CHAIRMAN'S STATEMENT

"DESPITE MARKET UNCERTAINTY WE REMAIN FOCUSED ON SECURING FUNDING FOR OUR NEXT PHASE OF APPRAISAL DRILLING.

WE WILL CONTINUE TO RUN THE BUSINESS WITH TECHNICAL AND COMMERCIAL DISCIPLINE, COMMITTED TO CREATING VALUE FOR ALL OUR STAKEHOLDERS."

HARRY DOBSON, CHAIRMAN

2014 was a challenging year for the entire oil & gas industry, not just Borders & Southern. The oil price slid from $110 per barrel in the middle of the year to below $50 per barrel in January 2015. The short-term outlook for oil prices remains uncertain, but many analysts are predicting a medium to long-term price of around $70 per barrel once the current supply/demand imbalance corrects.

As a response to this dramatic fall, oil and gas companies have reassessed their capital expenditure plans and are focused on cost efficiencies. Discretionary expenditure on exploration and appraisal activity has been reduced significantly and prioritisation in the short-term is largely focused on current work programme commitments rather than business development.

As the industry has cut expenditure and the number of planned exploration and appraisal wells has fallen, the demand for drilling rigs has weakened. Consequently, the day-rates for deep-water rigs have reduced by as much as 40%. The costs of other well services have also started to fall.

Against this backdrop, Borders & Southern has been looking to secure partners to fund the next phase of Darwin's appraisal. Specific challenges have been to find companies prepared to commit to a multi-well deep-water programme with well-cost estimates (before the oil price drop) of approximately $100 million per well. In addition, for many potential partners, the Falkland Islands would be a new geography, a long way away from the world's current exploration hot spots.

In our favour, however, is the fact that Darwin is a very robust project due to the competitive fiscal terms offered by the Falkland Islands Government and Darwin's high quality reservoir (resulting in a low number of required production wells). Consequently, we believe that the development of Darwin would prove to be economic, even at oil prices lower than current levels. Certainly, when we benchmark Darwin with other offshore development projects on a cost curve, it is well positioned. So whilst we recognise the challenge in achieving a successful farm-out in the present environment, we remain optimistic that a project as robust as Darwin will attract a partner.

It is worth noting that companies that have entered our data room have found the technical merits of the project very attractive. Darwin is a gas condensate discovery with a high liquids component (46 to 49 degrees API). This means that it has the condensate gravity typical of an ultra light crude oil. Those potential partner companies that undertook detailed technical analysis confirmed that, following a successful appraisal programme, an FPSO development would be commercially viable.

In some cases, farm-out talks advanced from technical to commercial discussions. Unfortunately, these negotiations ended before a deal could be secured, either due to a change in the potential partner's strategic focus or because terms fair for both parties could not be agreed.

A Falkland Islands drilling campaign is currently under way but without funding we have been unable to join the programme. The Erik Raude drilling rig has embarked on a six well work programme, split between the north and south Falkland basins. Our aim is to secure partners as soon as possible in the hope that we can take advantage of the rig's location and negotiate a new contract at the end of its current work schedule. If that proves to be unachievable in the current environment, we would seek to mobilise another rig as soon as we have secured funding. In essence, this latter scenario would be similar to what we did for our 2012 programme when we negotiated the Leiv Eiriksson drilling rig with only two firm wells. With rig demand and rates now much reduced, the capital commitment is likely to be materially lower and the number of available rigs is likely to be much higher.