Borders & Southern Petroleum Plc

ANNUAL REPORT AND ACCOUNTS 2022

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.

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Further information:

www.bordersandsouthern.com

ABOUT US

Borders & Southern is an independent oil and gas exploration company with three Production Licences and a Discovery Area Licence in the Falkland Islands. The Licences are located approximately 150 kilometres south-east of the Islands and cover an area of just under 10,000 square kilometres. The Company currently holds a 100% operating interest.

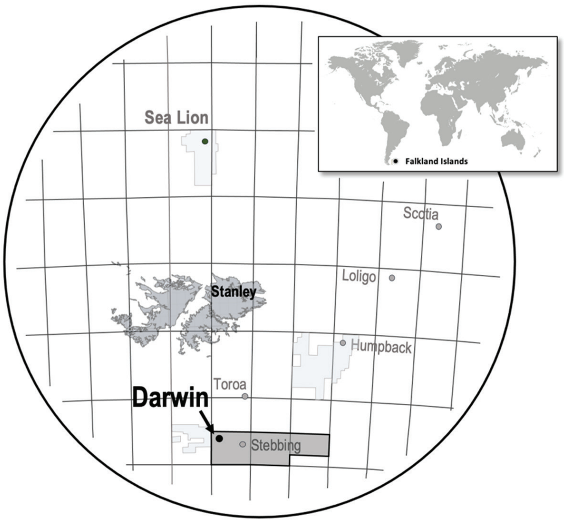
Exploration activity to date has included the acquisition of 2,517 square kilometres of 3D seismic data and the drilling of two wells. The first well, drilled on the Darwin prospect, resulted in a significant, liquids rich, gas condensate discovery. The second well, drilled on the Stebbing prospect, a different play type to the first, failed to reach its reservoir target but had good hydrocarbon shows.

The Darwin discovery has been independently assessed to contain 3.2 TCF of wet gas initially in-place (un-risked, best estimate), and a contingent and prospective resource of 462 million barrels of condensate and LPG (un-risked, best estimate).

The Company has commissioned numerous engineering and technical studies to evaluate the discovery and to advance its appraisal and development. No technical roadblocks have been identified. Independent analysis indicates that, following successful appraisal, the discovery could be brought into production using a conventional FPSO development.

Our objective is to monetise the Darwin discovery prior to testing further prospects within our extensive and exciting prospect inventory.

Falkland Islands



CHAIRMAN'S AND CEO'S REVIEW

During the reporting period, the Company successfully completed two fund raisings, renewed its Production Licences and Discovery Area in the Falkland Islands, and commissioned an independent engineering study which validated a phased development concept for the Group's Darwin gas condensate discovery.

At the end of the first quarter 2022 the Company raised $600,000 through a Subscription Agreement and a further $1,200,000 through an oversubscribed Open Offer. The latter was approved by shareholders at a General Meeting in April. A total of 103,858,914 new Ordinary shares were issued. In the last quarter of 2022 the Company raised £2,500,000 through a firm and conditional Placing and Subscription Agreement, issuing 142,857,138 new Ordinary shares. The conditional placing and subscription agreement was approved by shareholders at a General Meeting in January 2023. These funds will meet the Company's overheads until end 2024. The total number of Ordinary shares now in issue is 730,814,456.

As a result of the successful fund raisings, the Company finished the year with a cash balance of $2.7 million (31 December 2021: $0.714 million) and continues to be debt-free. The Company reports an operating loss for 2022 of $1.35 million (2021: $1.0 million). Administrative expense for the year was $1.2 million (2021: $1.1 million). There were no major capital expenditures during the year. We continue to keep a strong control on costs but anticipate a small increase in expenditure during 2023 due to wider inflationary pressures. Significant salary reductions were implemented in 2019 and have been kept at the same level ever since.

In January 2022, the Company applied for, and was awarded, an extension to its Falkland Islands Production Licences and Discovery Area. In line with other operators in the region, the extension went out to 31 December 2022. A further extension request was submitted in December and a two-year extension was granted. The revised expiry date for the Production Licences and Discovery Area is 31 December 2024. The Company is grateful to the Falkland Islands Government for these awards.

