As at 31 December 2020	133	18	151
	Right of use asset (Property) \$'000	Office equipment \$'000	Total \$'000
Cost			
As at 1 January 2021	311	132	443
As at 31 December 2021	311	132	443
Depreciation			
As at 1 January 2021	178	114	292
Charge for the year	123	6	129
As at 31 December 2021	301	120	421
As at 1 January 2021	133	18	151
As at 31 December 2021	10	12	22

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

12 Intangible assets

	Exploration and evaluation costs \$'000
Group	
Cost	
As at 1 January 2020	291,765
Additions	476
As at 31 December 2020	292,241
Net book value	
As at 1 January 2020	291,765
As at 31 December 2020	292,241
	Exploration and evaluation costs \$'000
Group	
Cost	
As at 1 January 2021	292,241
Additions	505
As at 31 December 2021	292,746
Net book value	
As at 1 January 2021	292,241
As at 31 December 2021	292,746

In January 2022 the Company received notice from The Falkland Islands Government that the Company's application to extend the expiry date of the Second Term for Production Licences PL018, PL019 and part of PL020 was extended until 31 December 2022. The expiry date of Darwin East Discovery Area licence is also 31 December 2022. As noted, the Company has a one exploration well commitment on its production licences.

In considering the carrying value of intangible assets, the Company used external independent estimates of resource volume, production rates and operating and capital costs to compare the carrying value with net present value to assess whether there were any issues that would trigger an impairment assessment and based on these third-party reports, it was concluded that there were no triggers, so no impairments have been made. As noted earlier in the report, the current development plan is to bring Darwin into 25,000bpd of liquids using three wells and an FPSO. This should enable a quick pay-back and provide funds to either increase production or for other projects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

13 Investment in subsidiary

	2021	2020
Company	\$	\$
Cost		
As at 1 January and 31 December	2	2
Net book value		
As at 31 December	2	2

The Company owns the two ordinary £1 subscriber share, being 100% of the issued share capital, in Borders & Southern Falkland Islands Limited. The Company is registered in England and its principal activity is oil and gas exploration. The Company's registered office is in One Fleet Place, London EC4M 9AF.

14 Other receivables

	Group		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Noncurrent				
Amount due from subsidiary	—	—	292,925	292,420
Current				
Other receivables	85	77	85	77
Prepayments	98	148	98	148
Subtotal	183	225	183	225
Total other receivables	183	225	293,108	292,637

All amounts owed by or to entities outside the group are shown as other receivables and prepayments and fall due for payment within one year. The Group's exploration licenses are held by a wholly owned subsidiary and all costs incurred by the subsidiary have been financed by the parent company. The amount due from the subsidiary is interest free and payable on demand and is expected to be repaid from the revenues of the Darwin field production. Management considers the loan to be in stage 3. All the internal and external technical and economic studies undertaken to date have confirmed Darwin to be economic. Sensitivities have been applied to the key inputs into the models used to analyse Darwin and the field has been proven to be robust under different scenarios. Management have also completed a scenario-based assessment based on their judgments of the expected credit loss in accordance with IFRS 9 and concluded that any loss is immaterial.

15 Cash and cash equivalents and restricted use cash

	2021	2020
Group and Company	\$'000	\$'000
Cash available on demand	80	322
Cash on deposit	634	1,862
Total	714	2,184

Cash and cash equivalents consist of cash at bank on demand and balances on deposit with an original maturity of three months or less.

All of the company's bank deposits are with Lloyds Bank plc. It has a P-2 credit rating with Moody's, F1 with Fitch and A-2 with Standard & Poor's.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16 Trade and other payables

	Group		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Trade payables	8	3	8	3
Other taxes and social security costs	1	19	1	19
Lease liabilities	13	137	13	137
Accruals	104	81	104	81
Total	126	240	126	240

In accordance with IFRS 16 and using the modified retrospective approach, lease liabilities of \$137,000 were recognised as at 1 January 2021. During 2021, \$124,000 had been repaid to leave an amount due of \$13,000 at year end and interest of \$11,000 was paid during the year.

17 Share capital

Group and Company	2021 \$'000	2020 \$'000
Authorised		
750,000,000 ordinary shares of 1 pence each (2020 – 750,000,000)	14,926	14,926
Allotted, called up and fully paid		
484,098,484 ordinary shares of 1 pence each (2020 – 484,098,484)	8,530	8,530
Share capital		
At 1 January	8,530	8,530
At 31 December	8,530	8,530
Share premium		
At 1 January	308,602	308,602
At 31 December	308,602	308,602

There are no restrictions on the share capital.

18 Related party transactions

Company

During the year Borders & Southern Petroleum Plc paid expenses of \$505,000 (2020 – \$476,000) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end \$292,925,000 (2020 – \$292,420,000) was due from the subsidiary.

19 Commitments

The Group Production Licence commitment is to drill one exploration well before 31 December 2022.

20 COVID-19

The Company has throughout the pandemic complied with Government guidelines. However, the company was not significantly impacted as employees are able to work from home. Once the travel restrictions were lifted employees combined coming into the office with working from home. During operations, if COVID was still spreading through the communities, a full risk assessment on all matters would be completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 Financial instruments

The main risks arising from the Group's operations are cash flow interest rate risk, foreign currency translation risk and credit risk. The Group monitors risk on a regular basis and takes appropriate measures to ensure risks are managed in a controlled manner.

The Group's deposits are held with Lloyds on short term deposits. Whilst there is a risk of Lloyds' ability to repay these deposits, the Group considers this risk to be low.