As reported earlier in the year, our recent technical and commercial work has focused on defining and validating new development concepts for the Company's large gas condensate discovery, Darwin. The overall aim was to reduce project risk to help attract capital. The viability of a three well (two producers, one gas injector), conventional deep water FPSO development concept was confirmed by an independent engineering study. This study provided up-to-date capital and operating expenditure estimates which have been incorporated into the Company's economic models. Based on a $60/barrel oil price and initial production of 26,000 bpd, project payback could be achieved within two years and project expansion could occur from free cash flow.

The positive conclusions from this work are currently being shared with potential industry collaborators. This includes some of the companies that have previously engaged with us, along with those who are considering the project for the first time. This phase of farm-out activity will continue over the coming months. It is supported by a relatively favourable industry environment. Global oil and gas prices have remained resilient throughout the reporting period and there are no obvious indications of a significant weaking in the immediate future. Whilst competition for capital for greenfield oil developments is strong, we believe that Darwin's appraisal and phased development represents an attractive proposition and with its relatively small environmental footprint can play a role in the delicate balance between energy security and the transition to renewable energy sources.

As we move forward, we will continue to run the business with commercial discipline and with the application of good science. Our focus is on the monetisation of Darwin for the benefit of all our stakeholders.

Harry Dobson
Non-Executive Chairman

Howard Obee
Chief Executive

BUSINESS MODEL

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

Our pledge is to always act with honesty and integrity. Our drive to succeed will not compromise high standards of business ethics and we will act safely and responsibly in all our activities.

Exploration Strategy

The Company's exploration strategy focuses on frontier and emerging basins, where early entry, and access to a significant acreage position at relatively low cost, can be achieved. The basins we evaluate must have the potential to yield large individual prospect sizes and where there is a high yet-to-find. Critically, the basins must display good evidence for a working source rock.

Prior to entry, a comprehensive technical screening is completed to help mitigate the sub-surface risks. Screening project economics are undertaken to confirm that the project rewards justify the investment decision. Our acreage in the Falklands met all our technical and commercial criteria. Post acreage capture, the acquisition of high-quality 3D seismic data is essential to unlocking the petroleum system. Applying industry leading tools and techniques helps reduce the sub-surface risks prior to drilling. The Company was fortunate to achieve success with its first well, as our pre-drill interpretation was proven to be correct.

Our strategy requires access to financial resources at various stages in the project. The scale of resource required increases as the project matures. At the screening level capital expenditure is relatively modest but ramps up significantly through data acquisition, drilling, then appraisal and development. Our two main routes to funding are through the capital markets or securing partners. In the event of a development reaching final investment decision, funding is likely to come from both debt and equity.

Our Team

We have a small, experienced team, that is supported by expert consultants with extensive industry experience. Many of our consultants have worked with the Company over a long period of time.

Our key strengths are: Technical rigour, Commercial discipline, and Risk management

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

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.

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

Darwin Gas Condensate

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

The Early Cretaceous (Aptian) reservoir is a high-quality, laterally continuous shallow marine sandstone. It has been interpreted to represent shelf bars and sheet sands. The reservoir 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 discovery well (61/17-1) encountered a gross reservoir interval of 84.5m, net pay of 67.8m, average porosity 22% (up to 30%) and average permeability of 337mD (up to 1D). The condensate yielded a CGR of 148stb/MMscf. The condensate has a 49 degrees API gravity, typical of an ultra-light crude oil.

Independent un-risked resource assessment

Estimated Wet Gas Initially In-place (Bscf)				Best Estimate Gross Contingent & Prospective Resource		
	Low	Best	High		Condensate (MMSTB)	Condensate& LPG(MMBBL)
Darwin East	659	1,096	1,759	Darwin East (2C Contingent)	115	170
Darwin West	1,361	2,110	3,160	Darwin West (Prospective)	202	292

Phased Development Concept

The Company has designed, and had validated, a phased development concept. Following successful appraisal, an initial production rate of 26,000 bpd could be achieved from two production wells and one gas injector well on Darwin East. The concept would be a conventional FPSO development, utilising standard industry technology. Reservoir fluids would be produced from the field via subsea flow lines. The condensate would be processed and stored on the FPSO before being offloaded to shuttle tankers for export. The dry gas would not be flared, but re-injected back into the reservoir. Several options have been identified to expand production up towards 70,000bpd.

The benefits of a phased development concept are clear. Less initial capital is required to get a field into production. The time to first production can be reduced. Project payback can be accelerated. And project expansion can come from free cash flow. Project payback for a Darwin East, 26,000 bpd scheme, could be achieved within two years of first production, assuming a $60 per barrel oil price. Project economics are positively influenced by the quality of the reservoir that requires a relatively low number of development wells and the attractive fiscal terms set by the Falkland Islands Government.

PRINCIPAL RISKS AND UNCERTAINTIES

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.

During 2022 the Company raised £3.2 million ($3.8 million) before costs and in early 2023 a further £0.65 million ($0.78 million) before costs in additional funds to ensure it is able to meet its overheads for the coming two years.

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.

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 conflict 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.

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

PRINCIPAL RISKS AND UNCERTAINTIES continued

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 set out targets to reduce the anthropogenic emissions of gasses 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, particularly as recent events in Eastern Europe have highlighted the importance of energy security. The global challenge is to reduce carbon emissions by transitioning to renewable energy sources whilst maintaining the reliability of energy supply.

During the energy transition, hydrocarbons are likely to remain a significant strategic resource. Advancements in carbon capture will play a role, but high grading of projects based on their carbon intensity might be expected. Upstream emissions from exploration, extraction and transportation differ widely between hydrocarbon accumulations. This reflects differences in the sub-surface complexity, physical and thermodynamic properties of the hydrocarbons and production and management practices, along with differences in regulatory regimes. Tools available to assess the carbon intensity of global oil and gas fields highlight the differences. For instance, heavier crude oils typically require more energy to extract, transport and refine. Some regulatory regimes allow the flaring of gas during production, whilst others do not.

Darwin, with its high quality reservoir and highly mobile reservoir fluids, will require a low number of development wells. There would be no routine flaring of gas. After the separation of the condensate, dry gas would be reinjected back into the reservoir. The carbon intensity from wellhead to refinery, is likely to be favourable compared to many other producing fields. Global benchmarking has shown that deep water fields with high throughput wells, less routine flaring, using modern technology, typically have lower carbon intensities than other categories such as offshore shelf, onshore shale and oil sands.

In the downstream refining process, carbon intensity varies between different oil categories. Heavy oils, with low API, typically require more energy to refine than light oils. Condensate samples collected from the Darwin discovery well have an API gravity of 46-49 degree, similar to an ultra-light crude oil and putting it at the lighter end of the oil spectrum.

At present the Company is in a non-operational phase and has a minimal environmental footprint. 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;

PRINCIPAL RISKS AND UNCERTAINTIES continued

- 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 2022 the Group had a net cash position of $2.7m and raised a further $0.78m in early 2023 (31 December 2021: $0.714m). 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 2024 (see note 19). The Group plans to fund the well through a farm-out. If the Group is not able to farm-out before December 2024, 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 2024.

Based on these forecasts the directors believe that further funding will not be required to cover administrative costs and licence fees until May 2024. At present the cost base of the business principally consists of administrative costs, listing costs and costs to maintain the licences in good-standing. These costs do increase with inflation but the majority of the costs are the Licence Fees and salaries which have not. 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 and a further $3 million (£2.5 million) was raised in December 2022 and January 2023.

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 30 May 2023 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 2022 are detailed in the next page.

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 2023

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, including 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 including 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

- 20 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 2022

Attendance	Board	Remuneration Committee	Audit Committee
Harry Dobson	6	–	2
Howard Obee	6	–	–
Peter Fleming	6	–	–
William Hodson	6	–	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 2022 was as follows:

	Basic salary		Share-based payment		**Total 2022**		Total 2021	
	£	$	£	$	**£**	**$**	£	$
Harry Dobson	–	–	–	–	–	–	–	–
Howard Obee	125,000	150,000	–	–	**125,000**	**150,000**	125,000	165,000
Peter Fleming	100,000	120,000	–	–	**100,000**	**120,000**	100,000	132,000
William Hodson	20,000	24,000	-	-	**20,000**	**24,000**	20,000	26,400
	245,000	294,000	–	–	**245,000**	**294,000**	245,000	323,400