Liquidity is not considered to be a risk due to the sufficient cash funds readily available to the Group at the year end. Based on cash forecasts, in the absence of a farm-out, the directors recently identified that further funding would be required to cover administrative costs and licence fees until May 2023. Therefore, a capital raise was initiated in March 2022 and raised \$1.8 million (£1.35 million) before expenses which was announced in early April 2022. We believe this provides sufficient funding for the company until early 2023 so in the absence of a farm-out agreement bringing in working capital into the Company, additional funds may need to be raised before mid 2023. This means there is a material uncertainty over the going concern during 2023 and beyond.

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in the note.

Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, held by category, are as follows:

	2021 \$'000	2020 \$'000
Amortised Cost		
Other receivables	55	77
Cash and cash equivalents	714	2,184
Trade and other payables	126	240

Other receivables do not include items that are not financial instruments.

The fair values of the Group's financial assets and liabilities at 31 December 2021 and at 31 December 2020 are materially equivalent to the carrying value as disclosed in the Statement of Financial Position and related notes.

a) Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from monies held at bank and on deposit at variable rates. The considerations below and the figures quoted are the same for both Group and Company.

The Group's financial assets and liabilities accrue interest at prevailing floating rates in the United Kingdom or at pre-arranged fixed rates, as described further below. The Group does not currently use derivative instruments to manage its interest rate risk.

At 31 December 2021 the Group held cash at bank and in deposits under its control of \$714,000 (2020 – \$2,184,000), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, \$80,000 (2020 – \$321,000) relates to deposits placed with banking institutions that are available on demand which carry interest at prevailing United Kingdom deposit floating rates. The balance represents restricted deposits of \$633,000 (2020 – \$1,862,000) with a weighted average fixed interest rate of 0.1% (2020 – 0.1%) for three months. If there was 1% change in interest rates the impact on the Statement of Comprehensive Income would be \$7,000 (2020 – \$19,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 Financial instruments continued

b) Foreign currency translation risk

The operational currency of the oil and gas exploration and evaluation activities of the Group is US\$ and the Group's presentational currency is US\$. Foreign exchange risk arises because the Group's services and treasury function is UK sterling, which results in gains or losses on retranslation into US\$. To minimise this foreign currency risk, cash balances are held in both £ sterling and US\$.

The foreign currency profile of financial assets and liabilities of the Group and the Company are as follows:

	Group		Company	
	Other receivables measured at amortised cost	Other receivables measured at amortised cost	Other receivables measured at amortised cost	Other receivables measured at amortised cost
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Current financial assets				
Held in UK £:				
Trade and other receivables	55	77	55	77
Cash and cash equivalents	710	2,155	710	2,155
Total current financial assets held in UK£	765	2,232	765	2,232
Held in US\$:				
Trade and other receivables	—	—	—	292,420
Cash and cash equivalents	4	29	4	29
Total financial assets	769	2,261	769	294,681

If there was a 10% change in the year end exchange rate there would be a movement in the US\$ equivalent of financial assets held in UK£ of \$76,500 (2020: \$223,000) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Held in UK£:				
Trade and other payables	126	240	126	240
Total financial liabilities	126	240	126	240

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

c) Credit risk

Neither the Group nor the Company have customers, so formal credit procedures are in the process of being established. Credit risk on cash balances is managed by only banking with reputable financial institutions with a high credit rating. The only significant concentration of credit risk on an ongoing basis is cash held at bank and the maximum credit risk exposure for the Group and Company is detailed in the table below:

	2021		2020	
	Carrying Value \$'000	Maximum exposure \$'000	Carrying Value \$'000	Maximum exposure \$'000
Cash and cash equivalents	714	714	2,184	2,184
Maximum credit risk exposure	714	714	2,184	2,184

Capital

The objective of the Directors is to maximise shareholder return and minimise risk by keeping a reasonable balance between debt and equity. To date, the Group has minimised risk by being purely equity financed. The Group considers its capital to comprise its ordinary share capital, share premium, accumulated retained deficit and other reserves.

22 Subsequent Events

In January 2022, the Company was advised that its licences in The Falkland Islands had been renewed until end 2022 in line with current practices.

In March 2022 the Company announced that it had raised \$600,000 through a share placement and it planned an open offer to existing shareholders to raise up to a further \$1,200,000. Both were subject to shareholder approval at a general meeting of the company on April 6 2022. The open offer was oversubscribed so the applications were scaled back to raise the full \$1.8 million before expenses. Both capital raises were approved at the general meeting in April.

CORPORATE DIRECTORY

Directors	Harry Dobson Howard Obee Peter Fleming William Hodson
Secretary	William Slack
Registered office	One Fleet Place London EC4M 7WS
Business address	33 St James's Square London SW1Y 4JS
Nominated advisor and Joint Broker	Strand Hanson Limited 26 Mount Row London W1K 3SQ
Joint Broker	Auctus Advisors Robsacks Long Barn Road Weald Sevenoaks Kent TN14 6NJ
Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Solicitors	Wedlake Bell LLP 71 Queen Victoria Street London EC4V 4AY
Registrars	Link Group Central Square 29 Wellington Street Leeds LS1 4DL
Bankers	Lloyds TSB Bank plc 19-21 The Quadrant Richmond Surrey TW9 1BP
Independent Auditors	BDO LLP 55 Baker Street London W1U 7EU
Investor Relations	Tavistock 1 Cornhill London EC3V 3ND

NOTES

Produced by  **Black&Callow**
■ london@blackandcallow.com
🌐 www.blackandcallow.com
☎ 020 3794 1720