The Company paid £39,000 ($47,000) (2021: £30,000 ($39,000)) 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 2023

DIRECTORS' REPORT

Directors and their interests

The beneficial and other interests of the Directors and their families in the share capital at 31 December 2022 and at 31 December 2021, were as follows:

	At 31 December 2022 Number	At 31 December 2021 Number
Harry Dobson	**61,372,000**	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 (Zila), a company owned by the Whitmill Trust Company Limited, as trustee of The Lotus Trust of which he is a beneficiary. During 2022 Zila subscribed to additional shares through the capital raise. It also subscribed for additional shares in January 2023 as part of the December 2022 capital raise.

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

Substantial shareholders

At 31 March 2023, 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	81,372,000	11.13%
Alan Brimacombe	66,000,000	9.03%
Interactive Investor	49,944,931	6.83%
Damille Partners	48,568,234	6.65%
Mr & Mrs Newlands	34,250,000	4.69%
LGT Wealth Management	29,783,172	4.08%
Mr H Mason	28,697,504	3.93%
Bank Julius Baer	27,378,468	3.75%
Hargreaves Lansdown	26,849,111	3.67%
HSDL	23,746,868	3.25%

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 21 and shows the result for the year. The Directors do not recommend the payment of a dividend (2021 – $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.

Charitable and political donations

There were no political or charitable contributions made by the Company or the Group during the year (2021– $nil).

DIRECTORS' REPORT continued

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 20 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 UK adopted International Accounting Standards. 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 UK adopted International Accounting Standards, 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 May 2023

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 2022 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 2022 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 company statement of cash flows, the consolidated 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.

Conclusions relating to going concern

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 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 verify 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 reasonably possible scenarios and the validity of mitigating factors available to consider the available headroom.
- Comparing the Group's actual results for the year ended 31 December 2022 to the planned budgeted out turn for 2022 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

Overview

Coverage	100% (2021: 100%) of Group profit before tax 100% (2021: 100%) of Group total assets		
Key audit matters		**2022**	**2021**
	KAM 1	Carrying value of exploration and evaluation assets	Carrying value of exploration and evaluation assets
	KAM 2*	–	Going concern
	*Going concern is no longer a KAM as in the current year there are no events or conditions that indicate that a material uncertainty exists		
Materiality	**Group financial statements as a whole** $4.2m (2021:$4.1m) based on 1.4% (2021: 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 full scope audits by the Group audit team.

Key audit matter

The Key audit matter is the matter 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.

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 and note 1 for the relevant accounting policies)	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 2022, the Group's exploration and evaluation assets totalled \$293.7m (2021: \$292.7m). Management 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 2024. Given the inherent judgement involved in the assessment of potential triggers for impairment and any subsequently required assessment of the carrying value of the exploration and evaluation assets, we considered this to be a key audit matter.	• 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 confirmed that the exploration licenses were valid at the year end and that no breaches of licences and commitments had occurred. • We considered whether there was evidence in the Group cash flow that funding was available to maintain the exploration and evaluation assets in full. • 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.

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.

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

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	
	2022 $m	**2021 $m**	**2022 $m**	**2021 $m**
Materiality	4.2	4.1	3.1	3.1
Basis for determining materiality	Group materiality was set at 1.4% (2021: 1.4%) of the total assets.		Parent company materiality was set at 1.0% (2021: 1.1%) 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	3.1	3.1	2.3	2.3
Basis for determining performance materiality	Performance materiality was set at 75% (2021: 75%) of the above materiality levels.			
Rationale for the percentage applied for performance materiality	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% (2021: 10%) of loss before taxation of $135,000 (2021: $102,000). We further applied a performance materiality level of 75% (2021:75%) 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 the remaining significant component of the Group based on a percentage of 75% of Group materiality (2021: 75%) dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was $3.1m (2021: $3.1m). In the audit of the remaining component, we further applied performance materiality levels of 75% (2021:75%) 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 $83,000 (2021: $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 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 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

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

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 statement, 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.

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.

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

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations

we considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation, and AIM Listing Rules.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with Management and those charged with governance, including the Audit Committee regarding for any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Reviewing minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussing amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the area most susceptible to fraud to be management override of controls.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year at entity level and at consolidation level, which met defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

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
31 May 2023

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 2022

	Note	**2022 $'000**	2021 $'000
Administrative expenses		**(1,229)**	(1,096)
Loss from operations	3	**(1,229)**	(1,096)
Finance income	9	**–**	74
Finance expense	9	**(172)**	(1)
Other income		**42**	–
Loss before tax		**(1,359)**	(1,023)
Tax expense	10	**–**	–
Loss for the year and total comprehensive loss for the year attributable to equity owners of the parent		**(1,359)**	(1,023)
Basic and diluted loss per share (see note 4)	4	**(0.26) cents**	(0.21) cents

The notes on pages [•] to [•] form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2022

		2022		2021	
	Note	$'000	$'000	$'000	$'000
Assets					
Non-current assets					
Property, plant and equipment	11		–		22
Intangible assets	12		**293,244**		292,746
Total non-current assets			**293,244**		292,768
Current assets					
Other receivables	14	**576**		183	
Cash and cash equivalents	15	**2,707**		714	
Total current assets			**3,283**		897
Total assets			**296,527**		293,665
Liabilities					
Current liabilities					
Trade and other payables	16		**(565)**		(126)
Total net assets			**295,962**		293,540
Equity attributable to the equity owners of the parent company					
Share capital	17		**10,718**		8,530
Share premium	17		**310,195**		308,602
Other reserves			**1,778**		1,778
Retained deficit			**(26,713)**		(25,354)
Foreign currency reserve			**(16)**		(16)
Total equity			**295,962**		293,540

The notes on pages [•] to [•] form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 30 May 2023.

Howard Obee
Director

Peter Fleming
Director

Company Number: 05147938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Share capital $'000	Share premium $'000	Other reserves $'000	Retained deficit $'000	Foreign currency reserve $'000	Total $'000
Balance at 1 January 2021	8,530	308,602	1,778	(24,332)	(16)	294,562
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	(25,354)	(16)	293,540
Loss and total comprehensive loss for the year	–	–	–	(1,359)	–	(1,359)
Shares issue	2,188	1,593	–			3,781
Balance at 31 December 2022	**10,718**	**310,195**	**1,778**	**(26,713)**	**(16)**	**295,962**

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 [•] to [•] form part of the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2022

		2022		2021	
	Note	**$’000**	**$000**	$’000	$’000
Assets					
Non-current assets					
Property, plant and equipment	11		**–**		22
Investments	13		**–**		–
Inter-company loan	14		**293,878**		292,925
Total non-current assets			**293,878**		292,947
Current assets					
Other receivables	14	**120**		183	
Cash and cash equivalents	15	**2,707**		714	
Total current assets			**2,827**		897
Total assets			**296,705**		293,844
Liabilities					
Current liabilities					
Trade and other payables	16		**(565)**		(126)
Total net assets			**296,140**		293,718
Equity attributable to owners of the parent company					
Share capital	17		**10,718**		8,530
Share premium	17		**310,195**		308,602
Other reserves			**1,778**		1,778
Retained deficit			**(26,533)**		(25,174)
Foreign currency reserve			**(18)**		(18)
Total equity			**296,140**		293,718

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 2022 was $1,359,000 (2021: $1,023,000). The notes on pages [•] to [•] form part of the financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 30 May 2023.

Howard Obee
Director

Peter Fleming
Director

Company Number: 05147938

COMPANY STATEMENT OF CHANGES IN EQUITY
At 31 December 2022

	Share capital	Share premium reserve	Other reserves	Retained deficit	Foreign currency reserve	Total
Balance at 1 January 2021	8,530	308,602	1,778	(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
Loss and total comprehensive loss for the year	–	–	–	(1,359)	–	(1,359)
Shares issue	2,188	1,593	–	–	–	3,781
Balance at 31 December 2022	**10,718**	**310,195**	**1,778**	**(26,533)**	**(18)**	**296,140**

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 [•] to [•] form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

		2022		2021	
	Note	$'000	$'000	$'000	$'000
Cash flow from operating activities					
Loss before tax			**(1,359)**		(1,023)
Adjustments for: Depreciation	11		**22**		129
Share-based payment	8		**–**		1
Finance costs	9		**172**		1
Finance income	9		**–**		(74)
Cash flows used in operating activities before changes in working capital			**(1,165)**		(966)
(Decrease)/increase in other receivables	14		**(393)**		42
Increase/(decrease) in trade and other payables	16		**452**		10
Net cash outflow from operating activities			**(1,106)**		(914)
Cash flows used in investing activities					
Purchase of intangible assets	12	**(498)**		(505)	
Net cash used in investing activities			**(498)**		(505)
Cash flows used in financing activities					
Lease interest	9	**–**		(1)	
Lease payments	16	**(13)**		(124)	
Shares issue	17	**3,781**		–	
Net cash from/(used in) financing activities			**3,768**		(125)
Net increase/(decrease) in cash and cash equivalents			**2,164**		(1,544)
Cash and cash equivalents at the beginning of the year	15		**714**		2,184
Exchange (loss)/gain on cash and cash equivalents			**(172)**		74
Cash and cash equivalents at the end of the year			**2,707**		714

The notes on pages [•] to [•] form part of the financial statements.

COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

		2022		2021	
	Note	$'000	$'000	$'000	$'000
Cash flow from operating activities					
Loss before tax			**(1,359)**		(1,023)
Adjustments for: Depreciation	11		**22**		129
Share-based payment	8		**–**		1
Finance costs	9		**172**		1
Finance income	9		**–**		(74)
Cash flows used in operating activities before changes in working capital			**(1,165)**		(966)
(Decrease)/Increase in other receivables	14		**63**		42
Decrease/(increase) in trade and other payables	16		**452**		10
Net cash outflow from operating activities			**(650)**		(914)
Cash flows used in investing activities					
Increase in amounts due from Group undertaking	14	**(953)**		(505)	
Net cash from/(used in) investing activities			**(953)**		(505)
Cash flows from financing					
Cash flows from financing activities					
Lease interest	9	**–**		(1)	
Lease payments	16	**(13)**		(124)	
Shares issue	17	**3,781**			
Net cash from/(used in) financing activities			**3,768**		(125)
Net increase/(decrease) in cash and cash equivalents			**2,165**		(1,544)
Cash and cash equivalents at the beginning of the year	15		**714**		2,184
Exchange (loss)/gain on cash and cash equivalents			**(172)**		74
Cash and cash equivalents at the end of the year			**2,707**		714

The notes on pages [•] to [•] form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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, amendments and interpretations effective in future years

At the date of authorisation of these consolidated financial statements, the following amendments to existing standards had been published and had not been adopted early by the Group:

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

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8);
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- IFRS 17 Insurance Contracts (Amendments to IFRS 17)

The following amendments are effective for the year beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Group anticipates that the above amendments will be adopted in its accounting policies for the first period beginning after their effective date and does not expect them to have a material impact on the consolidated financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

1 Accounting policies continued

At 31 December 2022, the Group had a net cash position of $2.706m (31 December 2021: $0.714m). 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 2024 (see note 19). The Group plans to fund the well through a farm-out. If the Group is not able to farm-out before December 2024 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 2024

Based on the future cashflow forecasts the Directors consider this recent funding provides the Group and Parent Company with sufficient funding until May 2024.

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 $1,359,000 (2021 – loss after tax of $1,023,000) 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 to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Office equipment – 33.3%
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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

1 Accounting policies continued

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 2022

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 2022

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 have been extended to December 2024. 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 2022

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

	2022 $'000	2021 $'000
Staff costs (note 6)	**484**	533
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	**76**	59
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**17**	6
Depreciation of office equipment	**22**	129
Foreign exchange loss/(gain)	**172**	(74)

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 $1,359,000 (2021 – loss $1,023,000) and the weighted average number of shares in issue for the year was 530,203,093 (2021 – 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 3,300,000 (2021: 6,100,000) potentially dilutive ordinary shares being the share options (see note 8 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 2022

6 Staff costs
Staff costs (including Directors) comprise:

	2022 $000	2021 $000
Wages and salaries	**431**	475
Employers' national insurance contributions	**49**	53
Employers' pension contributions	**4**	5
	484	533
Share-based payment – equity-settled	**—**	(1)
	484	532

The average number of employees (including Directors) employed during the year was five (2021 – 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 (2021 – $Nil) share-based payment credit included in the Consolidated Statement of Comprehensive Income, $1,000 (2021 – $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:

	2022 $'000	2021 $'000
Executive directors		
Wages and salaries	**294**	323
	294	323

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 $150,000 (2021 – $165,000).

8 Share-based payment

	2022 Weighted average exercise price	**2022 Number**	2021 Weighted average exercise price	2021 Number
Outstanding at 1 January	**29p**	**6,400,000**	29p	6,100,000
Lapsed during the year	**50p**	**3,100,000**		
Granted during the year			1.47p	300,000
Outstanding at 31 December	**11p**	**3,300,000**	26p	6,400,000
Exercisable at 31 December	**11p**	**3,000,000**	29p	6,100,000

The Company operates a share option scheme. During 2021 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 3.2 years (2021 – 2.5 years). The range of exercise prices of share options outstanding at the end of the year is 0.1125p-0.1525p (2021 – 1.4p-51p). During the year 2.8 million options lapsed.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

9 Finance income and expense

Finance expence	2022 $'000	2021 $'000
Foreign exchange (loss)/gain	(172)	(1)
Lease interest	—	1

10 Tax expense

	2022 $'000	2021 $'000
Loss before taxation	(1,671)	(1,023)
Standard corporation tax charge at 19% (2021 -19%)	(317)	(194)
Expenses not deductible for tax purposes	1	—
Prior year adjustment	—	—
Adjust closing deferred tax rate to average rate 25% (2021 -25%)	—	—
Adjust opening deferred tax rate to average rate 19% (2021 -19%)	—	—
Remeasurement of deferred tax for changes in tax rate	—	(681)
Movement in unrecognised deferred tax for the year	316	876
Fixed asset differences	—	—
IFRS 16 adjustment	—	—
Total current and deferred tax for the year	—	—

The Group has a deferred tax asset of approximately $3,254,585 (2021 – $2,838,453) in respect of unrelieved tax losses of approximately $12,916,695 at 2022 (2021 – $11,252,065), fixed asset timing differences of $100,943 (2021 – $101,746) and short term timing differences of $176 (2021 – $nil). The rate of tax used in the calculation for the deferred tax asset is 25% (2021 – 25%).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 2022

11 Property, plant and equipment – Group and Company

	Right of use asset (Property) $'000	Office equipment $'000	Total $'000
Cost			
As at 1 January 2021	311	132	443
Additions	—	—	—
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	15
As at 31 December 2021	10	12	22

	Right of use asset (Property) $'000	Office equipment $'000	Total $'000
Cost			
As at 1 January 2022	311	132	443
As at 31 December 2022	311	132	443
Depreciation			
As at 1 January 2022	301	120	421
Charge for the year	10	12	22
As at 31 December 2022	312	131	443
As at 1 January 2022	10	12	22
As at 31 December 2022	—	—	—

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

12 Intangible assets

Group	Exploration and evaluation costs $'000
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

Group	Exploration and evaluation costs $'000
Cost	
As at 1 January 2022	292,746
Additions	498
As at 31 December 2022	293,244
Net book value	
As at 1 January 2022	292,746
As at 31 December 2022	293,244

In December 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 2024. The expiry date of Darwin East Discovery Area licence is also 31 December 2024. 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 2022

13 Investment in subsidiary

Company	**2022 $**	2021 $
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	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000
Noncurrent				
Amount due from subsidiary	**—**	—	**293,878**	292,925
Current				
Other receivables	**93**	85	**93**	85
Prepayments	**483**	98	**27**	98
Subtotal	**576**	183	**120**	183
Total other receivables	**576**	183	**293,998**	293,108

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

Group and Company	**2022 $'000**	2021 $'000
Cash available on demand	**2,705**	80
Cash on deposit	**2**	634
Total	**2,707**	714

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 2022

16 Trade and other payables

	Group		Company	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000
Trade payables	**471**	8	**471**	8
Other taxes and social security costs	**17**	1	**17**	1
Lease liabilities	**—**	13	**—**	13
Accruals	**77**	104	**77**	104
Total	**565**	126	**565**	126

The increase in trade payables is the Licence Fees which were paid in January 2023.

17 Share capital

Group and Company	**2022 $000**	2021 $000
Authorised		
750,000,000 ordinary shares of 1 pence each (2021 – 750,000,000)	**14,926**	14,926
Allotted, called up and fully paid		
693,671,599 ordinary shares of 1 pence each (2021 – 484,098,484)	**10,718**	8,530
Share capital		
At 1 January	**8,530**	8,530
Share issue	**2,188**	
At 31 December	**10,718**	8,530
Share premium		
At 1 January	**308,602**	308,602
Share issue	**1,593**	
At 31 December	**310,195**	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 (2021 – $505,000) on behalf of its 100% owned subsidiary Borders & Southern Falkland Islands Limited. At the year end $293,430,000 (2021 – $292,925,000) was due from the subsidiary.

19 Commitments

The Group Production Licence commitment is to drill one exploration well before 31 December 2024. The Company is seeking the funds to drill this well but, if it cannot before they are due to expire, the Company will seek to extend the Licences.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

20 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 funds raised during the year giving sufficient cash funds readily available to the Group at the year end.

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:

Amortised Cost	**2022 $000**	2021 $000
Other receivables	**93**	55
Cash and cash equivalents	**2,707**	714
Trade and other payables	**548**	126

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 2022 and at 31 December 2021 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 2022 the Group held cash at bank and in deposits under its control of $2,706,000 (2021 – $714,000), which forms the majority of the Group's working capital. Of the cash at bank and in deposit, $2,706,000 (2021 – $80,000) relates to deposits placed with banking institutions that are available on demand which carry interest at prevailing United Kingdom deposit floating rates. If there was 1% change in interest rates the impact on the Statement of Comprehensive Income would be $27,000 (2021 – $7,000).

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$.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

20 Financial instruments continued

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

	Group		Company	
Current financial assets	**Other receivables measured at amortised cost 2022 $000**	Other receivables measured at amortised cost 2021 $000	**Other receivables measured at amortised cost 2022 $000**	Other receivables measured at amortised cost 2021 $000
Held in UK £:				
Trade and other receivables	**93**	55	**93**	55
Cash and cash equivalents	**2,654**	710	**2,654**	710
Total current financial assets held in UK	**2,747**	765	**2,747**	765
Held in US$:				
Trade and other receivables	**—**	—	**—**	—
Cash and cash equivalents	**52**	4	**52**	4
Total financial assets	**2,799**	769	**2,799**	769

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 $270,000 (2021: $71,000) for the Group and Company.

	Group		Company	
	Financial liabilities measured at amortised cost 2022 $000	Financial liabilities measured at amortised cost 2021 $000	**Financial liabilities measured at amortised cost 2022 $000**	Financial liabilities measured at amortised cost 2021 $000
Held in UK£:				
Trade and other payables	**565**	126	**565**	126
Total financial liabilities	**565**	126	**565**	126

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:

	2022		2021	
	Carrying Value $000	**Maximum exposure $000**	Carrying Value $000	Maximum exposure $000
Cash and cash equivalents	**2,707**	**2,707**	714	714
Maximum credit risk exposure	**2,707**	**2,707**	714	714

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

20 Financial instruments continued

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.

21 Subsequent Events
As part of the December 2022 capital raise, an additional 37,142,857 shares were issued in January 2023 to raise £650,000 ($780,000).

CORPORATE DIRECTORY

Directors	Harry Dobson Howard Obee Peter Fleming William Hodson
Secretary	William Slack
Registered office	One Fleet Place London EC4M 7WS
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Nominated advisor and Joint Broker	Strand Hanson Limited 26 Mount Row London W1K 3SQ
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Independent Auditors	BDO LLP 55 Baker Street London W1U 7EU
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